Putting People First

Victorian Budget 2020/21
2020–21 FINANCIAL REPORT

(incorporating Quarterly Financial Report No. 4)

Presented by Tim Pallas MP
Treasurer of the State of Victoria

VICTORIA
State Government

The Secretary
Department of Treasury and Finance
1 Treasury Place
Melbourne, Victoria, 3002
Australia
Tel: (03) 9651 5111
Website: dtf.vic.gov.au

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for the information of Honourable Members

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TABLE OF CONTENTS

CHAPTER 1 – FOREWORD

PURPOSE

The *2020-21 Financial Report* presents the consolidated financial outcomes for the State of Victoria, including the general government sector, the public non-financial corporations sector and the public financial corporations sector.

This chapter outlines the economic and fiscal context for the State's financial performance and position, and summarises the 2020-21 results.

Chapter 2 analyses the results for the general government sector, comparing them with actual outcomes in 2019-20 and the revised estimates for the year as presented in the *2021-22 Budget*. Chapter 3 presents the 2020-21 results for the State of Victoria.

In the context of the challenges posed by the coronavirus (COVID-19) pandemic, whilst in previous years the State's annual budget was presented to Parliament in May, for 2020-21 an *Appropriation (Interim) Act 2020* was passed in June 2020 to provide temporary authority for government expenditure for the six months to December 2020, with the annual budget for 2020-21 released in November 2020. The revised budget for 2020-21 was released as part of the *2021-22 Budget* in May 2021.

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

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

ECONOMIC CONTEXT

The COVID-19 pandemic led to the largest global recession since the Great Depression, and the Victorian economy was not immune. Public health restrictions – which have been necessary to slow the spread of COVID-19 and save lives – limited economic activity across a range of sectors in the June and September quarters 2020. Sharp falls in consumer and business confidence, and the closure of national borders to international students, tourists and migrants, also lowered economic activity.

As the original strain of the COVID-19 virus was contained and domestic restrictions were progressively eased, the Victorian economy rebounded strongly in the December quarter, and this momentum carried through into strong growth in the March quarter 2021, notwithstanding a very brief period of restrictions in February. Public health restrictions were also in place during the June quarter to contain a new variant of COVID-19, although state final demand still increased by 1.4 per cent in the quarter to be above its pre-pandemic level.

For 2020-21 as a whole, state final demand fell by 0.8 per cent. Consumer spending, which fell by 3.6 per cent, led this overall decline in domestic demand. This weakness in private demand was partially offset by an increase in government spending, driven in part by the Government's COVID-19 response. Public consumption (which rose by 7.6 per cent) and public investment (which rose by 10.4 per cent) both contributed to growth.

Victorian employment growth was the strongest of the states prior to the onset of the COVID-19 pandemic, averaging 3.1 per cent per year over the five years to 2018-19. The COVID-19 pandemic led to 238 600 Victorians losing work between March and September 2020. Following this, the easing of public health restrictions towards the end of 2020 and the subsequent economic recovery led to a significant rebound in employment, with 240 200 Victorians finding work between September 2020 and June 2021. This strong recovery meant that by June 2021, the *Jobs Plan* interim target of 200 000 jobs being created by 2022 had already been met, and the level of employment was above pre-pandemic levels.

In year average terms for 2020-21, employment fell by 1.1 per cent, reflecting the weaker labour market earlier in the year. Full-time employment fell by 0.9 per cent, while part-time employment fell by 1.5 per cent.

Despite the impacts of COVID-19 on the labour market, between November 2014 and June 2021, 520 800 jobs had been created in the Victorian economy, including 97 800 in regional Victoria.

With the labour market recovering over the final three quarters of 2020-21, Victoria's unemployment rate fell from a peak of 7.3 per cent in June 2020 to 4.4 per cent in June 2021, below pre-pandemic levels. In addition, the broader labour market recovery led to a large increase in people entering the labour force, with the participation rate reaching a record high in March 2021 and remaining elevated at the end of 2020-21.

The Victorian population fell by 0.6 per cent over the year to March 2021 (reflecting the latest available data). This was a significant change from the past five years when population growth averaged 2.2 per cent per year and was the highest in Australia.

Consistent with ongoing uncertainty and weak labour market conditions for much of 2020, wage growth in Victoria slowed to 1.5 per cent in 2020-21. Inflation in 2020-21 was also subdued at 1.4 per cent, reflecting weak price pressures in most major consumer spending categories.

FISCAL OUTCOMES

The Government recorded a general government sector operating deficit of $14.6 billion for 2020-21.

The 2020-21 operating result was an improvement of $2.9 billion compared with the revised estimate in the *2021-22 Budget*, in part due to higher than expected GST grants collected by the Commonwealth resulting from a stronger than expected recovery in economic activity in the June quarter, as well as lower than expected expenses due to the timing of expenditure programs across departments.

Total revenue from transactions for the year was $72.6 billion, which was $1.2 billion higher than the revised estimate. This was $4.7 billion, or 6.9 per cent, higher compared with the previous year.

State taxation revenue increased by $145 million compared with the revised estimate. This was primarily driven by higher land transfer duty of $473 million due to a stronger than anticipated recovery in the Victorian property market.

These increases were partially offset by lower land tax of $441 million resulting in part from higher land tax relief waivers as part of the Government's COVID-19 response.

The increase of $447 million in taxation revenue compared with 2019-20 is attributable to an increase in payroll tax collections as COVID-19 related payroll tax relief tapered during 2020-21, alongside a significant improvement in labour market conditions following the easing of public health restrictions, and an increase in land transfer duty revenue, which was driven by the strong recovery in dwelling prices and property transaction volumes.

Dividends, income tax and rate equivalent income of $620 million decreased by $190 million compared with the previous year, mainly due to lower dividend revenue received from water corporations in the public non-financial corporations sector.

Revenue from the sale of goods and services in 2020-21 was consistent with the 2019-20 result of $7.9 billion and was $110 million lower than the revised budget. The decrease from the revised budget is primarily due to lower regulatory fees as a result of reduced traffic volumes resulting in lower than expected traffic fines being issued, and lower than expected schools own source revenue, primarily due to the impact of COVID-19 public health restrictions.

Grants of $37 billion were $4.2 billion higher compared with 2019-20. The increase was largely driven by an increase in GST revenue of $2.7 billion resulting from a sharp recovery in consumption and dwelling investment, despite Victoria's assessed GST relativity falling again in 2020-21. There was also a year-on-year increase in various specific purpose grants.

Grants were $1.2 billion higher than the revised budget estimate. This primarily reflects higher GST revenue resulting from a stronger than expected recovery in economic activity in the June quarter, and higher financial assistance grants to local government.

Other revenue and income for 2020-21 was $253 million higher than the 2019-20 outcome. The increase is primarily driven by the progressive recognition of the Cross Yarra Partnership Consortium's contribution to additional costs borne by the operator as part of the Metro Tunnel settlement. This was partially offset by a decrease in fines revenue and schools third party revenue partially due to COVID-19 public health restrictions.

Total general government sector expenses increased to $87.2 billion in 2020-21, an increase of $12.7 billion (17.1 per cent) compared with the previous year. This includes measures to support jobs and businesses and to deliver the public health response, including the establishment of COVID-19 Quarantine Victoria. Total expenses were also $1.7 billion lower than the revised estimate in the *2021-22 Budget*.

Employee expenses of $30 billion for 2020-21 were $839 million (2.9 per cent) higher than the revised budget and $2.8 billion (10.4 per cent) higher than 2019-20. Compared with the previous year, this increase is primarily due to additional resources in the health sector for the COVID-19 response and additional staff required following the establishment of COVID-19 Quarantine Victoria. The increase in employee expenses also reflects increases in remuneration levels in enterprise bargaining agreements.

Other operating expenses in 2020-21 were $24.6 billion, $2.7 billion lower than the revised budget and $2.3 billion higher than the previous year. The decrease from the revised budget primarily reflects the timing of expenditure programs across departments.

Grant expense of $22.1 billion was $395 million higher than the revised budget and $6.8 billion higher than in 2020-21. The increase from the prior year was primarily due to support provided to businesses and households as part of the Government's COVID-19 response, including the Business Support Fund, Licensed Venue Hospitality Fund, and Business Cost Assistance Program. Also driving the increase was higher financial assistance grants to local government and additional grant payments relating to the Commonwealth's HomeBuilder program.

Government infrastructure investment (GII), which includes general government net infrastructure investment and estimated construction related cash outflows for Partnership Victoria projects (net of asset sales), was $15 billion for 2020-21. This was slightly higher than the revised budget of $14.5 billion published in the *2021-22 Budget*. Compared with the previous year, GII increased by $2.9 billion, largely due to extensive capital infrastructure investment in the transport, education, health and community safety sectors.

Net debt for the general government sector was $72.7 billion (15.6 per cent of estimated gross state product) at 30 June 2021 and $4.8 billion lower than the revised budget estimate. Compared with 2019-20, net debt increased by $28.4 billion. This reflects additional borrowings required to finance the Government's response to the COVID-19 pandemic, an increase in right-of-use lease liabilities, and additional borrowings to fund the Government's infrastructure program.

The net cash flows from operating activities deficit of $13 billion was $4.4 billion lower than the $17.4 billion deficit forecast in the *2021-22 Budget*. The improvement from the revised budget was primarily driven by the better than expected net result from transactions discussed above, and a higher than expected increase in payables.

CHAPTER 2 – GENERAL GOVERNMENT SECTOR OUTCOME

- The Government recorded a general government sector operating deficit of $14.6 billion in 2020-21.
- The 2020-21 operating result was an improvement of $2.9 billion compared with the revised estimate in the *2021-22 Budget*. Revenue was $1.2 billion higher than expected and expenses were $1.7 billion lower. This was primarily due to higher than expected GST grants from the Commonwealth resulting from a stronger than expected recovery in economic activity in the June quarter, and the timing of expenditure programs across departments.
- The level of government infrastructure investment, which includes general government net infrastructure investment and estimated construction related cash outflows for Partnership Victoria projects (net of asset sales), was $15 billion in 2020-21. This was $416 million higher than the revised budget.
- Net debt for the general government sector was $72.7 billion (15.6 per cent of gross state product (GSP)) at 30 June 2021 compared with $77.5 billion (16.7 per cent of GSP) expected in the revised budget published in the *2021-22 Budget.* This improved result reflects lower than expected borrowings following the better than anticipated net cashflows from operating activities and higher than expected cash holdings.
- Victoria is rated Aa1 by Moody's Investors Service (Moody's) and AA by Standard & Poor's (S&P). The latest report from Moody's notes that the strong institutional framework within which all Australian states and territories operate is reflected in the State's credit rating. S&P in its latest report noted the State's wealthy and diverse economy and strong financial management credentials. S&P also highlights that, following the lockdowns over the 2020-21 financial year, the State's long-term economic outlook will continue to be supported by the quick and strong rebound in employment and the broader economy, and the large infrastructure investment program.

FISCAL OBJECTIVES

As part of the *2020-21 Budget*, the Government outlined its fiscal strategy and objectives for the 2020-21 financial year, including:

- general government net debt as a percentage of GSP to stabilise in the medium term
- general government interest expense as a percentage of revenue to stabilise in the medium term
- fully fund the unfunded superannuation liability by 2035
- a net operating cash surplus consistent with maintaining general government net debt at a sustainable level after the economy has recovered from the COVID-19 pandemic.

The 2020-21 financial results were heavily impacted by COVID-19. In response to this challenging environment, the Government used its strong fiscal position and balance sheet to protect the community and minimise the impact on jobs. This resulted in:

- net debt to GSP increasing from 9.5 per cent at 30 June 2020 to 15.6 per cent at 30 June 2021, but lower than the revised estimate of 16.7 per cent
- interest expense as a percentage of revenue of 3.6 per cent for the 2020-21 financial year, which was an increase of 0.1 per cent compared with the previous year
- a net operating cash deficit of $13 billion.

The Government remains on track to fully fund the unfunded superannuation liability by 2035, with a contribution of $1.1 billion made to the State Superannuation Fund, under section 90(2) of the *State Superannuation Act 1988*, to fund this liability in 2020-21.

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

Table 2.1: Key fiscal aggregates for the general government sector **($ million)**

	2020 actual	*2021 actual*	*2021 revised*
Operating statement aggregates			
Net result from transactions – net operating balance	(6 539)	(14 558)	(17 443)
Net result	(7 899)	(13 797)	(18 198)
Net lending/(borrowing)	(11 024)	(28 766)	(23 402)
Comprehensive result – total change in net worth	(964)	(2 293)	(17 703)
Balance sheet aggregates			
Net worth	156 092	153 799	138 354
Net financial worth	(21 612)	(46 239)	(46 460)
Net financial liabilities	96 654	119 364	124 740
Net debt	44 312	72 734	77 533
Cash flow statement aggregates			
Net cash flows from operating activities	(2 913)	(12 958)	(17 390)
Cash surplus/(deficit)	(12 478)	(24 772)	(29 028)
			(per cent)
Net debt to GSP (a)	**9.5**	**15.6**	**16.7**
Interest expense to revenue	**3.5**	**3.6**	**4.0**

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

The net result from transactions deficit of $14.6 billion improved by $2.9 billion compared with the $17.4 billion deficit forecast in the *2021-22 Budget*.

The improved result was primarily due to higher than expected revenue largely from GST grants from the Commonwealth, resulting from a stronger than expected recovery in economic activity in the June quarter, and lower than expected expenses due to the timing of expenditure programs across departments.

The $8 billion higher deficit compared with the 2019-20 result was mainly due to increased expenditure for the Government's response to the COVID-19 pandemic, in the health, education, community safety, family violence, jobs and transport sectors.

The increased expenses were partially offset by an increase in revenue. This increased revenue was due to higher GST grants collected by the Commonwealth resulting from a strong recovery in consumption and dwelling investment.

There was also an increase in taxation revenue primarily due to an increase in payroll tax revenue as COVID-19 related payroll tax relief tapered during 2020-21, alongside a significant improvement in labour market conditions following the easing of public health restrictions towards the end of 2020. In addition, there was an increase in land transfer duty revenue, which was driven by the strong recovery in dwelling prices and property transaction volumes after the easing of public health restrictions.

The net result is a further measure of financial performance for the period, including the impact of market movements on the value of assets and liabilities. The 2020-21 net result was an improvement of $4.4 billion compared with the revised budget and $5.9 billion lower compared with the 2019-20 outcome. The decrease from the prior year was due to the same reasons as explained for the net result from transactions, partially offset by gains from other economic flows in 2020-21.

The **net lending/(borrowing)** measure broadly reflects the net impact of the general government sector on the economy and financial markets, including the impact of operating and capital investing transactions. Net borrowings of $28.8 billion for 2020-21 were $5.4 billion higher than the revised estimate, mainly due to the timing of non-financial asset transfers from the general government sector to other sectors of government, particularly in the transport sector. This was partially offset by an improvement in the net result from transactions compared with expectations.

The 2020-21 **comprehensive result – total change in net worth** significantly improved compared with the revised estimate. The increase of $15.4 billion from the revised budget is attributable to a gain on investments of the general government sector in other sector entities, primarily due to the revaluation of land held by the Director of Housing, the revaluation of assets in the environment, education, and creative industries sectors, and the change in the net result from transactions as previously explained. Also driving the improvement was a remeasurement gain on the State's defined benefit superannuation liability that primarily arose due to higher than expected investment returns on superannuation assets.

Net worth is a measure of economic wealth and is equal to net assets outlined in Table 2.4. The increase since the revised budget is primarily due to an increase in non-financial assets from higher than forecast revaluations, and lower borrowings as a result of the better than expected net cashflows from operating activities. Also driving the increase compared with the revised budget was a decrease in the State's defined benefit superannuation liability due to higher than expected investment returns on superannuation assets.

The year-on-year movement in **net financial worth**, which is equal to total financial assets less total liabilities, was mainly due to increased net debt as explained below, partially offset by a decrease in the State's defined benefit superannuation liability.

Net financial liabilities are total liabilities less financial assets (excluding investments in other sector entities). Net financial liabilities were $119.4 billion at 30 June 2021, $5.4 billion lower than the revised budget. This decrease was primarily due to higher cash holdings, lower borrowings, and a decrease in the State's defined benefit superannuation liability. The decrease was partially offset by a higher than expected increase in payables.

Net debt represents gross debt less liquid financial assets. Net debt of $72.7 billion at 30 June 2021 was $4.8 billion lower than the revised estimate in the *2021-22 Budget*. This improved result reflects lower than expected borrowings following the better than anticipated net cashflows from operating activities and higher than expected cash holdings.

Compared with 2019-20, net debt increased by $28.4 billion. This reflects additional borrowings required to finance higher expenditure from the Government's response to the COVID-19 pandemic, an increase in right-of-use lease liabilities, primarily driven by Victoria Police's lease agreement relating to the 311 Spencer Street Complex in accordance with AASB 16 *Leases*, and additional borrowings to fund the Government's infrastructure program.

The **net cash flows from operating activities** deficit of $13 billion was an improvement of $4.4 billion compared with the $17.4 billion deficit forecast in the *2021-22 Budget*. The improvement from the revised budget was primarily driven by the better than expected net result from transactions discussed above, and a higher than expected increase in payables.

The **cash deficit** position in 2020-21 reflects the sum of net cash flows from operating and investing activities. The deficit position in 2020-21 deteriorated compared with 2019-20, primarily due to the lower net result from transactions discussed above.

FINANCIAL PERFORMANCE

Table 2.2 shows an operating deficit of $14.6 billion in 2020-21 compared with the revised 2020-21 estimate of a deficit of $17.4 billion.

Table 2.2: Summary of operating statement **($ million)**

	2021 actual	*2021 revised*	*Revised variance*	*% revised variance*	*2020 actual*
Revenue and income from transactions					
Taxation	23 613	23 468	145	1	23 167
Interest income	594	632	(38)	(6)	619
Dividends, income tax equivalent and rate equivalent income	620	595	26	4	810
Sales of goods and services	7 949	8 059	(110)	(1)	7 902
Grants	36 958	35 743	1 215	3	32 789
Other revenue and income	2 915	2 923	(8)	..	2 662
Total revenue and income from transactions	**72 649**	**71 419**	**1 230**	**2**	**67 948**
Expenses from transactions					
Employee expenses	30 044	29 205	839	3	27 214
Net superannuation interest expense	305	305	..	..	407
Other superannuation	3 426	3 323	103	3	3 073
Depreciation	4 165	4 216	(52)	(1)	3 894
Interest expense	2 614	2 832	(218)	(8)	2 328
Grant expense	22 086	21 691	395	2	15 331
Other operating expenses	24 568	27 290	(2 722)	(10)	22 241
Total expenses from transactions	**87 207**	**88 862**	**(1 655)**	**(2)**	**74 487**
Net result from transactions – net operating balance	**(14 558)**	**(17 443)**	**2 885**	**(17)**	**(6 539)**
Total other economic flows included in net result	**761**	**(755)**	**1 516**	**(201)**	**(1 360)**
Net result	**(13 797)**	**(18 198)**	**4 400**	**(24)**	**(7 899)**

Revenue

Total revenue from transactions for the year was $72.6 billion, which is $1.2 billion higher than the revised estimate. This was $4.7 billion, or 6.9 per cent, higher compared with the previous year.

Table 2.3 shows that State taxation revenue increased by $145 million compared with the revised estimate. This was primarily driven by higher land transfer duty of $473 million due to a stronger than anticipated recovery in the Victorian property market. Electronic gaming machines (EGM) revenue was also $77 million higher than expected due to stronger than expected activity in EGM venues after the public health restrictions were eased. These increases were partially offset by lower land tax of $441 million resulting in part from higher land tax relief waivers as part of the Government's COVID-19 response.

The increase of $447 million in taxation revenue compared with 2019-20 is attributable to an increase in payroll tax collections as COVID-19 related payroll tax relief tapered during 2020-21, alongside a significant improvement in labour market conditions following the easing of public health restrictions towards the end of 2020, and an increase in land transfer duty revenue, which was driven by the strong recovery in dwelling prices and property transaction volumes. This was partially offset by a decrease in EGM revenue resulting from public health restrictions, and a decrease in land tax mainly reflecting the impact of land tax relief measures implemented as part of the Government's COVID-19 response.

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

	2021 actual	*2021 revised*	*Revised variance*	*% revised variance*	*2020 actual*
Taxes on employers' payroll and labour force [(a)]	**6 181**	**6 192**	**(10)**	**..**	**5 803**
Taxes on immovable property					
Land tax [(b)]	3 234	3 675	(441)	(12)	3 447
Fire Services Property Levy [(c)]	729	718	11	2	708
Congestion levy	77	81	(4)	(5)	110
Metropolitan improvement levy	191	199	(8)	(4)	190
Total taxes on property	**4 231**	**4 672**	**(441)**	**(9)**	**4 455**
Gambling taxes					
Public lotteries	586	573	14	2	530
Electronic gaming machines	665	588	77	13	844
Casino [(d) (e)]	146	109	37	34	161
Racing and other sports betting	221	225	(4)	(2)	166
Other	9	8	1	13	10
Financial and capital transactions					
Land transfer duty	6 424	5 951	473	8	6 143
Metropolitan planning levy	19	20	(1)	(7)	21
Financial accommodation levy	153	156	(3)	(2)	153
Growth areas infrastructure contribution	197	240	(43)	(18)	244
Levies on statutory corporations	**173**	**173**	**1**	**1**	**157**
Taxes on insurance	**1 540**	**1 517**	**23**	**2**	**1 484**
Total taxes on the provision of goods and services	**10 134**	**9 560**	**574**	**6**	**9 911**
Motor vehicle taxes					
Vehicle registration fees	1 754	1 838	(84)	(5)	1 775
Duty on vehicle registrations and transfers	933	883	49	6	895
Liquor licence fees	**4**	**5**	**..**	**(3)**	**..**
Other	**376**	**318**	**58**	**18**	**328**
Total taxes on the use of goods and performance of activities	**3 067**	**3 044**	**23**	**1**	**2 998**
Total taxation revenue	**23 613**	**23 468**	**145**	**1**	**23 167**

Notes:

(a) *As at 30 June 2021, as part of the Economic Survival Package, the State had refunded and waived $284 million of payroll tax to small business in 2020-21. This relief in 2020-21 primarily relates to annual payroll tax payers. This is in addition to relief provided in the 2019-20 financial year.*

(b) *The State has recognised land tax relief of $247 million to eligible landowners in 2020-21, including 2021 land tax relief announced as part of the reintroduced Commercial Tenancy Relief Scheme. This is in addition to relief provided in the 2019-20 financial year.*

(c) *The Fire Services Property Levy (FSPL) revenue target for 2020-21 was frozen at the 2019-20 target level of $709 million for one year as part of COVID-19 relief. As at the* 2021-22 Budget, *it was estimated that 2020-21 collections were $9 million higher than the revenue target. This over-collection from 2020-21 was returned to taxpayers as part of the 2021-22 FSPL rate setting in May 2021.*

(d) *On 27 July 2021, Crown notified the Victorian Commission for Gambling and Liquor Regulation that it had completed its review of potential casino tax underpayments by Crown referred to in the Victorian Royal Commission regarding the alleged incorrect deduction of certain bonus rewards provided to patrons in connection with play on Crown Melbourne's electronic gaming machines. It conceded that the deductions of the above bonus jackpots were not correct and then made a payment of $62 million, representing an underpayment of casino tax of approximately $37 million over the period commencing in the 2012 financial year to date, and penalty interest of $24 million.*

(e) *Counsel Assisting the Victorian Royal Commission has alleged that Matchplay and other loyalty benefits provided to members should be included in the calculation of tax payable by Crown. The State proposes to engage with Crown post the delivery of the Royal Commission's final report in relation to Matchplay and other loyalty benefits. For any shortfall of casino taxes identified from this process, the State will seek to secure any required payment along with penalty interest. As the Royal Commission has yet to deliver its final report at the time of the authorisation of the* 2020-21 Financial Report *(AFR), the State has not recognised any further amounts as at the date of the AFR.*

Dividends, income tax and rate equivalent income of $620 million decreased by $190 million compared with the previous year. The decrease is mainly due to lower dividend revenue received from the water corporations.

Revenue from the sale of goods and services in 2020-21 was consistent with the 2019-20 result of $7.9 billion and was $110 million lower than the revised budget. The decrease from the revised budget is primarily due to lower regulatory fees as a result of reduced traffic volumes resulting in lower than expected traffic fines being issued, and lower than expected schools own source revenue, primarily due to the impact of COVID-19 public health restrictions on revenue items such as camps, sports and excursions.

Grants of $37 billion were $4.2 billion higher compared with 2019-20. The increase was largely driven by an increase in GST revenue of $2.7 billion resulting from a strong recovery in consumption and dwelling investment, despite Victoria's assessed GST relativity falling again in 2020-21. There was also a year-on-year increase in grants from the Commonwealth relating to the National Partnership on HomeBuilder, the National Health Reform Agreement and the National Partnership on COVID-19 response, and capital grants for various road projects.

Grants were $1.2 billion higher than the revised budget estimate. This primarily reflects higher GST revenue resulting from a stronger than expected recovery in economic activity in the June quarter, and higher financial assistance grants to local government, partially offset by lower grants received from the Commonwealth as part of the COVID-19 public health response.

Other revenue and income for 2020-21 was $253 million higher than the 2019-20 outcome. The increase is primarily driven by the progressive recognition of the contribution made by the Cross Yarra Partnerships consortium (assets free of charge) to the Metro Tunnel settlement. This was partially offset by a decrease in fines revenue and schools third party revenue partially due to COVID-19 public health restrictions.

Other revenue and income was consistent with the revised budget.

Expenses

Total general government sector expenses increased to $87.2 billion in 2020-21, an increase of $12.7 billion (17.1 per cent) compared with the previous year. Total expenses were $1.7 billion lower than the revised estimate in the *2021-22 Budget*. The increase in total expenses compared with the previous year mainly reflects an increase in service delivery and additional resources in response to COVID-19. This includes measures to support jobs and businesses and to deliver the public health response, including the establishment of COVID-19 Quarantine Victoria.

Employee expenses of $30 billion for 2020-21 were $839 million (2.9 per cent) higher than the revised budget and $2.8 billion (10.4 per cent) higher than 2019-20. Compared with the previous year, this increase is primarily due to additional resources in the health sector for the COVID-19 response and additional staff required following the establishment of COVID-19 Quarantine Victoria. The increase in employee expenses also reflects increases in remuneration levels in enterprise bargaining agreements.

The higher than budgeted employee expenses were primarily due to COVID-19 Quarantine Victoria, Victoria Police's COVID-19 response, and higher expenses in the education sector primarily driven by an increase in the employee long service leave provision.

Other superannuation expense of $3.4 billion for 2020-21 was $103 million higher than the revised budget and $353 million higher than in 2019-20, primarily due to higher employer contributions to defined contribution superannuation plans. This increase is in line with the increase in employee expenses as explained above.

Depreciation expense increased by $271 million from the prior year to $4.2 billion. This increase was primarily due to an increase in non-financial assets mainly due to the Government's investment in infrastructure.

Interest expense of $2.6 billion for 2020-21 was $218 million lower than the revised budget. The decrease is largely due to lower borrowings as a result of the better than expected net cashflows from operating activities, and lower than expected interest on service concession arrangements, including the High Capacity Metro Trains Project, due to the timing of this project.

Other operating expenses in 2020-21 were $24.6 billion, $2.7 billion lower than the revised budget. The decrease from the revised budget primarily reflects the timing of program expenditure across departments.

Compared with the prior year, other operating expenses increased by $2.3 billion. This was primarily driven by funding for additional initiatives in the education sector, costs associated with the establishment of COVID-19 Quarantine Victoria, and additional activity in the transport and health sectors in response to the Government's COVID-19 response.

Grant expense of $22.1 billion was $395 million higher than the revised budget and $6.8 billion higher than in 2020-21. The increase from the prior year was primarily due to payments from the Business Support Fund, Licensed Venue Hospitality Fund, and Business Cost Assistance Program as part of the Government's COVID-19 response. Also driving the increase was higher financial assistance grants to local government and additional grant payments relating to the Commonwealth's HomeBuilder program.

Other economic flows included in the net result

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

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

Other economic flows included in the net result for 2020-21 totalled a net gain of $761 million.

FINANCIAL POSITION

Table 2.4 shows the general government sector net assets decreased by $2.3 billion to $153.8 billion in 2020-21. This was $15.4 billion (11.2 per cent) higher than expected in the 2020-21 revised budget.

Table 2.4: Summary balance sheet **($ million)**

	2021 actual	*Revised variance*	*2021 revised*	*Actual movement*	*2020 actual*
Assets					
Financial assets (excluding investment in other sector entities)	31 253	2 027	29 226	2 958	28 294
Investment in other sector entities:					
Public non-financial corporations	72 953	(5 152)	78 105	(1 931)	74 884
Public financial corporations	172	(2)	175	14	159
Non-financial assets	200 038	15 223	184 814	22 334	177 703
Total assets	**304 415**	**12 096**	**292 319**	**23 375**	**281 040**
Liabilities					
Superannuation	27 217	(1 556)	28 774	(4 010)	31 228
Borrowings	92 985	(2 582)	95 566	30 178	62 807
Other liabilities	30 415	789	29 625	(500)	30 914
Total liabilities	**150 617**	**(3 349)**	**153 965**	**25 668**	**124 949**
Net assets	**153 799**	**15 445**	**138 354**	**(2 293)**	**156 092**

Assets

Financial assets in Table 2.4 include cash, investments, loans and placements. The value of financial assets held by the general government sector increased by $3 billion during the year. The increase is mainly due to higher cash balances in 2020-21 primarily to facilitate increased short-term liquidity requirements, an increase in receivables primarily reflecting deferred payroll tax and land tax as part of the Government's COVID-19 response to support cashflows of businesses and landowners, and a GST grants underpayment which is expected to be received in 2021-22. The increase was partially offset by lower outstanding advances associated with the arrangements established to invest and ultimately apply the proceeds of the Port of Melbourne Lease transaction.

General government investments in other sector entities decreased by $1.9 billion in the year. This was mainly due to a decrease in VicTrack's net worth.

Non-financial assets increased by $22.3 billion during 2020-21, mainly due to the Government's investment in infrastructure, the revaluation of assets in the environment, education, and creative industries sectors, and the timing of non-financial asset transfers from the general government sector to other sectors of government.

Liabilities

Total liabilities as at 30 June 2021 were $150.6 billion, $25.7 billion higher than the 2019-20 outcome but $3.3 billion lower than the revised budget. The decrease compared with the revised budget mainly reflects lower borrowings as a result of the better than expected net cashflows from operating activities, and a decrease in the State's defined benefit superannuation liability. This decrease was partially offset by a higher than expected increase in payables.

Total liabilities increased when compared with the 2019-20 outcome mainly due to additional borrowings to finance the Government's response to the COVID-19 pandemic, and to fund the Government's infrastructure investment program. This was partially offset by a decrease in the State's defined benefit superannuation liability as explained above.

CASH FLOWS

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

The net cash flows from operating activities deficit of $13 billion was an improvement of $4.4 billion compared with the $17.4 billion deficit forecast in the *2021-22 Budget*. This improvement was primarily driven by the better than expected net result from transactions discussed above, and a higher than expected increase in payables.

Compared with the prior year, the net cash flows from operating activities deficit increased by $10 billion, primarily relating to the increased net result from transactions deficit as explained above.

A detailed cash flow statement is provided in Chapter 4.

Table 2.5: Application of cash resources **($ million)**

	2020 actual	*2021 actual*	*2021 revised*
Net result from transactions – net operating balance	(6 539)	(14 558)	(17 443)
Add back: Non-cash revenues and expenses (net) [(a)]	3 626	1 601	53
Net cash flows from operating activities	**(2 913)**	**(12 958)**	**(17 390)**
Less:			
Net investment in fixed assets			
Purchases of non-financial assets	9 734	11 948	11 785
Net cash flows from investments in financial assets for policy purposes	(1 358)	(263)	287
Sales of non-financial assets	(170)	(133)	(147)
Net investment in fixed assets	**8 207**	**11 551**	**11 925**
Leases and service concession arrangements	2 224	2 987	3 379
Other movements	1 910	927	528
Decrease/(increase) in net debt	**(15 254)**	**(28 423)**	**(33 222)**

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

GOVERNMENT INFRASTRUCTURE INVESTMENT

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

Government infrastructure investment (GII), which includes general government net infrastructure investment and estimated construction related cash outflows for Partnership Victoria projects (net of asset sales), was $15 billion in 2020-21. This was slightly higher than the revised budget of $14.5 billion published in the *2021-22 Budget*. Compared with the previous year, GII increased by $2.9 billion, largely due to extensive capital infrastructure investment in the transport, health, community safety and education sectors.

The Government's infrastructure scorecard 2020-21

Major projects completed during the year include:

- Caulfield to Dandenong conventional signalling and power infrastructure upgrade
- Cranbourne-Pakenham and Sunbury line upgrade
- Goulburn-Murray Water Connections Project
- Infringement Management and Enforcement Services (IMES) Reform Project information technology solution
- Safe Digital Clinical Systems – Parkville Precinct electronic medical records
- Tram procurement and supporting infrastructure

Major projects under procurement or in progress include:

- 75 level crossing removals by 2025
- A Pathway to More Acute Mental Health Beds
- Additional VLocity trains
- Ballarat Health Services expansion and redevelopment
- Barwon Heads Road Upgrade
- Big Housing Build
- Building a world-class Geelong Performing Arts Centre
- Child Link
- Chisholm Road prison project
- City Loop fire and safety upgrade (Stage 2) and intruder alarm
- Courts case management system
- Cranbourne line duplication
- E-Class Tram Infrastructure Program
- Echuca-Moama Bridge
- Expanding and improving bed-based forensic mental health services: Thomas Embling Hospital
- Frankston Hospital Redevelopment
- Frankston line stabling
- Geelong Fast Rail
- Goulburn Valley Health redevelopment
- Gippsland Line Upgrade – Stage 1
- High Capacity Metro Trains Project
- Hurstbridge Line upgrade – Stage 2

The Government's infrastructure scorecard 2020-21 *(continued)*

- Kardinia Park Stadium – Stage 5 redevelopment
- M80 Ring Road upgrade
- Melbourne Arts Precinct Transformation – Phase 1
- Melbourne Airport Rail
- Melbourne Park redevelopment – Stage 3
- Men's prison system capacity
- Metro Tunnel
- Metropolitan Network Modernisation program
- Monash Freeway Upgrade – Stage 2
- Mordialloc Freeway
- Murray Basin Rail Project
- New Footscray Hospital
- New metropolitan trains
- New schools construction
- New trains for Sunbury
- New Wyndham Law Court
- New youth justice facility
- Next Generation Trams
- North East Link
- Northern Hospital inpatient expansion – Stage 2
- Princes Highway East – Stage 3
- Public housing renewal program
- Regional Rail revival
- Royal Victorian Eye and Ear Hospital redevelopment
- School Upgrades – growth
- Shepparton Corridor Upgrade – Stages 2 and 3
- South Dynon train maintenance facility
- Suburban Rail Loop
- Suburban Roads Upgrade
- Technology and resources to support Victoria's fines system
- Ten new community hospitals
- Tram infrastructure upgrades
- Victorian Heart Hospital
- Warrnambool Base Hospital Redevelopment
- Warrnambool Line Upgrade – Stage 2
- Waurn Ponds Track Duplication – Stage 2
- West Gate Tunnel Project
- Western Highway duplication – Ballarat to Stawell
- Western Rail Plan
- Western Roads Upgrade
- Women's prison system capacity

CHAPTER 3 – STATE OF VICTORIA OUTCOME

- The State's balance sheet continues to be in a strong position, with net assets of $188 billion at 30 June 2021.
- The **net result from transactions** for the State in 2020-21 was a deficit of $18.3 billion, compared with a deficit of $9 billion in the previous year. This was mainly driven by deficits of $14.6 billion in the general government sector and $3.3 billion in the public financial corporations (PFC) sector.
- The **net result** for the State was a deficit of $11.3 billion in 2020-21 compared with a deficit of $15.7 billion in the previous year. This improvement in the net result is mainly due to the financial assets and liability revaluation gains in the PFC sector attributable to movements in bond discount rates and improved broader market conditions.

This chapter sets out the financial results for the State of Victoria for 2020-21.

The State comprises the general government sector, discussed in Chapter 2, the public non-financial corporations (PNFC) sector and the PFC sector.

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

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

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

FINANCIAL PEFORMANCE

Table 3.1 summarises the operating performance for the State of Victoria. This table shows the State recorded a net deficit from transactions of $18.3 billion in 2020-21 compared with a deficit of $9 billion in 2019-20.

The **net result** for the State was a deficit of $11.3 billion. This compares with a $15.7 billion deficit in 2019-20. These outcomes are further detailed in Table 3.1.

OPERATING STATEMENT

Table 3.1: 2020-21 summary operating statement – State of Victoria [(a)] ($ million)

	2021 actual	*2021 revised*	*Revised variance*	*% revised variance*	*2020 actual*
Revenue and income from transactions					
Taxation	23 167	23 014	153	0.7	22 730
Interest income	659	225	433	192.2	484
Dividends	1 705	1 898	(194)	(10.2)	2 352
Sales of goods and services	15 787	15 843	(57)	(0.4)	15 810
Grants	36 739	35 435	1 304	3.7	32 505
Other revenue and income	3 723	3 575	148	4.1	3 447
Total revenue and income from transactions	**81 778**	**79 991**	**1 787**	**2.2**	**77 327**
Expenses from transactions					
Employee expenses	31 338	30 611	727	2.4	28 503
Net superannuation interest expense	305	309	(4)	(1.2)	408
Other superannuation	3 602	3 490	112	3.2	3 245
Depreciation	6 941	6 947	(6)	(0.1)	6 467
Interest expense	3 437	3 117	320	10.3	3 002
Other operating expenses	37 985	40 067	(2 082)	(5.2)	33 447
Grant expense	16 442	16 344	97	0.6	11 276
Total expenses from transactions	**100 049**	**100 884**	**(835)**	**(0.8)**	**86 348**
Net result from transactions – net operating balance	**(18 271)**	**(20 893)**	**2 622**	**(12.6)**	**(9 021)**
Total other economic flows included in net result	6 950	238	6 711	2 816	(6 677)
Net result	**(11 321)**	**(20 655)**	**9 334**	**(45.2)**	**(15 699)**

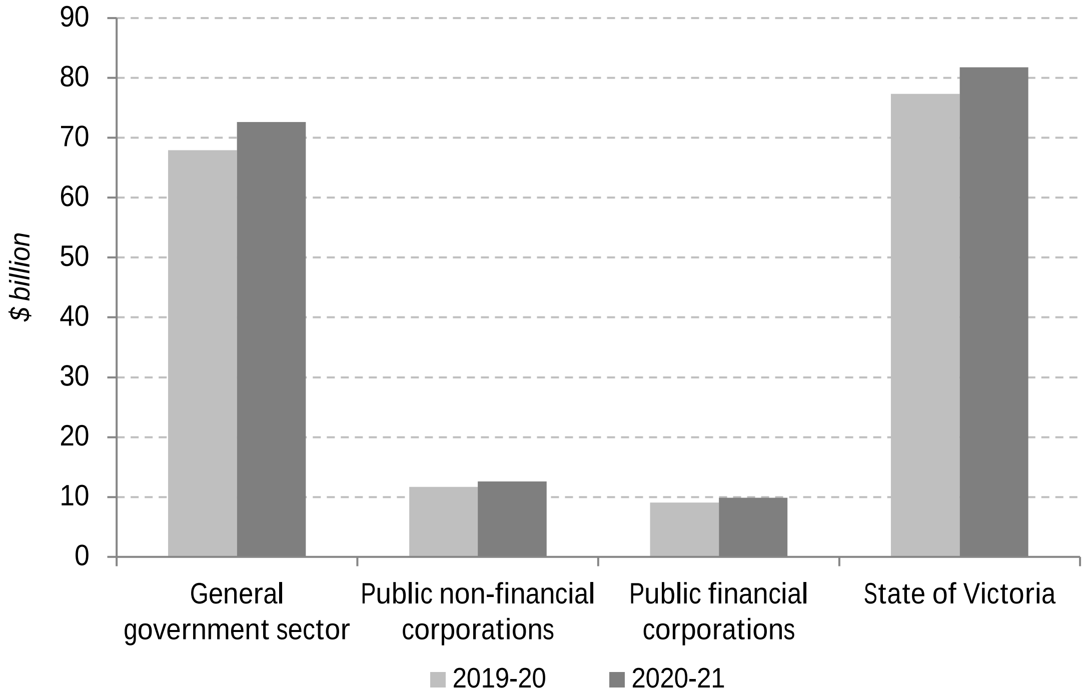
Note:
(a) Figures in this table are subject to rounding to the nearest million and may not add up to the totals.

Revenue

Total State revenue increased by 5.8 per cent or $4.5 billion in 2020-21 to $81.8 billion and was $1.8 billion higher than the revised forecast in the *2021-22 Budget*. The general government sector accounts for 88.8 per cent of total State revenue.

Increases in GST revenue and specific purpose grants from the Commonwealth in the general government sector in 2020-21 compared with 2019-20 were the main contributors toward these changes.

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



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

Within the PNFC sector, operating revenue increased by 8 per cent to $12.6 billion in 2020-21 compared with the previous year. This was mainly due to an increase in the grants revenue of the Director of Housing, V/Line Corporation and VicTrack.

In the PFC sector, total revenue from transactions was $9.9 billion in 2020-21. This represents a 8.7 per cent increase relative to total revenue of $9.1 billion in 2019-20. This increase in revenue was largely due to higher premium revenue received by the Victorian WorkCover Authority (WorkSafe), increased interest income for Treasury Corporation of Victoria (TCV) and the grant WorkSafe received from the State. These increases were partly offset by lower dividend income and realised capital gains across the three insurance agencies.

The PFC sector reported higher investment returns compared with the prior year due to favourable conditions in global equity markets, with the three insurance agencies recording an average return of 16 per cent for the financial year compared to 1 per cent in 2019-20. The favourable investment returns compared with the previous year are mostly unrealised capital gains which are reported as other economic flows and impact the net result.

Expenses

Total State expenses increased by 15.9 per cent or $13.7 billion to $100 billion during 2020-21 but was $835 million lower than the revised forecast in the *2021-22 Budget*. Most of these movements reflect the activities of the general government sector discussed in the previous chapter.

In the PNFC sector, total expenses were $11.9 billion in 2020-21 which is higher by $0.7 billion compared with the previous year. The increase in expenses was mainly due to an increase in other operating expenses. Total expenses were $427 million lower than the revised forecast in the *2021-22 Budget*.

The increase in other operating expenses compared with the previous year was mainly driven by Director of Housing due to additional expenditure incurred on COVID-19 response commitments, and Development Victoria reflecting an increase in cost of sales that corresponds with its sales profile.

Within the PFC sector, total expenses from transactions were $13.2 billion in 2020-21. This represents an increase of 19.8 per cent relative to total expenses of $11 billion in 2019-20. This increase in expenditure was largely due to an increased tax expense for the Transport Accident Commission, due to a more favourable net result, an increase in claims expenses across the three insurance agencies and higher interest expenses for TCV.

Net result from transactions

The State's net result from transactions in 2020-21 was a deficit of $18.3 billion, compared with a deficit of $9 billion in the previous year after allowing for inter-sector eliminations. This outcome reflects:

- a $14.6 billion deficit within the general government sector (discussed in the previous chapter)
- a $721 million surplus within the PNFC sector
- a $3.3 billion deficit within the PFC sector.

The PNFC sector recorded a $721 million net surplus from transactions in 2020-21 compared with a surplus of $465 million in 2019-20. The improvement of the net surplus from transactions was mainly due to higher grants revenue, offset by higher other operating expenses and lower sales of goods and services.

The impacts of higher tax, interest and claims expenses resulted in the PFC sector recording a net deficit from transactions of $3.3 billion in 2020-21 compared to a $1.9 billion deficit in 2019-20.

Net result

At the consolidated State level, the net result for 2020-21 was a deficit of $11.3 billion compared with a $15.7 billion deficit in 2019-20.

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

Other economic flows contributed a gain of $7 billion to the State's net result. This was mainly due to the unrealised capital gains on the investments held by the State's insurance agencies, and a net revaluation gain due to the combined impact of increases in the discount rates (positive) and inflation rates (negative) that are used to value TCV borrowings and the liabilities of the State's insurance agencies.

FINANCIAL POSITION

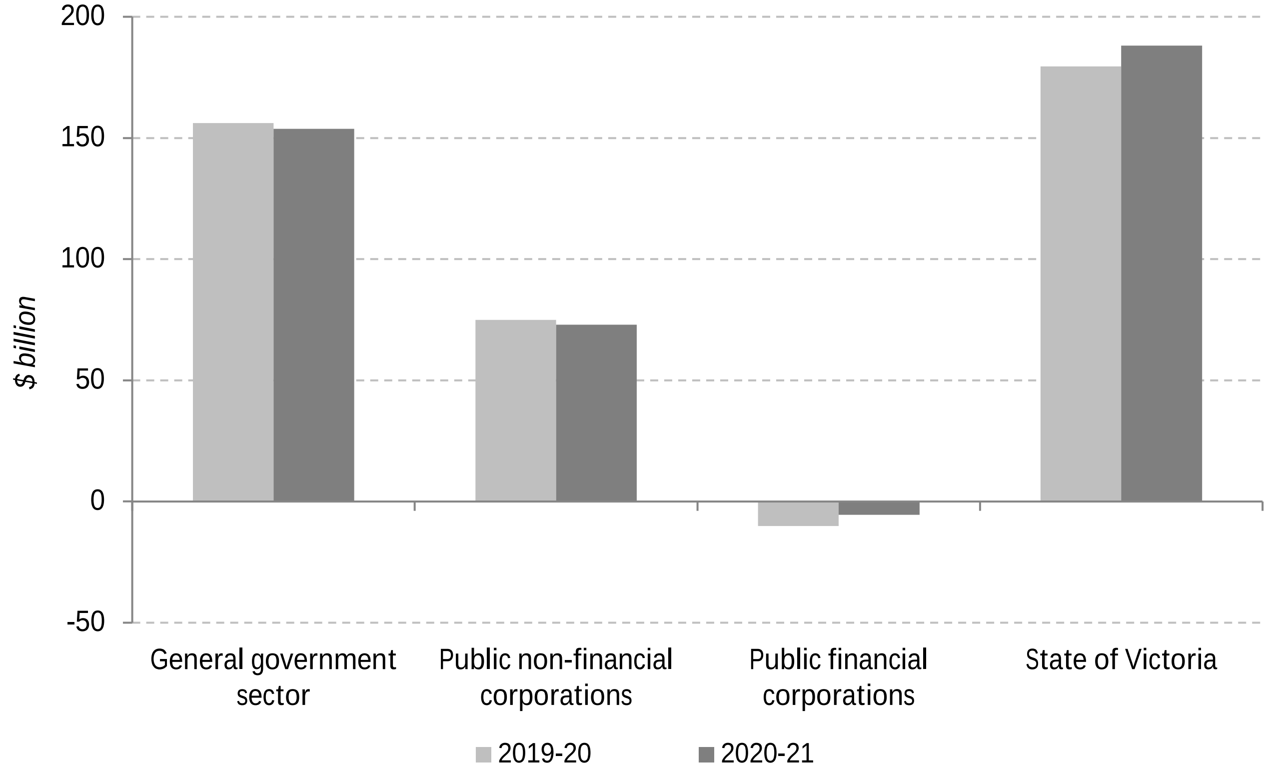
Table 3.2 shows the State's net assets increased by $9 billion to $188 billion at 30 June 2021. This reflects an increase in total assets by $37 billion mainly due to the State's significant capital program and revaluation gains during the year. This was offset by a $29 billion increase in total liabilities mainly due to an increase in borrowings.

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

	2021 actual	*Revised variance*	*2021 revised*	*Actual movement*	*2020 actual*
Assets					
Financial assets	80	6	74	11	69
Non-financial assets	342	11	331	27	315
Total assets	**422**	**17**	**404**	**37**	**385**
Liabilities					
Superannuation	27	(2)	29	(4)	31
Borrowings	116	(8)	124	29	88
Other liabilities	90	2	88	4	86
Total liabilities	**234**	**(8)**	**241**	**29**	**205**
Net assets	**188**	**25**	**163**	**9**	**179**

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

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



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

Chart 3.2 shows the contributions to the change in net assets by sector during 2020-21. The reported net asset position of the PFC sector is impacted by the accounting convention adopted for TCV whereby its fixed interest rate loans to government clients are measured at book value, whereas its borrowings are reported at market value.

While this approach enables TCV's loans to be consolidated with the borrowings of the General Government and the PNFC sectors, for the PFC sector in isolation, it creates a mismatch between the value of TCV's assets (which are at book value) and its liabilities (which are at market value). This difference is eliminated when TCV's loans to government clients are consolidated in the whole of State accounts. Note that in TCV's own accounts, both assets and liabilities are reported at market value.

The PFC sector's net asset position is also significantly impacted by historically low Commonwealth Government bond yields which, in accordance with Australian accounting standards, underlie the discount rate used to value the insurance agencies' outstanding claims liabilities.

CASH FLOWS

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

Infrastructure investment

Net cash flows from investments in non-financial assets included $11.8 billion invested by the general government sector and $3.2 billion in the PNFC sector, particularly in the water sector.

Investment in water-related infrastructure included:

- upgrading and renewal of water and sewer assets by the Melbourne metropolitan water corporations, including the Western Treatment Plant 125W Sludge Drying Pans and Eastern Treatment Plant Sludge Digestion Capacity Upgrade (Melbourne Water Corporation), Lockerbie Main sewer and Doreen pressure main (Yarra Valley Water), Boneo Water Recycling Plant Upgrade and water renewals program (South East Water), and Melbourne CBD Sewer Augmentation Strategy Stage 2A – Lonsdale Street and Mt. Atkinson Outlet Sewer (City West Water)
- upgrading and renewal of water and sewer assets in regional Victoria.

FINANCIAL SUSTAINABILITY (NON-FINANCIAL PUBLIC SECTOR)

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

Table 3.3 shows NFPS net debt of $88.4 billion at June 2021, compared with $60 billion the previous year but lower than the revised estimate of $95.3 billion in the *2021-22 Budget*. The ratio of NFPS net debt to gross state product (GSP) was 19 per cent at 30 June 2021 compared with 12.8 per cent at 30 June 2020.

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

	2021 actual	*Revised variance*	*2021 revised*	*Actual movement*	*2020 actual*
Assets					
Cash and deposits	16 466	1 604	14 862	1 897	14 569
Advances paid	538	(138)	676	56	483
Investments, loans and placements	3 714	2 021	1 694	487	3 227
Total	**20 719**	**3 487**	**17 231**	**2 440**	**18 279**
Liabilities					
Deposits held and advances received	1 712	53	1 659	52	1 660
Borrowings	107 446	(3 408)	110 854	30 862	76 584
Total	**109 157**	**(3 356)**	**112 513**	**30 914**	**78 243**
Net debt	**88 439**	**(6 843)**	**95 282**	**28 474**	**59 965**
Superannuation	27 245	(1 594)	28 839	(4 048)	31 293
Net debt plus superannuation liabilities	**115 684**	**(8 437)**	**124 121**	**24 427**	**91 258**
Other liabilities (net)	28 781	1 537	27 244	(1 245)	30 026
Net financial liabilities	**144 465**	**(6 899)**	**151 365**	**23 181**	**121 284**
					(per cent)
Net debt to GSP [(b)]	**19.0**		**20.5**		**12.8**
Net debt plus superannuation liabilities to GSP [(b)]	**24.9**		**26.7**		**19.5**
Net financial liabilities to GSP [(b)]	**31.0**		**32.5**		**25.9**

Notes:

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

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

Indicators of financial condition

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

The operating cash flow surplus to revenue ratio has decreased in 2020-21 compared with 2019-20. This was mainly due to an increase in general government sector operating expenditure attributable to the Government's response to COVID-19 in the health, education, community safety, family violence, jobs and transport sectors.

The interest expense to revenue ratio has steadily decreased from 2013-14 to 2018-19. Thereafter the ratio has slightly increased to 4 per cent in 2020-21. This was mainly due to the increase in the level of borrowings undertaken to meet higher expenditure in response to COVID-19 and to fund the government's infrastructure program.

The gross debt to revenue ratio fell from 86.5 per cent in 2012-13 to 64.7 per cent as at June 2017. However, the ratio has increased to 144.1 per cent by 2020-21 due to the increase in the level of borrowings during 2019-20 and 2020-21 in response to the COVID-19 pandemic and to fund the government's infrastructure program.

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

	2013	*2014*	*2015*	*2016*	*2017*	*2018*	*2019*	*2020*	*2021*
Operating cash flow surplus to revenue	4.9	10.0	9.1	11.7	24.4	8.7	12.4	(2.2)	(13.9)
Gross debt to revenue [(a)]	86.5	81.5	81.0	76.8	64.7	69.8	75.5	110.1	144.1
Interest expense to revenue	4.8	5.0	4.9	4.4	3.9	3.7	3.7	3.9	4.0

Note:
(a) Gross debt comprises borrowings, deposits held, and advances received.

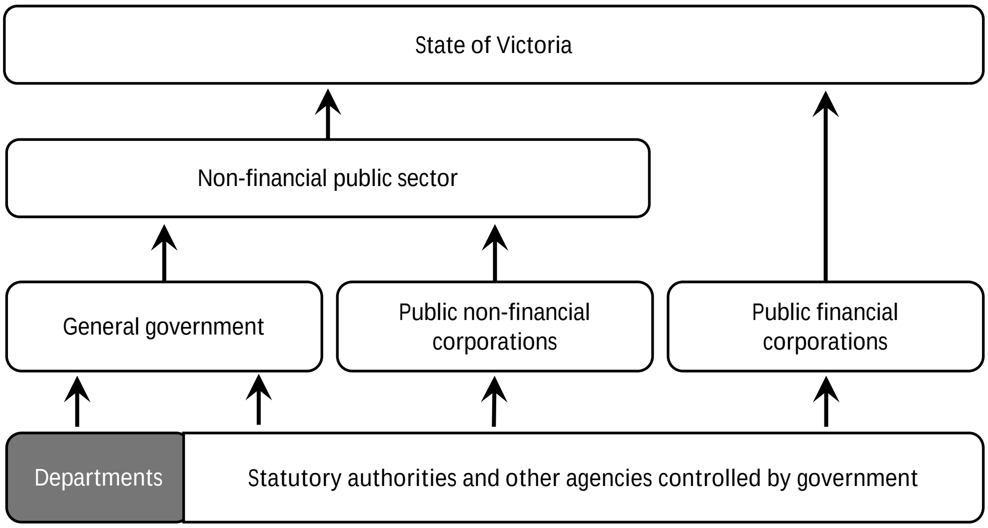
CHAPTER 4 – ANNUAL FINANCIAL REPORT

REPORT STRUCTURE

The Treasurer of Victoria presents the Annual Financial Report of the State of Victoria ('State') for the financial year ended 30 June 2021, as follows:

PUBLIC SECTOR TERMS EXPLAINED

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



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

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

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

Independent Auditor's Report

To the Treasurer of the State of Victoria

Opinion	I have audited the consolidated financial report of the State of Victoria (State) and the Victorian General Government Sector (General Government Sector), which comprises the: • consolidated State and General Government Sector balance sheets as at 30 June 2021 • consolidated State and General Government Sector comprehensive operating statements for the year then ended • consolidated State and General Government Sector statements of changes in equity for the year then ended • consolidated State and General Government Sector cash flow statements for the year then ended • notes to the financial statements, including significant accounting policies • certification by the Treasurer and the Department of Treasury and Finance. In my opinion, the consolidated financial report presents fairly, in all material respects, the financial positions of the State and the General Government Sector as at 30 June 2021 and their financial performance and cash flows for the year then ended in accordance with the financial reporting requirements of Section 24 of the *Financial Management Act 1994* and applicable Australian Accounting Standards.
Basis for opinion	I have conducted my audit in accordance with the *Audit Act 1994*, which incorporates the Australian Auditing Standards. I further describe my responsibilities under that Act and those standards in the *Auditor's responsibilities for the audit of the financial report* section of my report. My independence is established by the *Constitution Act 1975*. My staff and I are independent of the State and the General Government Sector in accordance with the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to my audit of the consolidated financial report in Victoria. My staff and I have also fulfilled our other ethical responsibilities in accordance with the Code. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.
Key audit matters	Key audit matters are those matters that, in my professional judgement, were of most significance in my audit of the consolidated financial report of the current period. These matters were addressed in the context of my audit of the consolidated financial report as a whole and in forming my opinion thereon, and I do not provide a separate opinion on these matters.

Level 31 / 35 Collins Street, Melbourne Vic 3000
T 03 8601 7000 enquiries@audit.vic.gov.au www.audit.vic.gov.au

<table>
<tr><th>Key audit matter</th><th>How I addressed the matter</th></tr>
<tr><td colspan="2">Significant COVID-19 grant programs
Refer to Note 3.3 Grant expense</td></tr>
<tr><td>Grant expense – $16.4 billion (2019–20 – $11.3 billion)
Several grant programs were delivered this financial year to support Victorian individuals and businesses in response to the economic impact of the coronavirus (COVID-19) pandemic.
The Department of Jobs, Precincts and Regions processed an unprecedented volume of grant applications and payments across the financial year, including $3.4 billion in COVID-19 support grants.
I considered COVID-19 grant programs and the resultant expenditure to be a key audit matter because:
the significant growth in grant distribution compared to prior years required scaling up of government resources, processes and functions in short time frames
varying programs, eligibility criteria and conditions increased the potential for error
there was increased pressure associated with managing and distributing funds during a pandemic
grant payments are susceptible to fraud.</td><td>My key procedures included:
gaining an understanding of the COVID-19 grant programs, their eligibility criteria and conditions, and the control environment supporting them, including IT systems and monitoring controls
placing reliance on internal audit and the work of management experts.
Due to the evolving design of controls over the COVID-19 grant programs at the Department of Jobs, Precincts and Regions, there was not sufficient controls in operation which I could place reliance on for my audit. In response, I changed my audit approach to:
increase the number of grant payments I conducted detailed substantive testing over
obtain external confirmations on eligibility criteria from independent partner agencies
reperform dataset matching using external data sources
verify bank payment details.</td></tr>
<tr><td colspan="2">Recognition and measurement of transport assets
Refer to Note 4.1 Land, buildings, infrastructure plant and equipment and Note 7.5 Fair value determination of non-financial assets</td></tr>
<tr><td>Significant spending on capital projects in the transport sector results in large additions to the State's asset base each year.
The State is ultimately responsible for ensuring proper accounts and records are maintained to sufficiently explain the financial impact these assets have on the financial operations and financial position of the State.
I considered this to be a key audit matter because:
transport assets are financially significant
capital projects in the transport sector are complex, and each project results in multiple assets being constructed
a significant degree of management judgement is required to:
determine individual assets within a project
determine which expenses should be capitalised
allocate capital expenses to individual assets
determine the fair value of individual assets.
multiple agencies are involved in the management and delivery of capital projects in the transport sector which makes the timely recognition and derecognition of assets challenging
Victorian Rail Track (VicTrack) is the custodial owner of a large portion of the State's transport assets. Significant asset accounting issues are being addressed at VicTrack.</td><td>My key procedures included:
assessing management's process to identify individual assets within a project, and the costs directly attributable to those assets
assessing the results of the work undertaken by management to review work in progress balances and capitalise completed projects
reviewing management's assessment of the existence of assets, and the completeness and accuracy of asset records
reviewing the accounting treatment for asset additions, disposals and replacements against the requirements of Australian Accounting standards
assessing the results of fair value assessments, challenging assumptions contained within, and investigating significant variances
assessing the potential impact of identified issues on the financial statements.</td></tr>
</table>

Key audit matter	How I addressed the matter
Recognition and measurement of service concession assets and liabilities Refer to Note 4.1 *Land, buildings, infrastructure, plant and equipment*, Note 4.2 *Other non-financial assets,* Note 5.1 *Borrowings*, Note 5.3 *Service concession arrangements,* and Note 6.4 *Payables and contract liabilities*	

Service concession assets – $27.7 billion
Service concession financial liabilities – $6.5 billion
Service concession grant of a right to the operator (GORTO) liabilities – $9.6 billion
There are three types of service concession arrangements:
• arrangements where the State has contractual obligations to make payments and other contributions to the operators for the construction and operation of the assets
• arrangements where the State has granted the operators the right to charge the public directly for the use of the assets
• hybrid arrangements where the State has granted the operators the right to charge the public for use of the asset and the State makes contractual payments and other contributions to the operator.
I considered this to be a key audit matter because:
• service concession assets and liabilities are financially significant
• the requirements of AASB 1059 *Service Concession Arrangements: Grantors* are complex, and their application requires significant management estimation and judgement
• service concession arrangements and the financial models used to value the assets and liabilities are complex
• a significant degree of management judgement is required to determine the key assumptions used in valuing the assets and liabilities
• the required disclosures for service concession assets and liabilities are extensive.
	My key procedures included:
	• reviewing all contracts, supporting schedules, financial models and professional accounting advice received by the State, where applicable
	• engaging appropriately qualified independent subject matter experts to review certain valuation methodologies and financial models and assess the:
	  ○ appropriateness of fair value methodologies
	  ○ reasonableness and consistency of assumptions
	  ○ reasonableness of inputs against underlying data and supporting documentation
	  ○ accuracy of models.
	• reviewing all other financial models and confirming the judgements applied by management to independent expert reports
	• assessing the completeness and accuracy of service concession assets and liabilities against the contracts and underlying financial models for each project
	• comparing the reasonableness of asset amounts against actual costs incurred
	• assessing the accounting treatment against the requirements of AASB 1059, and the reasonableness of management judgements made in the application of the standard
	• assessing the adequacy of financial report disclosures against the requirements of Australian Accounting Standards.

Key audit matter	How I addressed the matter
Valuation of defined benefit superannuation liability Refer to Note 6.5 *Superannuation*	
Defined benefit superannuation liability – $27.2 billion. I considered this to be a key audit matter because: • the defined benefit superannuation liability is financially significant • the underlying model used to value the liability is complex • a significant degree of management judgement is required to determine the method, the model and key assumptions used in valuing the liability • a small adjustment to an assumption may have a significant effect on the total value of the liability • extensive disclosures are required by Australian Accounting Standards which are critical to the users understanding of the valuation of this liability. Management engage an actuary to value the liability as at 30 April, then adjust the value of the liability to account for actual market performance and movements in key assumptions up to 30 June.	My key procedures included: • testing the operating effectiveness of key controls supporting the membership data used in the model • reconciling membership data in the model to the data in the Emergency Services Superannuation Scheme (ESSS) system • obtaining management's actuarial report and year-end adjustments, and engaging an appropriately qualified independent actuary to: ○ assess the appropriateness of management's selection and application of the method, significant assumptions and data used in valuing the liability ○ assess the appropriateness of the model used to value the liability ○ challenge the reasonableness of key assumptions by comparing against accepted industry benchmarks ○ assess the reasonableness of the reported liability value. • assessing the adequacy of financial report disclosures against the requirements of Australian Accounting Standards.
Valuation of provision for insurance claims Refer to Note 6.6 *Other provisions*	
Provision for insurance claims – $47.4 billion. I considered this to be a key audit matter because: • the provision for insurance claims is financially significant • there are several insurance claims categories at the Victorian WorkCover Authority, Transport Accident Commission and Victorian Managed Insurance Authority which make up the provision and must be valued • the underlying models used to value the provision are complex • the valuation of the provision is subject to significant management assumptions and estimation uncertainty • a small adjustment to an assumption may have a significant effect on the total value of the provision • extensive disclosures are required by Australian Accounting Standards which are critical to the users understanding of the valuation of this provision. Management engage actuaries to value the provision as at 30 June.	My key procedures included: • testing the operating effectiveness of key controls supporting the underlying claims data used in the models • reconciling claims data in the models to the data in the Victorian WorkCover Authority, Transport Accident Commission and Victorian Managed Insurance Authority systems • obtaining management's actuarial reports, and engaging an appropriately qualified independent actuary to: ○ assess the appropriateness of management's selection and application of the methods, significant assumptions and data used in valuing the provision ○ assess the appropriateness of the models used to value the provision ○ challenge the reasonableness of key assumptions by comparing against claims history and accepted industry benchmarks ○ assess the reasonableness of the reported provision value. • assessing the adequacy of financial report disclosures against the requirements of Australian Accounting Standards.

Key audit matter	How I addressed the matter
Other information	The Treasurer of Victoria is responsible for the Other Information, which comprises the information in chapters 1–3 and 5 of the 2020–21 Financial Report but does not include the consolidated financial report in chapter 4 and my auditor's report thereon. My opinion on the consolidated financial report does not cover the Other Information and accordingly, I do not express any form of assurance conclusion on the Other Information. However, in connection with my audit of the consolidated financial report, my responsibility is to read the Other Information and in doing so, consider whether it is materially inconsistent with the consolidated financial report or the knowledge I obtained during the audit, or otherwise appears to be materially misstated. If, based on the work I have performed, I conclude there is a material misstatement of the Other Information, I am required to report that fact. I have nothing to report in this regard.
Treasurer's responsibilities for the consolidated financial report	The Treasurer of Victoria is responsible for the preparation and fair presentation of the consolidated financial report in accordance with Australian Accounting Standards and the *Financial Management Act 1994*, and for such internal control as the Treasurer determines is necessary to enable the preparation of a consolidated financial report that is free from material misstatement, whether due to fraud or error. In preparing the consolidated financial report, the Treasurer is responsible for assessing the State and the General Government Sector's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless it is inappropriate to do so.
Auditor's responsibilities for the audit of the consolidated financial report	As required by the *Audit Act 1994*, my responsibility is to express an opinion on the consolidated financial report based on the audit. My objectives for the audit are to obtain reasonable assurance about whether the consolidated financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this consolidated financial report. As part of an audit in accordance with the Australian Auditing Standards, I exercise professional judgement and maintain professional scepticism throughout the audit. I also: • identify and assess the risks of material misstatement of the consolidated financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control • obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the State and the General Government Sector's internal control • evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Treasurer • conclude on the appropriateness of the Treasurer's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the State and the General Government Sector's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the consolidated financial report or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the State and the General Government Sector to cease to continue as a going concern

Key audit matter	How I addressed the matter
Auditor's responsibilities for the audit of the consolidated financial report (continued)	• evaluate the overall presentation, structure and content of the consolidated financial report, including the disclosures, and whether the consolidated financial report represents the underlying transactions and events in a manner that achieves fair presentation • obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the State and the General Government Sector to express an opinion on the consolidated financial report. I remain responsible for the direction, supervision and performance of the audit of the consolidated financial report. I remain solely responsible for my audit opinion. I communicate with the Treasurer regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit. From the matters communicated with the Treasurer, I determine those matters that were of most significance in the audit of the consolidated financial report of the current period and are therefore key audit matters. I describe these matters in the auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, I determine that a matter should not be communicated in the auditor's report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

MELBOURNE
6 October 2021

Andrew Greaves
Auditor-General

CERTIFICATION BY THE TREASURER AND THE DEPARTMENT OF TREASURY AND FINANCE

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

In our opinion, the *Annual Financial Report*, which comprises the consolidated comprehensive operating statement, consolidated balance sheet, consolidated cash flow statement, consolidated statement of changes in equity, and notes to the financial statements of the State and the Victorian general government sector as at 30 June 2021:

(a) presents fairly the State's and the Victorian general government sector's financial positions as at 30 June 2021 and their financial performance and cash flows for the financial year ended on that date

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

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

Tim Pallas MP
Treasurer

David Martine
Secretary

Authorised for issue on:

4 October 2021

CONSOLIDATED COMPREHENSIVE OPERATING STATEMENT

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

		State of Victoria		General government sector	
	Notes	2021	2020	2021	2020
Revenue and income from transactions					
Taxation	2.1	23 167	22 730	23 613	23 167
Interest income	2.2	659	484	594	619
Dividends, income tax equivalent and rate equivalent income	2.3	1 705	2 352	620	810
Sales of goods and services	2.4	15 787	15 810	7 949	7 902
Grants	2.5	36 739	32 505	36 958	32 789
Other revenue and income	2.6	3 723	3 447	2 915	2 662
Total revenue and income from transactions		**81 778**	**77 327**	**72 649**	**67 948**
Expenses from transactions					
Employee expenses	3.1	31 338	28 503	30 044	27 214
Net superannuation interest expense	3.2	305	408	305	407
Other superannuation	3.2	3 602	3 245	3 426	3 073
Depreciation	4.1.2	6 941	6 467	4 165	3 894
Interest expense	5.8	3 437	3 002	2 614	2 328
Grant expense	3.3	16 442	11 276	22 086	15 331
Other operating expenses	3.4	37 985	33 447	24 568	22 241
Total expenses from transactions	3.5, 3.6	**100 049**	**86 348**	**87 207**	**74 487**
Net result from transactions – net operating balance		**(18 271)**	**(9 021)**	**(14 558)**	**(6 539)**
Other economic flows included in net result					
Net gain/(loss) on disposal of non-financial assets		(50)	(190)	(27)	(92)
Net gain/(loss) on financial assets or liabilities at fair value		6 943	(2 476)	122	80
Share of net profit/(loss) from associates/joint venture entities		3	3	3	3
Other gains/(losses) from other economic flows	9.3	53	(4 014)	662	(1 351)
Total other economic flows included in net result		**6 950**	**(6 677)**	**761**	**(1 360)**
Net result		**(11 321)**	**(15 699)**	**(13 797)**	**(7 899)**
Other economic flows – other comprehensive income					
Items that will not be reclassified to net result					
Changes in non-financial assets revaluation surplus		15 747	16 504	6 957	12 519
Remeasurement of superannuation defined benefits plans	3.2	3 960	(2 735)	3 937	(2 721)
Other movements in equity		38	(98)	39	(107)
Items that may be reclassified subsequently to net result					
Net gain/(loss) on financial assets at fair value		214	(182)	229	(173)
Net gain/(loss) on equity investments in other sector entities at proportional share of the carrying amount of net assets	6.1	..	..	342	(2 583)
Total other economic flows – other comprehensive income		**19 960**	**13 490**	**11 504**	**6 935**
Comprehensive result – total change in net worth		**8 639**	**(2 208)**	**(2 293)**	**(964)**
KEY FISCAL AGGREGATES					
Net operating balance		**(18 271)**	**(9 021)**	**(14 558)**	**(6 539)**
Less: Net acquisition of non-financial assets from transactions	9.1	12 285	8 871	14 208	4 485
Net lending/(borrowing)		**(30 556)**	**(17 893)**	**(28 766)**	**(11 024)**

The accompanying notes form part of these financial statements.

CONSOLIDATED BALANCE SHEET

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

		State of Victoria		*General government sector*	
	Notes	*2021*	*2020*	*2021*	*2020*
Assets					
Financial assets					
Cash and deposits	5.6	21 933	19 185	14 609	13 037
Advances paid	5.7	538	483	5 473	6 550
Receivables and contract assets	6.3	11 194	9 069	8 201	6 108
Investments, loans and placements	5.7	46 094	40 381	2 960	2 589
Investments accounted for using the equity method		10	10	10	10
Investments in other sector entities	6.1	..	..	73 125	75 043
Total financial assets		**79 770**	**69 128**	**104 377**	**103 337**
Non-financial assets					
Inventories	6.2	2 010	1 710	908	666
Non-financial assets held for sale		243	226	182	192
Land, buildings, infrastructure, plant and equipment	4.1.1	334 932	309 065	195 592	173 743
Other non-financial assets	4.2	4 757	4 401	3 357	3 103
Total non-financial assets		**341 943**	**315 402**	**200 038**	**177 703**
Total assets	3.6	**421 712**	**384 530**	**304 415**	**281 040**
Liabilities					
Deposits held and advances received	5.5	1 784	1 693	2 791	3 681
Payables	6.4	28 372	28 614	16 404	16 802
Contract liabilities	6.4	438	140	239	68
Borrowings	5.1	116 298	87 778	92 985	62 807
Employee benefits	3.1	10 036	9 662	9 384	9 028
Superannuation	6.5	27 245	31 293	27 217	31 228
Other provisions	6.6	49 409	45 859	1 597	1 335
Total liabilities		**233 583**	**205 039**	**150 617**	**124 949**
Net assets		**188 130**	**179 491**	**153 799**	**156 092**
Accumulated surplus/(deficit)		76 257	76 661	58 642	68 166
Reserves		111 873	102 830	95 157	87 925
Net worth		**188 130**	**179 491**	**153 799**	**156 092**
FISCAL AGGREGATES					
Net financial worth		(153 813)	(135 912)	(46 239)	(21 612)
Net financial liabilities		153 813	135 912	119 364	96 654
Net debt		49 516	29 422	72 734	44 312

The accompanying notes form part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT

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

		State of Victoria		General government sector	
	Notes	2021	2020	2021	2020
Cash flows from operating activities					
Receipts					
Taxes received		22 282	22 820	22 729	23 257
Grants		34 621	34 013	34 877	34 302
Sales of goods and services [(a)]		17 637	17 544	8 771	8 515
Interest received		228	368	585	636
Dividends, income tax equivalent and rate equivalent receipts		1 705	2 352	619	818
Other receipts		2 300	2 381	1 528	2 066
Total receipts		**78 773**	**79 479**	**69 109**	**69 593**
Payments					
Payments for employees		(30 602)	(27 605)	(29 333)	(26 362)
Superannuation		(3 995)	(3 777)	(3 804)	(3 605)
Interest paid		(3 079)	(2 712)	(2 332)	(2 086)
Grants and subsidies		(15 908)	(11 586)	(21 578)	(15 676)
Goods and services [(a)]		(33 408)	(31 903)	(24 040)	(23 232)
Other payments		(1 058)	(1 520)	(979)	(1 543)
Total payments		**(88 050)**	**(79 103)**	**(82 066)**	**(72 506)**
Net cash flows from operating activities	5.6	**(9 277)**	**375**	**(12 958)**	**(2 913)**
Cash flows from investing activities					
Cash flows from investments in non-financial assets					
Purchases of non-financial assets	3.5, 3.6	(15 430)	(12 548)	(11 948)	(9 734)
Sales of non-financial assets		275	370	133	170
Net cash flows from investments in non-financial assets		**(15 156)**	**(12 178)**	**(11 814)**	**(9 565)**
Cash flows from investments in financial assets for policy purposes					
Cash inflows		400	698	1 378	2 545
Cash outflows		(484)	(785)	(1 116)	(1 187)
Net cash flows from investments in financial assets for policy purposes		**(84)**	**(87)**	**263**	**1 358**
Cash flows from investments in financial assets for liquidity management purposes					
Cash inflows		2 817	8 065	827	587
Cash outflows		(4 197)	(4 170)	(959)	(1 077)
Net cash flows from investments in financial assets for liquidity management purposes [(b)]		**(1 380)**	**3 896**	**(132)**	**(491)**
Net cash flows from investing activities		**(16 620)**	**(8 369)**	**(11 683)**	**(8 698)**
Cash flows from financing activities					
Advances received		16	140	14	140
Advances repaid		(49)	(51)	(979)	(1 792)
Advances received (net) [(b)]		(33)	90	(965)	(1 651)
Borrowings received		32 541	18 852	32 294	20 588
Borrowings repaid		(3 981)	(4 369)	(5 186)	(4 146)
Net borrowings [(b)]		28 559	14 483	27 108	16 442
Deposits received		4 333	4 784	4 202	4 710
Deposits repaid		(4 215)	(4 872)	(4 133)	(4 628)
Deposits received (net) [(b)]		118	(88)	69	82
Net cash flows from financing activities		**28 644**	**14 484**	**26 212**	**14 873**
Net increase/(decrease) in cash and cash equivalents		**2 748**	**6 490**	**1 572**	**3 262**
Cash and cash equivalents at beginning of reporting period		19 185	12 695	13 037	9 775
Cash and cash equivalents at end of the reporting period	5.6	**21 933**	**19 185**	**14 609**	**13 037**
FISCAL AGGREGATES					
Net cash flows from operating activities		(9 277)	375	(12 958)	(2 913)
Net cash flows from investments in non-financial assets		(15 156)	(12 178)	(11 814)	(9 565)
Cash surplus/(deficit)		**(24 433)**	**(11 803)**	**(24 772)**	**(12 478)**

The accompanying notes form part of these financial statements.

Notes:

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

(b) *In accordance with AASB 107* Statement of Cash Flows*, Treasury Corporation of Victoria (TCV) is not required to gross up its cash flow information for whole of government consolidation purposes. The net cash movements for TCV have been added to cash inflows or outflows for both financial years ended 30 June 2021 and 30 June 2020.*

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the financial year ended 30 June

State of Victoria	*Accumulated surplus/(deficit)*	*Non-financial assets revaluation surplus*	*Investment in other sector entities revaluation surplus*	*Other reserves*	*Total*
2021					
Balance at 1 July 2020	76 661	101 305	..	1 524	179 491
Net result for the year	(11 321)	..	..	..	(11 321)
Other comprehensive income for the year	3 929	15 747	..	284	19 960
Transfer to/(from) accumulated surplus	6 987	(6 987)	..	..	..
Balance at 30 June 2021	**76 257**	**110 065**	**..**	**1 808**	**188 130**
2020					
Balance at 1 July 2019	71 053	109 002	..	1 643	181 699
Net result for the year	(15 699)	..	..	..	(15 699)
Other comprehensive income for the year	(2 895)	16 504	..	(119)	13 490
Transfer to/(from) accumulated surplus	24 201	(24 201)	..	..	..
Balance at 30 June 2020	**76 661**	**101 305**	**..**	**1 524**	**179 491**

General government sector					
2021					
Balance at 1 July 2020	68 166	54 379	32 639	908	156 092
Net result for the year	(13 797)	..	..	..	(13 797)
Other comprehensive income for the year	3 954	6 957	342	251	11 504
Transfer to/(from) accumulated surplus	319	(319)	..	..	..
Balance at 30 June 2021	**58 642**	**61 017**	**32 981**	**1 159**	**153 799**
2020					
Balance at 1 July 2019	54 752	66 062	35 222	1 020	157 056
Net result for the year	(7 899)	..	..	..	(7 899)
Other comprehensive income for the year	(2 889)	12 519	(2 583)	(112)	6 935
Transfer to/(from) accumulated surplus	24 201	(24 201)	..	..	..
Balance at 30 June 2020	**68 166**	**54 379**	**32 639**	**908**	**156 092**

1. ABOUT THIS REPORT

Basis of preparation

This *Annual Financial Report* presents the audited general purpose consolidated financial statements of the State and the Victorian general government sector for the year ended 30 June 2021. This report informs users about the Government's stewardship of the resources entrusted to it.

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

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

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

- the general government sector investments in other sector entities which are measured at net asset value
- non-financial physical assets including service concession arrangement assets and right-of-use assets which, subsequent to initial recognition, 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 values
- productive trees in commercial native forests, which are measured at their fair value less estimated costs to sell
- certain liabilities, most notably unfunded superannuation and insurance claim provisions, which are subject to actuarial assessments
- financial assets classified at fair value through other comprehensive income which are measured at fair value with movements reflected in other economic flows – other comprehensive income
- financial assets classified as fair value through profit and loss, which are measured at fair value with movements reflected in other economic flows included in net result.

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

- the fair value of land, buildings, infrastructure, plant and equipment, including right-of-use assets (Note 7.5)
- service concession arrangements (Note 5.3)
- superannuation expense and liability (Notes 3.2 and 6.5)
- actuarial assumptions for employee benefit provisions based on likely tenure of existing staff, patterns of leave claims, future salary movements and future discount rates (Note 3.1)
- GST revenue is recognised based on the State's entitlement to the annual GST pool (Note 2.5)
- applying judgement whether income arrangements contain sufficiency specific performance obligations, or are enforceable (Note 2.5)
- provisions for outstanding insurance claims (Note 6.6.1)
- financial instruments carried at fair value classified at Level 3 of the fair value hierarchy (Note 7.4).

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

Figures in the *2020-21 Financial Report* may not add due to rounding.

Basis for consolidation

The consolidated financial statements of the State incorporate assets and liabilities of all reporting entities it controlled as at 30 June 2021 and the revenue and expenses of controlled entities for the part of the reporting period in which control existed (Note 9.8).

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

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

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

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

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

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

Compliance

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

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

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

Material events impacting on this report

The COVID-19 pandemic has introduced significant economic and fiscal uncertainties since early 2020. The Commonwealth Government closed the national border in March 2020, consumer and business confidence fell, and the Victorian Government, in its public health response to contain the spread of COVID-19, put in place public health restrictions on individuals and businesses. This has resulted in the limiting of economic activity since the last quarter of 2019-20 and during 2020-21, which has significantly impacted the State's revenue base, especially taxation revenue and GST grants.

The Government has incurred significant additional spending to support Victorians through the crisis, with social, economic and business support measures in addition to its public health response. Details of these measures including revenue initiatives can be found as part of the online data set at www.dtf.vic.gov.au. This further disclosure is not subject to audit by the Victorian Auditor-General's Office.

Further COVID-19 related impacts have been considered and, where deemed appropriate, specifically included in relevant disclosures throughout the *2020-21 Financial Report* to reflect the material management judgements, estimates and assumptions in the valuation of key balances within the financial report:

- Note 2.1: Taxation revenue
- Note 3.3: Grant expense
- Note 6.5: Superannuation
- Note 6.6: Other provisions.

2. HOW FUNDS ARE RAISED

Introduction

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

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

Structure

2.1 Taxation

($ million)

	State of Victoria		General government sector	
	2021	2020	2021	2020
Taxes on employers' payroll and labour force [(a)]	**6 097**	**5 719**	**6 181**	**5 803**
Taxes on immovable property				
Land tax [(b)]	3 200	3 404	3 234	3 447
Fire Services Property Levy [(c)]	729	708	729	708
Congestion levy	77	110	77	110
Metropolitan improvement levy	191	190	191	190
Total taxes on property	**4 197**	**4 412**	**4 231**	**4 455**
Gambling taxes				
Public lotteries [(d)]	586	530	586	530
Electronic gaming machines [(d)]	665	844	665	844
Casino [(d)(e)(f)]	146	161	146	161
Racing and other sports betting [(d)]	221	166	221	166
Other [(d)]	9	10	9	10
Financial and capital transactions				
Land transfer duty	6 424	6 143	6 424	6 143
Metropolitan planning levy	19	21	19	21
Financial accommodation levy	..	..	153	153
Growth areas infrastructure contribution	197	244	197	244
Levies on statutory corporations	**..**	**..**	**173**	**157**
Taxes on insurance	**1 540**	**1 484**	**1 540**	**1 484**
Total taxes on the provision of goods and services	**9 808**	**9 602**	**10 134**	**9 911**
Motor vehicle taxes				
Vehicle registration fees	1 752	1 773	1 754	1 775
Duty on vehicle registrations and transfers	933	895	933	895
Liquor licence fees	**4**	**..**	**4**	**..**
Other	**376**	**328**	**376**	**328**
Total taxes on the use of goods and performance of activities	**3 065**	**2 996**	**3 067**	**2 998**
Total taxation	**23 167**	**22 730**	**23 613**	**23 167**

Notes:

(a) *During 2020-21, as part of the Economic Survival Package, the State had refunded and waived $284 million of payroll tax to small business. This relief in 2020-21 primarily relates to the annual payroll taxpayers. This is in addition to relief provided in the 2019-20 financial year.*

(b) *The State has recognised land tax relief of $247 million to eligible landowners in 2020-21, including 2021 land tax relief announced as part of the reintroduced Commercial Tenancy Relief Scheme. This is in addition to relief provided during the 2019-20 financial year.*

(c) *The Fire Services Property Levy (FSPL) revenue target for 2020-21 was frozen at the 2019-20 target level of $709 million for one year as part of COVID-19 relief. As at the* 2021-22 Budget, *it was estimated that 2020-21 collections were $9 million higher than the revenue target. This over-collection from 2020-21 was returned to taxpayers as part of the 2021-22 FSPL rate setting in May 2021.*

(d) *The public lotteries, electronic gaming machines, casino, racing and other sports betting and other gambling taxes balances include gambling licence revenue to 30 June 2021 of $157 million (30 June 2020: $158 million) recognised under AASB 15* Revenue from Contracts with Customers. *The balance of these items is recognised under AASB 1058* Income of Not-for-Profit Entities.

(e) *On 27 July 2021, Crown notified the Victorian Commission for Gambling and Liquor Regulation that it had completed its review of potential casino tax underpayments by Crown referred to in the Victorian Royal Commission regarding the alleged incorrect deduction of certain bonus rewards provided to patrons in connection with play on Crown Melbourne's electronic gaming machines. It advised that the deductions of the above bonus jackpots were not correct and then made a payment of $62 million, representing an underpayment of casino tax of approximately $37 million over the period commencing in the 2012 financial year to date, and penalty interest of $24 million*

(f) *Counsel Assisting the Victorian Royal Commission has alleged that Matchplay and other loyalty benefits provided to members should be included in the calculation of tax payable by Crown. The State proposes to engage with Crown post the delivery of the Royal Commission's final report in relation to Matchplay and other loyalty benefits. For any shortfall of casino taxes identified from this process, the State will seek to secure any required payment along with penalty interest. As the Royal Commission has yet to deliver its final report at the time of the authorisation of the* 2020-21 Financial Report *(AFR), the State has not recognised any further amounts as at the date of the AFR.*

Taxation represents income earned from the State's taxpayers. For taxes (excluding gambling licence revenue), income is recognised under AASB 1058 when the relevant taxable event has occurred.

Gambling licence revenue is accounted for under AASB 15 using the principles noted in Note 2.4.

2.2 Interest income

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

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

2.3 Dividends, income tax equivalent and rate equivalent income

($ million)

	State of Victoria		*General government sector*	
	2021	*2020*	*2021*	*2020*
Dividends from PFC sector	..	..	59	59
Dividends from PNFC sector	..	..	169	347
Dividends from non-public sector	1 705	2 352	103	103
Dividends	**1 705**	**2 352**	**331**	**509**
Income tax equivalent income from PFC sector	..	..	7	6
Income tax equivalent income from PNFC sector	..	..	278	290
Income tax equivalent income	**..**	**..**	**285**	**297**
Local government rate equivalent income	..	..	5	4
Total dividends, income tax equivalent and rate equivalent income	**1 705**	**2 352**	**620**	**810**

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

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

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

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

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

2. HOW FUNDS ARE RAISED

Dividends by entity **($ million)**

	General government sector	
	2021	*2020*
Public financial corporations		
Victorian Managed Insurance Authority [(a)]	..	..
Transport Accident Commission	..	..
Treasury Corporation of Victoria	52	50
State Trustees Ltd	..	2
Victorian Funds Management Corporation	7	7
Dividends from PFC sector	**59**	**59**
Public non-financial corporations		
Melbourne Water Corporation	63	73
City West Water Corporation	21	76
South East Water Corporation	48	133
Yarra Valley Water Corporation	36	64
Development Victoria	1	1
Others	..	1
Dividends from PNFC sector	**169**	**347**

Note:

(a) 'Amounts equivalent to dividends' paid by the Victorian Managed Insurance Authority are received and reported as contributions forming part of grant revenue, consistent with the requirements of AASB 1023 General Insurance Contracts. *The amount paid in 2020-21 was $36 million.*

2.4 Sales of goods and services

($ million)

	State of Victoria		General government sector	
	2021	*2020*	*2021*	*2020*
Revenue items accounted for under AASB 15				
Sale of goods	597	515	82	76
Provision of services [(a)]	13 828	13 921	4 447	4 562
Income accounted for under AASB 1058 statutory requirements				
Motor vehicle regulatory fees	262	234	262	234
Other regulatory fees	520	566	500	546
Inter-sector capital asset charge	..	..	2 567	2 384
Refunds and reimbursements	271	263	15	18
Lease income accounted for under AASB 16				
Rental	309	311	75	82
Total sales of goods and services	**15 787**	**15 810**	**7 949**	**7 902**

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

The sale of goods and services included in the table above (excluding regulatory fees, refunds and reimbursements and inter-sector capital asset charge, which are recognised under AASB 1058 and rental which is recognised under AASB 16 *Leases*), represent transactions that the State has determined to be classified as revenue from contracts with customers in accordance with AASB 15. Revenue is measured based on the consideration specified in the contract with the customer. The State recognises revenue when it transfers control of a good or service to the customer. i.e. when, or as, the performance obligations for the sale of goods and services to the customer are satisfied:

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

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

Regulatory fees are accounted for under AASB 1058 as they represent income arising from statutory requirements and is recognised when the State has the right to receive payment.

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

2.5 Grants [(a)]

($ million)

	State of Victoria		General government sector	
	2021	2020	2021	2020
General purpose grants	18 050	15 370	18 050	15 370
Specific purpose grants for on-passing	4 528	4 426	4 528	4 426
Specific purpose grants	14 144	12 678	14 108	12 672
Total	**36 722**	**32 474**	**36 686**	**32 468**
Other contributions and grants	17	31	272	321
Total grants	**36 739**	**32 505**	**36 958**	**32 789**

Note:
(a) Grants predominantly relate to grants from the Commonwealth Government which are recognised under AASB 1058 Income of Not-for-Profit Entities.

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

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

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

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

The State only recognises grant income as income of not-for-profit entities where the grant amounts do not meet any of the other related amounts described above and the State has an unconditional right to receive the assets granted.

Income from grants to construct capital assets that are controlled by the State is recognised progressively as the assets are constructed.

The progressive percentage costs incurred are used to recognise income because this most closely reflects the progress to completion.

In applying AASB 1058, a portion of the grant income may need to be deferred. The portion is recognised in the deferred grant income liability (Note 6.4).

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

Victoria's GST income was $18.1 billion in 2020-21, which was $614 million higher than what was progressively paid by the Commonwealth during the year based on the national GST pool forecasts published in the Commonwealth's *2021-22 Budget*. The $614 million increase is largely driven by a higher national GST pool due to stronger national household consumption and dwelling investment, along with changes in the share of consumption subject to GST during the COVID-19 pandemic. As a result, the State has made the judgement that the underpayment of $614 million be recognised as a receivable (refer to Note 6.3) representing funding to be received for the current year's GST income entitlement.

2.6 Other revenue and income

($ million)

	State of Victoria		General government sector	
	2021	*2020*	*2021*	*2020*
Revenue items accounted for under AASB 15				
Royalties	146	121	137	111
Other revenue – Health	209	220	209	220
Other miscellaneous revenue	949	845	759	649
Income accounted for under AASB 1058				
Fair value of assets received free of charge or for nominal consideration [(a)]	908	467	440	41
Fines	618	651	608	650
Donations and gifts	282	338	192	234
Other income – Education	308	402	308	402
Revenue items accounted for under AASB 16				
Other non-property rental	76	82	33	33
Revenue items accounted for under AASB 1059				
Revenue related to economic service concession arrangements	228	320	228	320
Total other revenue and income	**3 723**	**3 447**	**2 915**	**2 662**

Note:

(a) The 2020-21 figure includes $409 million relating to the progressive recognition of the contribution made by the Cross Yarra Partnerships consortium (assets free of charge) to the Metro Tunnel settlement

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

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

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

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

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

Other income – Education mainly comprises locally raised funds from school fetes, fundraising events, and voluntary contributions made by parents.

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

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

3. HOW FUNDS ARE SPENT

Introduction

This section accounts for the major components of expenditure incurred by the State towards the delivery of services and on capital or infrastructure projects during the year, as well as any related obligations outstanding at 30 June 2021.

Structure

3.1 Employee expenses and provision for outstanding employee benefits

Employee expenses (operating statement)

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

Employee benefits (balance sheet)

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

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

	State of Victoria		*General government sector*	
	2021	*2020*	*2021*	*2020*
Current				
Accrued salaries and wages	**633**	**868**	**597**	**820**
Other employee benefits	**125**	**106**	**104**	**81**
Annual leave				
Unconditional and expected to settle within 12 months	1 937	1 649	1 788	1 518
Unconditional and expected to settle after 12 months	358	313	310	273
Long service leave				
Unconditional and expected to settle within 12 months	966	866	883	791
Unconditional and expected to settle after 12 months	3 744	3 667	3 573	3 492
On-costs				
Unconditional and expected to settle within 12 months	338	300	306	271
Unconditional and expected to settle after 12 months	697	621	656	583
Total current employee benefits and on-costs	**8 798**	**8 390**	**8 217**	**7 828**
Non-current				
Long service leave	1 091	1 125	1 024	1 059
On-costs	148	147	142	141
Total non-current employee benefits and on-costs	**1 239**	**1 272**	**1 166**	**1 200**
Total employee benefits and on-costs	**10 036**	**9 662**	**9 384**	**9 028**

Wages and salaries, annual leave and sick leave

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

Long service leave

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

The components of this current LSL liability are measured at:

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

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

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

On-costs

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

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

	State of Victoria		*General government sector*	
	2021	*2020*	*2021*	*2020*
Opening balance	1 068	1 010	995	944
Additional provisions recognised	313	213	294	188
Additions due to acquisitions	3	11	2	10
Reductions arising from payments/other sacrifices of future economic benefits	(180)	(168)	(165)	(149)
Reductions resulting from remeasurement or settlement without cost	(12)	(8)	(13)	(7)
Unwind of discount and effect of changes in the discount rate	(10)	9	(9)	9
Closing balance	**1 182**	**1 068**	**1 104**	**995**
Represented by:				
Current	1 035	921	963	854
Non-current	148	147	142	141

3.2 Superannuation interest expense and other superannuation expenses

Superannuation expense recognised in the operating statement

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

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

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

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

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

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

	State of Victoria	
	2021	*2020*
Defined benefit plans		
Net superannuation interest expense	305	408
Current service cost	1 286	1 115
Remeasurements:		
Expected return on superannuation assets excluding interest income	(1 333)	(1 316)
Other actuarial (gain)/loss on superannuation assets	(2 506)	2 428
Actuarial and other adjustments to unfunded superannuation liability	(122)	1 622
Total expense recognised in respect of defined benefit plans	**(2 369)**	**4 257**
Defined contribution plans		
Employer contributions to defined contribution plans	2 240	2 046
Other (including pensions)	76	84
Total expense recognised in respect of defined contribution plans	**2 316**	**2 130**
Total superannuation (gain)/expense recognised in operating statement	**(53)**	**6 387**
Represented by:		
Net superannuation interest expense	305	408
Other superannuation	3 602	3 245
Superannuation expense from transactions	**3 907**	**3 653**
Remeasurement recognised in other comprehensive income	**(3 960)**	**2 735**
Total superannuation costs recognised in operating statement	**(53)**	**6 387**

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

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

3.3 Grant expense

($ million)

	State of Victoria		General government sector	
	2021	*2020*	*2021*	*2020*
Current grant expense				
Commonwealth Government	2 348	1 595	2 347	1 594
Local government (including grants for on-passing)	1 795	1 246	1 795	1 246
Private sector and not-for-profit on-passing	3 860	3 755	3 860	3 755
Other private sector and not-for-profit (a)	7 871	4 118	7 809	4 069
Grants within the Victorian Government	..	..	5 805	4 147
Grants to other state governments	132	294	132	292
Total current grant expense	**16 006**	**11 008**	**21 748**	**15 104**
Capital grant expense				
Local government (including grants for on-passing)	58	41	58	41
Private sector and not-for-profit on-passing	311	165	238	140
Other private sector and not-for-profit	1	..	1	..
Grants within the Victorian Government	..	..	17	20
Other grants	66	63	23	27
Total capital grant expense	**436**	**268**	**338**	**227**
Total grant expense	**16 442**	**11 276**	**22 086**	**15 331**

Note:
(a) The increase in other private sector and not-for-profit grants includes payments to support businesses during COVID-19.

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

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

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

3.4 Other operating expenses

($ million)

	State of Victoria		General government sector	
	2021	*2020*	*2021*	*2020*
Purchase of supplies and consumables (a)	6 031	5 734	4 740	4 641
Cost of goods sold	335	214	24	23
Finance expenses and fees	509	551	52	109
Purchase of services (a)	19 527	16 872	17 298	15 111
Insurance claims expense	7 923	7 322	355	372
Maintenance (b)	2 494	1 685	1 014	984
Short-term and low value lease expense	112	125	111	124
Other	1 054	944	973	877
Total other operating expenses	**37 985**	**33 447**	**24 568**	**22 241**

Notes:
(a) A breakdown of purchase of supplies and consumables and purchase of services is provided in the following two tables.
(b) The increase in this expense item for the State of Victoria from the prior year reflects a reassessment and restatement of certain costs, which had been previously capitalised by the PNFC sector, as expenses to more appropriately reflect their nature.

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

Audit fees of $388 400 ($380 000 in 2020) were paid or payable to the Victorian Auditor-General's Office for the audit of the Annual Financial Report of the State of Victoria. The Victorian Auditor-General's Office provided no other services, other than the review of the Estimated Financial Statements and the financial audits of departments and agencies.

The following **lease payments** are recognised on a straight-line basis:

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

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

All leases, other than those within the above categories, are recognised on the State's balance sheet (refer to Note 5.2 for further details).

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

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

	State of Victoria		*General government sector*	
	2021	*2020*	*2021*	*2020*
Medicinal pharmacy and medical supplies	1 804	1 598	1 804	1 598
Office supplies and consumables	204	221	193	207
Specialised operational supplies and consumables	277	322	216	209
Other purchase of supplies and consumables	3 746	3 593	2 527	2 626
Total purchase of supplies and consumables	**6 031**	**5 734**	**4 740**	**4 641**

Purchase of services **($ million)**

	State of Victoria		*General government sector*	
	2021	*2020*	*2021*	*2020*
Service contracts	10 072	8 596	9 444	8 113
Accommodation/occupancy	1 317	1 186	1 069	1 013
Medical and client care services	422	368	422	368
Staff related expenses (non-labour related)	294	334	263	302
Other purchase of services	7 423	6 388	6 101	5 316
Total purchases of services	**19 527**	**16 872**	**17 298**	**15 111**

3.5 Total operating expenses and purchases of non-financial assets by department

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

($ million)

	Expenses from transactions		*Purchases of non-financial assets*	
State of Victoria	*2021*	*2020*	*2021*	*2020*
Education and Training	20 456	19 491	1 689	1 567
Environment, Land, Water and Planning	10 137	10 376	2 372	1 972
Families, Fairness and Housing [(a)(b)]	3 599	..	472	..
Health [(a)]	32 405	31 043	1 459	1 256
Jobs, Precincts and Regions	8 763	4 619	363	361
Justice and Community Safety	16 610	13 929	959	576
Premier and Cabinet [(b)]	942	925	31	39
Transport	20 828	17 012	7 613	6 083
Treasury and Finance	11 789	11 172	132	108
Parliament	308	227	31	22
Courts	756	714	83	80
Regulatory bodies and other part budget funded agencies [(c)]	2 997	2 867	207	244
Total	**129 591**	**112 374**	**15 410**	**12 307**
Less eliminations and adjustments [(d)]	*(29 542)*	*(26 026)*	*21*	*241*
Grand total	**100 049**	**86 348**	**15 430**	**12 548**

General government sector				
Education and Training	20 456	19 491	1 689	1 567
Environment, Land, Water and Planning	3 866	4 067	108	141
Families, Fairness and Housing [(a) (b)]	2 840	..	61	..
Health [(a)]	31 288	29 508	1 207	911
Jobs, Precincts and Regions	7 930	3 524	72	172
Justice and Community Safety	10 799	8 846	926	512
Premier and Cabinet [(b)]	929	898	35	36
Transport	10 345	9 479	7 430	5 926
Treasury and Finance	9 088	8 415	118	56
Parliament	308	227	31	22
Courts	756	714	83	80
Regulatory bodies and other part budget funded agencies [(c)]	2 997	2 867	207	244
Total	**101 603**	**88 036**	**11 968**	**9 668**
Less eliminations and adjustments [(d)]	*(14 396)*	*(13 548)*	*(20)*	*66*
Grand total	**87 207**	**74 487**	**11 948**	**9 734**

Notes:

(a) Effective from 1 February 2021, the Department of Health and Human Services was renamed the Department of Health, and the new Department of Families, Fairness and Housing was created. As a result, portfolio responsibilities of Child Protection, Prevention of Family Violence, Housing and Disability were transferred from the Department of Health and Human Services to the Department of Families, Fairness and Housing. Refer to Note 9.8 for further details.

(b) Effective from 1 February 2021, portfolio responsibilities for Multicultural Affairs, LGBTIQ+ Equality, Veterans, and the offices for Women and Youth were transferred from the Department of Premier and Cabinet to the Department of Families, Fairness and Housing.

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

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

3.6 Classification of the functions of government disclosure

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

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

The major groups are:

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

Total operating expenses, purchases of non-financial assets and total assets by classification of the functions of government

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

($ million)

	Expenses from transactions		Purchases of non-financial assets		Total assets	
State of Victoria	*2021*	*2020*	*2021*	*2020*	*2021*	*2020*
General public services	14 819	13 779	171	282	8 172	9 047
Public order and safety	10 518	9 168	1 170	723	13 743	11 737
Economic affairs	6 400	3 064	155	69	1 436	1 185
Environmental protection	982	940	48	131	14 276	11 799
Housing and community amenities	5 785	5 200	2 277	2 034	55 456	51 976
Health	24 380	21 708	1 157	763	21 287	20 475
Recreation, culture and religion	2 035	1 732	413	243	16 098	14 636
Education	17 681	16 796	1 676	1 573	32 139	28 171
Social protection	8 439	6 787	733	463	33 280	28 542
Transport	10 000	8 002	7 567	6 068	150 244	144 196
Not allocated by purpose [(a)(b)]	(992)	(828)	63	199	75 581	62 766
Total	**100 049**	**86 348**	**15 430**	**12 548**	**421 712**	**384 530**
General government sector						
General public services	4 770	4 494	118	150	4 106	4 449
Public order and safety	11 291	9 357	1 170	723	13 743	11 737
Economic affairs	6 523	3 100	149	63	1 369	1 127
Environmental protection	1 025	964	48	131	14 275	11 797
Housing and community amenities	2 360	2 015	13	93	2 230	2 245
Health	24 770	22 115	1 157	763	21 287	20 475
Recreation, culture and religion	1 333	864	63	127	8 743	7 668
Education	17 793	16 891	1 676	1 573	32 139	28 171
Social protection	8 181	6 171	108	160	2 237	2 073
Transport	10 109	9 274	7 424	5 928	100 294	88 340
Not allocated by purpose [(a)(b)]	(948)	(757)	22	24	103 993	102 957
Total	**87 207**	**74 487**	**11 948**	**9 734**	**304 415**	**281 040**

Notes:

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

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

4. MAJOR ASSETS AND INVESTMENTS

Introduction

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

Structure

4.1 Land, buildings, infrastructure, plant and equipment

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

($ million)

	State of Victoria			*General government sector*		
2021	*Gross carrying amount*	*Accumulated depreciation*	*Carrying amount*	*Gross carrying amount*	*Accumulated depreciation*	*Carrying amount*
Buildings	73 809	(5 494)	68 315	51 277	(4 708)	46 569
Land and national parks	118 687	..	118 687	77 599	..	77 599
Infrastructure systems	89 060	(4 897)	84 163	14 990	(535)	14 455
Plant, equipment and vehicles	18 583	(7 405)	11 178	9 834	(5 254)	4 581
Roads and road infrastructure	37 070	(1 127)	35 943	36 953	(1 113)	35 841
Earthworks	10 023	..	10 023	10 023	..	10 023
Cultural assets	6 772	(149)	6 624	6 673	(149)	6 525
Total land, buildings, infrastructure, plant and equipment	**354 003**	**(19 071)**	**334 932**	**207 349**	**(11 758)**	**195 592**

2020						
Buildings	69 010	(5 002)	64 008	47 684	(3 280)	44 404
Land and national parks	102 855	..	102 855	70 174	..	70 174
Infrastructure systems	88 988	(7 390)	81 598	5 873	(519)	5 355
Plant, equipment and vehicles	17 793	(6 878)	10 915	9 050	(4 764)	4 286
Roads and road infrastructure	34 901	(85)	34 816	34 787	(71)	34 717
Earthworks	9 116	..	9 116	9 116	..	9 116
Cultural assets	5 963	(207)	5 756	5 898	(207)	5 691
Total land, buildings, infrastructure, plant and equipment	**328 626**	**(19 561)**	**309 065**	**182 583**	**(8 840)**	**173 743**

Notes:

(a) The State of Victoria balances include work in progress of $3.8 billion (2020: $3.5 billion) for buildings, $15.8 billion (2020: $15.4 billion) for infrastructure systems, $1.9 billion (2020: $1.9 billion) for plant, equipment and vehicles and $8.1 billion (2020: $6.5 billion) for roads and road infrastructure, as part of the State's capital program. Work in progress is not subject to depreciation.

(b) The general government sector balances include work in progress of $2.7 billion (2020: $2.7 billion) for buildings, $13.3 billion (2020: $4.1 billion) for infrastructure systems, $961 million (2020: $937 million) for plant, equipment and vehicles and $8.1 billion (2020: $6.5 billion) for roads and road infrastructure, as part of the State's capital program. Work in progress is not subject to depreciation.

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

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

	State of Victoria			*General government sector*		
2021	*Gross carrying amount*	*Accumulated depreciation*	*Carrying amount*	*Gross carrying amount*	*Accumulated depreciation*	*Carrying amount*
Buildings	10 509	(1 597)	8 912	9 896	(1 443)	8 453
Infrastructure systems	16	(3)	13	2	(1)	1
Plant, equipment and vehicles	1 091	(409)	682	894	(361)	533
Total right-of-use assets: land, buildings, infrastructure, plant and equipment	**11 616**	**(2 009)**	**9 607**	**10 793**	**(1 805)**	**8 988**
2020						
Buildings	9 469	(925)	8 545	8 907	(826)	8 080
Infrastructure systems	21	(1)	20	6	..	6
Plant, equipment and vehicles	921	(239)	681	740	(213)	527
Total right-of-use assets: land, buildings, infrastructure, plant and equipment	**10 411**	**(1 166)**	**9 245**	**9 653**	**(1 039)**	**8 614**

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

	State of Victoria			*General government sector*		
2021	*Gross carrying amount*	*Accumulated depreciation*	*Carrying amount*	*Gross carrying amount*	*Accumulated depreciation*	*Carrying amount*
Buildings	2 077	(61)	2 016	2 077	(61)	2 016
Land and national parks	2 876	..	2 876	2 876	..	2 876
Infrastructure systems	9 622	(53)	9 568	5 293	..	5 293
Plant, equipment and vehicles	797	(37)	759	797	(37)	759
Roads and road infrastructure	12 175	(184)	11 991	12 175	(184)	11 991
Total service concession land, buildings, infrastructure, plant and equipment assets	**27 547**	**(336)**	**27 210**	**23 218**	**(283)**	**22 935**
2020						
Buildings	2 293	(26)	2 267	2 293	(26)	2 267
Land and national parks	2 531	..	2 531	2 531	..	2 531
Infrastructure systems	8 445	(620)	7 824	3 590	..	3 590
Plant, equipment and vehicles	719	(19)	700	719	(19)	700
Roads and road infrastructure	11 207	..	11 207	11 207	..	11 207
Total service concession land, buildings, infrastructure, plant and equipment assets	**25 195**	**(665)**	**24 530**	**20 341**	**(45)**	**20 296**

Note:
(a) The State of Victoria and general government sector balances include work in progress of $12 million (2020: $160 million) for buildings, $5.3 billion (2020: $3.6 billion) for infrastructure systems, $562 million (2020: $517 million) for plant, equipment and vehicles and $4.0 billion (2020: $4.1 billion) for roads and road infrastructure, as part of the State's capital program. Work in progress is not subject to depreciation.

Recognition and measurement

Initial recognition

All non-financial physical assets are measured initially at cost, except for service concession assets (SCA) which are initially measured at current replacement cost (CRC).

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

The right-of-use assets are initially measured at cost which comprises the initial amount of the lease liability adjusted for:

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

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

The CRC for the SCA includes the costs that are directly attributable to the design and construction of the SCA by the operator and includes:

- the purchase price (including costs that the operator seeks to recover from the State)
- costs directly attributable to bringing the asset to its location or condition
- borrowing costs of the operator during the construction phase.

The same principle applies to existing assets owned by the State and transferred to a SCA under a new or an existing service concession arrangement, with any difference between the CRC and the carrying value of the asset being accounted for as a revaluation.

Subsequent measurement

All non-financial physical assets are subsequently revalued at fair value less accumulated depreciation and impairment. Where an asset is acquired for no or nominal cost, the cost is its fair value at the date of acquisition.

Right-of-use assets are adjusted for certain remeasurements of the lease liabilities. Right-of-use assets arising from below market leases are recognised at cost instead of fair value (Note 5.2).

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

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

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

Refer to Note 7.5 for a summary of revaluation details.

Assets under construction

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

The State applies the fair value proxy approach for the SCAs that are under construction. This approach captures the financing cost incurred during the construction of a SCA by the private sector, with an aim of achieving faithful representation of the CRC of SCA construction in progress balances.

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

Impairment

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

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

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

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

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

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

4.1.2 Depreciation

($ million)

	State of Victoria		*General government sector*	
	2021	*2020*	*2021*	*2020*
Buildings	2 759	2 686	2 139	2 057
Infrastructure systems	1 634	1 497	50	42
Plant, equipment and vehicles	1 244	1 099	777	699
Roads and road infrastructure	940	894	936	890
Cultural assets	20	20	20	20
Intangible produced assets	344	272	242	186
Total depreciation	**6 941**	**6 467**	**4 165**	**3 894**

4. MAJOR ASSETS AND INVESTMENTS

The following two tables are subsets of total depreciation expense.

Depreciation of right-of-use (leased) assets **($ million)**

	State of Victoria		General government sector	
	2021	*2020*	*2021*	*2020*
Buildings	699	719	637	663
Infrastructure systems	2	5	1	4
Plant, equipment and vehicles	162	140	134	114
Total depreciation of right-of-use assets	**864**	**864**	**771**	**781**

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

	State of Victoria		General government sector	
	2021	*2020*	*2021*	*2020*
Buildings	74	63	74	63
Infrastructure systems	83	82	..	..
Plant, equipment and vehicles	24	22	24	22
Roads and road infrastructure	184	166	184	166
Intangible produced assets	..	4	..	4
Total depreciation of service concession assets	**367**	**337**	**283**	**255**

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

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

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

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

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

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

Indefinite life assets

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

Intangible assets

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

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

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

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

See Note 4.2 for further information on intangible assets.

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

	Land and buildings		*Plant, equipment vehicle and infrastructure system*		*Roads, road infrastructure and earthworks*		*Cultural assets*		*Total*	
State of Victoria	*2021*	*2020*	*2021*	*2020*	*2021*	*2020*	*2021*	*2020*	*2021*	*2020*
Opening balance	**166 864**	**153 719**	**92 514**	**85 444**	**43 932**	**41 703**	**5 756**	**5 725**	**309 065**	**286 592**
Acquisitions of self-owned assets [(b)]	6 592	3 096	7 437	6 583	2 223	1 496	28	40	16 281	11 215
Additions of right-of-use assets	1 162	321	211	211	..	..	..	..	1 373	531
Additions of service concession arrangement assets	12	73	1 601	1 388	887	1 646	..	..	2 500	3 107
Reclassification	(13)	180	9	(146)	(28)	19	(13)	..	(45)	53
Revaluation	14 323	12 314	(1 598)	1 179	(69)	(33)	858	10	13 513	13 469
Disposals	(183)	(361)	(165)	(195)	..	(5)	..	..	(348)	(561)
Assets recognised for the first time	1 054	247	147	657	98	1	15	..	1 315	904
Impairment	(50)	(40)	(1 937)	(10)	(138)	..	..	..	(2 124)	(50)
Depreciation	(2 759)	(2 686)	(2 878)	(2 596)	(940)	(894)	(20)	(20)	(6 597)	(6 196)
Closing balance	**187 002**	**166 864**	**95 341**	**92 514**	**45 965**	**43 932**	**6 624**	**5 756**	**334 932**	**309 065**

General government sector										
Opening balance	**114 578**	**102 156**	**9 641**	**8 091**	**43 833**	**41 604**	**5 691**	**5 661**	**173 743**	**157 513**
Acquisitions of self-owned assets [(b)]	4 082	2 540	5 446	4 771	2 240	1 491	28	40	11 796	8 841
Additions of right-of-use assets	1 140	341	187	184	..	..	..	..	1 327	525
Additions of service concession arrangement assets	12	73	1 601	1 388	887	1 646	..	..	2 500	3 107
Reclassification	32	147	(124)	(130)	(30)	18	(13)	..	(135)	35
Revaluation	5 722	11 528	227	75	(69)	(33)	830	10	6 710	11 581
Disposals	(90)	(133)	(61)	(116)	..	(5)	..	..	(151)	(254)
Assets recognised for the first time	837	21	30	41	97	..	8	..	972	62
Assets transferred between Government entities [(c)]	12	1	2 917	(3 921)	(21)	2	..	..	2 908	(3 918)
Impairment	(18)	(38)	(1)	(2)	(138)	..	..	..	(156)	(41)
Depreciation	(2 139)	(2 057)	(827)	(740)	(936)	(890)	(20)	(20)	(3 922)	(3 708)
Closing balance	**124 168**	**114 578**	**19 036**	**9 641**	**45 863**	**43 833**	**6 525**	**5 691**	**195 592**	**173 743**

Notes:

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

(b) *Represents additions of assets recognised under AASB 116* Property, Plant and Equipment.

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

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

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

	State of Victoria		*General government sector*	
	2021	*2020*	*2021*	*2020*
Opening balance	9 246	9 535	8 614	8 826
Additions of right of use assets	1 373	531	1 327	525
Revaluation	(148)	44	(181)	43
Depreciation	(864)	(864)	(771)	(781)
Closing balance	**9 607**	**9 246**	**8 988**	**8 614**

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

	State of Victoria		*General government sector*	
	2021	*2020*	*2021*	*2020*
Opening balance	24 530	20 031	20 296	15 713
Additions of service concession arrangement assets	2 500	3 107	2 500	3 107
Revaluation	547	1 726	423	1 727
Depreciation	(367)	(333)	(283)	(251)
Closing balance	**27 210**	**24 530**	**22 935**	**20 296**

4.2 Other non-financial assets

($ million)

	State of Victoria		*General government sector*	
	2021	*2020*	*2021*	*2020*
Intangible produced assets	3 924	3 787	2 819	2 477
Accumulated depreciation	(2 009)	(1 917)	(1 401)	(1 212)
Service concession assets – intangible produced [(a)]	485	480	485	480
Intangible non-produced assets	1 003	956	112	109
Accumulated amortisation	(373)	(356)	(52)	(46)
Total intangibles	**3 029**	**2 950**	**1 962**	**1 809**
Investment properties	315	303	303	294
Biological assets	59	54	2	2
Other assets	1 355	1 094	1 089	998
Total other non-financial assets	**4 757**	**4 401**	**3 357**	**3 103**

Note:

(a) This includes the Titling and Registry database.

4. MAJOR ASSETS AND INVESTMENTS

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

	State of Victoria		*General government sector*	
	2021	*2020*	*2021*	*2020*
Opening balance	3 306	3 067	2 105	1 935
Acquisitions of self-owned intangible produced assets	437	463	267	288
Additions of service concession arrangement assets	7	7	7	7
Reclassification	(39)	21	71	4
Revaluation	2	(6)	(4)	7
Disposals	(28)	(24)	(26)	(24)
Assets recognised for the first time	112	113	96	79
Impairment	(12)	(18)	(1)	..
Amortisation and depreciation [(b)]	(384)	(318)	(247)	(191)
Closing balance	**3 402**	**3 306**	**2 268**	**2 105**

Notes:
(a) Reconciliation does not include movements in other assets.
(b) For produced and non-produced intangible assets.

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

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

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

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

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

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

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

4.3 Investments in associates and joint operations

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

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

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

The investments in joint operations are disclosed below.

4.3.1 Joint operations

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

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

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

Royal Melbourne Showgrounds

The State entered into a joint venture agreement with the Royal Agricultural Society of Victoria (RASV) in 2003 to redevelop the Royal Melbourne Showgrounds. The State of Victoria's interest in the unincorporated joint venture at 30 June 2021 was 50 per cent (50 per cent in 2020).

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

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

AgriBio Project

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

The State of Victoria's interest in the unincorporated joint venture at 30 June 2021 was 75 per cent (75 per cent in 2020).

Murray-Darling Basin Authority

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

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

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

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

5. FINANCING STATE OPERATIONS

Introduction

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

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

Structure

5.1 Borrowings

($ million)

	State of Victoria		*General government sector*	
	2021	*2020*	*2021*	*2020*
Current borrowings				
Domestic borrowings	9 942	9 850	11 037	12 639
Foreign currency borrowings	683	..	..	..
Lease liabilities	672	693	607	638
Service concession arrangement liabilities	1 423	1 103	1 414	1 095
Derivative financial instruments	312	235	1	3
Total current borrowings	**13 033**	**11 880**	**13 059**	**14 375**
Non-current borrowings				
Domestic borrowings	88 908	61 520	66 993	36 150
Foreign currency borrowings	627	555	..	..
Lease liabilities	8 000	7 598	7 460	7 031
Service concession arrangement liabilities	5 096	5 027	4 995	4 917
Derivative financial instruments [(a)]	634	1 197	478	334
Total non-current borrowings	**103 265**	**75 898**	**79 925**	**48 431**
Total borrowings	**116 298**	**87 778**	**92 985**	**62 807**

Note:

(a) The year- on-year variance primarily reflects a change in treatment for a number of cross currency swaps (CCS) related to debt issues in foreign currency from the Treasury Corporation of Victoria (TCV). In the prior year, swaps between the asset and liability were disclosed on a gross basis. However, this year the asset and liability of the CCS have been netted to better reflect market practice.

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

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

Borrowings are classified as financial instruments (Note 7.1). All interest bearing liabilities are initially recognised at the fair value of the consideration received less directly attributable transaction costs.

The measurement basis subsequent to initial recognition depends on whether the State has categorised its interest bearing liabilities as either financial liabilities measured at fair value through profit or loss, or financial liabilities at amortised cost. The classification depends on the nature and purpose of the interest bearing liabilities. The State determines the classification of its interest bearing liabilities at initial recognition.

The State's public borrowings are measured at fair value through profit or loss on settlement date on the basis that the financial liabilities are managed on a fair value basis in accordance with documented risk strategies.

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

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

5.2 Leases

Recognition and measurement of leases as a lessee

For contracts entered into, the State considers whether a contract is, or contains, a lease. A lease is defined as a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration.

To apply this definition, the State assesses whether the contract meets three key criteria:

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

Separation of lease and non-lease components

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

Lease Liability – initial measurement

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

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

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

Lease Liability – subsequent measurement

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

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

Short-term leases and leases of low-value assets

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

State's leasing activities

Office Accommodation leases

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

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

Health Sector

Health Services lease various land and buildings such as consulting suites, warehouses, carer support units, treatment areas such as dialysis suites, staff accommodation (generally for medical staff on rotation), offices, opportunity shops, ambulance stations and related facilities. They also lease a range of medical and non-medical equipment, IT equipment, network infrastructure, motor vehicles and aircraft for transport services. Most lease contracts are for periods between 1 and 10 years with options to renew for various lease terms, although some Health Services have contracts of up to 40 years. Health Services also have in place short-term rental agreements that can be terminated with limited notice (often one month).

Emergency Management

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

Buses

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

Leases at significantly below-market terms and conditions

The State elected to measure right-of-use assets arising from leases that are significantly below market terms and conditions at cost as per the temporary relief given to not-for-profit entities by AASB 2018-8 *Amendments to Australian Accounting Standards – Right-of-Use Assets of Not-for-Profit Entities*.

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

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

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

VicTrack provides access to its leased assets to assist the State in furthering its objectives.

The General Government Sector has classified the leases entered into with VicTrack as leases that are significantly below market terms and conditions, and principally enable the State to further its objectives and the right-of-use asset value in the general government sector is recorded at cost (a nominal amount).

These underlying assets subject to the leases are recognised at fair value, at a consolidated whole of government level, after eliminating the inter-sector leases.

Presentation of right-of-use assets and lease liabilities

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

5.3 Service concession arrangements (SCA)

For arrangements within the scope of AASB 1059, at initial recognition a public sector grantor records the asset(s) used in the service concession arrangement at current replacement cost with a related liability, which could be a financial liability, or an accrued revenue liability (referred to as the grant of a right to the operator liability) or a combination of both.

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

A financial liability is recognised where the State has a contractual obligation to pay the operator under the service concession arrangement for the provision of service concession assets and/or services. It is recognised as a borrowing (Note 5.1). The liability is increased by interest charges (Note 5.8), based on the interest rate implicit in the arrangement. The liability is reduced by any payments made by the State to the operator as required by the contract.

These payments take the form of State and other periodic payments (referred to as Service Payments). The State Contributions are usually made during the construction phase of the asset. Service payments include both capital and service elements. The capital elements are associated with the design, construction, and financing of the service concession asset. The service elements included within the service payments compensate the operator for delivery of services such as ongoing operation, maintenance, replacement, and other costs. The service payments may be impacted by key performance indicators (KPIs) not being met and may be quarterly (QSP), monthly (MSP) or other periodic intervals.

A grant of a right to the operator (GORTO) liability is recognised where the State does not have a contractual obligation to pay cash or another financial asset but grants the right to the operator to earn revenue from the public use of the asset (Note 6.4). It represents unearned revenue and is progressively reduced over the period of the concession (Note 2.6).

Financial liabilities and GORTO liabilities are initially recognised at the same amount as the service concession asset, adjusted by the amount of any other consideration from the State to the operator, or from the operator to the State.

An exception to this principle occurs when an existing asset of the grantor is reclassified as a result of becoming part of a SCA. When this occurs, the asset is revalued to current replacement cost with a corresponding adjustment to the asset revaluation surplus. A liability is not recognised unless additional consideration is provided by the operator. If the assets included in an SCA are upgraded or expanded, the State recognises a corresponding liability (either financial or GORTO) for the amounts the State is liable for on the upgrade/expansion work.

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

The following material SCA's existed at 30 June 2021. Unless noted in the arrangement specific disclosures below, no material changes have occurred during the year.

SCA Arrangement	Note	Classification of Arrangement	Operational/ Work in progress (WIP)	Managed by	Funding of Arrangement: Committed State Contributions ($ million) [(a)]	Funding of Arrangement: Periodic payments in operations phase	Payments impacted by KPI	Carrying amount of liability as at 30 Jun 2021 ($million)	Carrying amount of asset as at 30 Jun 2021 ($million)	Carrying amount of liability as at 30 Jun 2020 ($million)	Carrying amount of asset as at 30 Jun 2020 ($million)
CityLink	5.3.1	GORTO	Operational	DoT	..	None – User pays Operator	No	2 058	4 614	2 101	4 661
West Gate Tunnel	5.3.2	Hybrid (GORTO/ Financial Liability)	Construction in Progress	DoT	885	None – User pays Operator	No	2 754	3 956	2 311	3 226
EastLink	5.3.3	GORTO	Operational	DoT	..	None – User pays Operator	No	2 162	3 613	2 247	3 663
Land Use Victoria	5.3.4	GORTO	Operational	DELWP	..	None – User pays Operator	No	2 661	485	2 732	477
Peninsula Link	5.3.5	Financial Liability	Operational	DoT	..	QSPs	Yes	650	816	673	818
Southern Cross Station	5.3.6	Financial Liability	Operational	DoT	..	QSPs	Yes	357	475	363	489
Desalination Plant	5.3.7	Financial Liability	Operational	DELWP	..	Water Service Payments (WSPs)	Yes	3 275	3 994	3 341	4 072
Fulham Correctional Centre	5.3.8	Financial Liability	Operational	DJCS	..	QSPs	Yes	..	184	..	182
Port Phillip Prison	5.3.9	Financial Liability	Operational	DJCS	..	QSPs	Yes	..	233	..	221
Ravenhall Correctional Centre	5.3.10	Financial Liability	Operational	DJCS	..	QSPs	Yes	512	682	520	835
High Capacity Metro Trains	5.3.11	Financial Liability	Construction in Progress	DoT	394	Partial Service Payment (PSP), QSP	Yes	1 010	572	745	515
Metro Tunnel Project – Tunnel and Stations	5.3.12	Financial Liability	Construction in Progress	DoT	4 167	QSPs	Yes	2 972	5 293	2 984	3 590
Western Roads Upgrade	5.3.13	Financial Liability	Operational	DoT	..	QSPs	Yes	763	1 410	598	920

Note:
(a) State contributions that are contractually committed at 30 June 2021 are included in this column and are made during the construction phase of the service concession asset.

Details relevant to all arrangements

Unless specified differently in the Arrangement specific details section below, all of the below information is relevant to all arrangements.

The State has entered into an arrangement with the operator which gives the operator the right to provide public services to users for a specified period (concession period).

Arrangements are managed by a department on behalf of the State.

The operator, based on the terms and conditions specified in the agreement, is:

- responsible for the design, construction, financing, operation and maintenance and replacement of the relevant asset(s) during the concession period
- subject to key performance indicators (KPIs) and/or annual works programs which ensure a level of service delivery for users. The operator has the opportunity to rectify any performance issues where relevant.

The operator can perform the above at its own discretion and has access to the asset to perform the required services.

The State has control over the services the operator provides with the asset over the concession period, whom to provide and at what price. It is responsible for monitoring that contractual obligations are met, and will intervene as required to ensure safety for users of the asset as appropriate and to protect public interest.

At the end of the concession period, the rights and obligations provided to the operator during the concession period cease, and the service concession asset(s) will be returned to the State.

The agreements do not include options for renewal and may be subject to termination.

Arrangement specific details

5.3.1 CityLink

Operator: CityLink Melbourne Limited (CML) Transurban Infrastructure Management Limited (TIML)

Concession period: 45 years

The State and CML entered into the Melbourne City Link Concession Deed in October 1995.

The Concession Deed requires CML to pay to the State specified concession fees at specified intervals during the concession period.

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

Between June 2005 and June 2010, the State entered into arrangements with CML and TIML whereby the State received upfront payments in exchange for assigning the right to all existing and future concession notes to TIML.

The value of concession notes due to be received by the State in accordance with the Concession Deed has been disclosed at the present value of concession notes to be issued in future periods by CML. The present value of the concession notes is disclosed as part of the GORTO liability.

The concession period to operate the CityLink road network was extended to January 2045 as a result of the partial funding of the West Gate Tunnel Project.

The Concession Deed provides for CML to lease certain land and road infrastructure from the State during the concession period.

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

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

To date, none of the above events have occurred.

5.3.2 West Gate Tunnel

Operator: Transurban Limited (Transurban)

Concession period: 28 years

In December 2017, the State entered into a PPP contract with Transurban to deliver the West Gate Tunnel Project.

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

A non-quantifiable contingent liability relating to the project has been disclosed in Note 7.2 *Contingent assets and contingent liabilities*. Refer to this note for further details.

5.3.3 EastLink

Operator: Connect East Pty Ltd (ConnectEast)

Concession period: 35 years

The State and the operator entered into the EastLink Concession Deed in October 2004.

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

The Concession Deed provides for ConnectEast to lease certain land and road infrastructure from the State during the concession period. These assets will be returned to the State at the end of the concession period.

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 as a result of certain events that particularly benefit EastLink, including changes to the adjoining road network. On 2 January 2014, the State lodged a compensable enhancement claim arising as a result of opening the Peninsula Link road network. This claim remains outstanding. Refer to Note 7.2 for further details on this claim.

5.3.4 Land Use Victoria

Operator: Victorian Land Registry Services (VLRS)

Concession period: 40 years

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

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

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

The Operating Concession Deed (OCD) required VLRS to pay a Concession Licence Fee to the State of $2.8 billion in September 2018. The upfront consideration received from the VLRS is recognised as a grant of a right to the operator (GORTO) liability and recognised as revenue proportionally over the service period of 40 years.

The State has recognised intangible assets for the Land Registry Services (LRS) software (the Victorian Online Titles System) ($37 million) and the Titling and Registry database (database) ($419 million). Refer to Note 4.2 for details of the fair value measurement of the service concession intangible assets. Subsequent to the initial recognition, both intangible assets are carried under the revaluation model in line with AASB 138.

5.3.5 Peninsula Link

Operator: Southern Way Pty Ltd (Southern Way)

Concession period: 25 years

The State entered into a Peninsula Link Project Deed with Southern Way on 20 January 2010.

The concession period will end in January 2038. The State compensates Southern Way for delivery of ongoing maintenance services through QSP payments, which are subject to KPI linked abatement.

5.3.6 Southern Cross Station

Operator: Civic Nexus Pty Ltd (CNPL)

Concession period: 30 years

In July 2002, the State entered into a Service and Development Agreement (SDA) with the operator for the redevelopment of Southern Cross Station. The agreement ends in June 2036.

Construction commenced in September 2002 and completed in August 2006.

The State's QSP payments to the operator for the delivery of operating and maintenance services are subject to abatement in accordance with the terms and conditions of the SDA.

5.3.7 Desalination Plant

Operator: AquaSure Pty Ltd (AquaSure)

Concession period: 30 years

The State and AquaSure entered into the public private partnership on 30 July 2009.

The Victorian Desalination Project (VDP) was initiated to design, build, finance and operate a desalination plant, transfer pipeline and 220 kilovolt underground power cable capable of supplying 150 gigalitres of water per annum into the Melbourne network.

Under the arrangement, the State has an obligation to make Water Security Payments provided the plant is maintained to the appropriate standard.

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

A Statement of Obligations (SoO) was issued to the Melbourne Water Corporation under section 4I of the *Water Industry Act 1994* that required Melbourne Water Corporation to pay all monies as required by the State under the project deed with Aquasure.

The arrangement was codified through the Water Interface Agreement (WIA) between the State (DELWP) and Melbourne Water Corporation. DELWP does not control any receipt arising from this arrangement and is required to pay the amounts from the Melbourne Water Corporation into the consolidated fund.

The State has assessed the agreements between AquaSure, DELWP (on behalf of the State) and Melbourne Water Corporation and concluded that the agreements are connected and should form one single commercial arrangement. Under the combined agreement, Melbourne Water Corporation is considered the ultimate grantor. DELWP, on behalf of the State, administers the arrangement and recognises contractual liability on the capital portion of WSPs to AquaSure and contractual receivable from Melbourne Water Corporation determined in the SoO as financial instruments under AASB 9 (Refer to Note 7.1).

As at 30 June 2021, Aquasure has produced the 125 gigalitres for the 2020-21 water order.

On 31 March 2021, the Acting Minister for Water announced the 2021-22 Supply Notice with a Required Annual Water Volume for 125GL in 2021-22 and non-binding forecasts of 125GL for 2022-23 and 2023-24.

5.3.8 Fulham Correctional Centre

Operator: Australasian Correctional Investment Limited (ACI)

Concession period: 38 years

In October 1995, the State entered into a public private partnership arrangement with the operator. The construction of the prison was completed in 1997 and the operational phase under the original contract was due to end in 2017. However, a contract extension was entered into in April 2015, with the terms of the contract extension coming into effect in July 2016. The contract extension has an initial term of 11 years and subject to ACI's performance, a further term of 8.3 years that would end in October 2035.

5.3.9 Port Philip Prison

Operator: G4S Correctional Services (Australia) Pty Ltd

Concession period: 40 years

In July 1996, the State entered into a public private partnership arrangement with the operator. The construction of the prison was completed in 1997 and the operational phase under the original contract was due to end in 2017.

However, a contract extension was entered in December 2015, with the terms of the contract extension coming into effect in September 2017. The contract extension was also novated in September 2017. The contract extension has an initial term of 10 years and subject to G4S' performance, a further term of 10 years that would end in September 2037.

5.3.10 Ravenhall Correction Centre

Operator: GEO Consortium

Concession period: 25 years

In September 2014, the State entered into a public private partnership with the operator. The construction of the prison was completed in November 2017 and the operational phase is due to expire in 2042.

5.3.11 High Capacity Metro Trains

Operator: Evolution Rail Consortium (Evolution Rail)

Concession period: 30 years

In November 2016, the State entered into a project agreement with Evolution Rail.

Under the contract, the operator will design, build, commission and finance a fleet of 65 high capacity trains, a depot at Pakenham East (including a train maintenance facility (TMF) and a stabling yard), a light service facility (LSF) at Calder Park and two simulators.

The stabling yard was returned to the State in July 2020 for on-going maintenance, while Evolution Rail will be responsible for the maintenance of other constructed assets for a period of 30 years, until 2053.

The State is contracted to make PSP payments (representing pro-rata payments to Project Co during the phased delivery of the HCMTs) commencing on 28 Feb 2021, which is the date the 5th HCMT entered service, until commencement of the QSP at provisional acceptance of all 65 HCMT sets.

5.3.12 Metro Tunnel Project – Tunnel and Stations

Operator: Cross Yarra Partnership (CYP)

Concession period: 25 years

In December 2017, the State entered into an agreement with CYP to deliver the Metro Tunnel – Tunnel and Stations.

Assets to be constructed includes twin nine-kilometre tunnels under the Central Business District, five underground stations, station fit-out, mechanical and electrical systems and certain commercial opportunities at the new stations. CYP will be responsible for providing maintenance and other services until 2048.

CYP will be provided with a lease to operate some commercial tenancies within the constructed asset through the concession period.

On 24 December 2020, the State entered into settlement and amending deeds with CYP to address a range of commercial issues arising during project delivery. The parties agreed to share the increased costs of the project on a 50:50 basis, with each party agreeing to pay $1.37 billion. The project is on track for completion in 2025.

5.3.13 Western Roads Upgrade

Operator: Netflow OSARS (Western) Partnership (Netflow)

Concession period: 20 years

In December 2017, the State signed the Western Roads Upgrade contract with Netflow.

The agreement includes eight road projects and 37 road rehabilitation projects. To facilitate the project, the State has granted the operator access to its existing assets with total carrying amount of $459 million, which has been reclassified to SCAs.

The construction reached provisional acceptance in financial year 2021.

Under the agreement, the State has an option to make a contribution to Netflow two years post commercial acceptance. If the State does not exercise this option, Netflow has the option to call on the State to make the contribution. As at 30 June 2021, the State intends to exercise the option.

Immaterial service concession arrangements

There are several other SCAs which are immaterial to the State. These arrangements include the metropolitan bus service contracts where the State compensates the operators with a service fee that covers the cost of fleet, fuel, labour and overhead and the operators do not receive a share of the ticketing revenue, the prisoner transport and some hospital related SCAs.

5.4 Public private partnerships

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

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

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

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

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

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

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

The following PPP commitments tables comprise the following:

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

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

Commissioned public private partnership commitments [(a)(b)(c)]

	State of Victoria 2021 Other commitments		General government sector 2021 Other commitments		State of Victoria 2020 Other commitments		General government sector 2020 Other commitments	
	Present value	Nominal value	Present value	Nominal value	Present value	Nominal value	Present value	Nominal value
Commissioned public private partnerships other commitments								
Leases								
AgriBio Project	126	247	126	247	130	263	130	263
Bendigo Hospital	613	1 219	613	1 219	612	1 263	612	1 263
Barwon Water	76	110	..	..	73	108	..	..
Casey Hospital	98	128	98	128	100	136	100	136
Central Highlands Water	19	34	..	..	19	41	..	..
Coliban Water	52	68	..	..	65	87	..	..
County Court	12	14	12	14	23	28	23	28
Melbourne Convention Centre	198	379	198	379	216	405	216	405
New Schools PPP	211	373	211	373	142	269	142	269
Partnerships Victoria in Schools	139	243	139	243	119	217	119	217
Royal Children's Hospital	820	1 507	820	1 507	849	1 623	849	1 623
Royal Melbourne Showgrounds	18	30	18	30	19	32	19	32
Royal Women's Hospital	232	363	232	363	244	397	244	397
Victorian Comprehensive Cancer Centre (VCCC)	401	902	401	902	394	927	394	927
Service concession arrangements – Financial liability model								
Peninsula Link	299	361	299	361	218	410	218	410
Prisons	6 135	10 239	6 135	10 239	6 244	10 742	6 244	10 742
Southern Cross Station	384	443	384	443	257	499	257	499
Western Roads Upgrade [(d)]	689	848	689	848	..	..	..	..
Victorian Desalination Plant	1 533	3 963	1 533	3 963	1 553	4 197	1 553	4 197
Sub-total	**12 054**	**21 473**	**11 908**	**21 261**	**11 277**	**21 644**	**11 121**	**21 407**

Notes:
(a) The liability associated with commissioned public private partnerships are recognised on the balance sheet and are not disclosed as a commitment.
(b) The present value of other commitments has been discounted to 30 June of the respective financial years.
(c) Certain 2020 figures have been restated to reflect more current information.
(d) Western Roads Upgrade project reached practical completion in March 2021. Only the commitments for maintenance of the project assets are disclosed in the table.

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

	State of Victoria 2021				*General government sector 2021*			
	Liability [b]	*Capital contribution [d]*	*Other commitments*	*Total commitments*	*Liability [b]*	*Capital contribution [d]*	*Other commitments*	*Total commitments*
	Discounted value [c]		*Present value*	*Nominal value*	*Discounted value [c]*		*Present value*	*Nominal value*
Uncommissioned public private partnerships total commitments								
New Footscray Hospital [e]	1 646	573	1 335	6 373	1 646	573	1 335	6 373
Public Housing Renewal Project [f]	223	50	38	752	..	..	..	..
Service concession arrangements – Financial liability model								
High Capacity Metro Trains [g][h]	1 403	300	1 678	5 422	1 403	300	1 678	5 422
Metro Tunnel Project – Tunnel and Stations [g][i]	2 321	4 167	1 203	9 396	2 321	4 167	1 203	9 396
Western Roads Upgrade [g][i]	..	..	..	..	..	..	..	..
Service concession arrangements – Hybrid model (GORTO and Financial liability models)								
West Gate Tunnel Project [g]	..	885	..	885	..	885	..	885
Sub-total	**5 593**	**5 974**	**4 254**	**22 827**	**5 370**	**5 924**	**4 216**	**22 075**
Total commitments for public private partnerships			**16 308**	**44 300**			**16 123**	**43 336**

Notes:

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

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

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

(d) *The capital contribution is measured at nominal value and represents the State's total unpaid capital contribution for the uncommissioned public private partnership.*

(e) *On 10 March 2021, the State entered into a public private partnership contract with Plenary Health to deliver the New Footscray Hospital Project. The contract expires on 9 September 2050. It has been determined that this arrangement represents the construction of an item of property, plant and equipment in the scope of AASB 116* Property, Plant and Equipment.

(f) *On 18 May 2021, the State entered into an arrangement with Building Communities (Vic) Limited to deliver new social, affordable, specialist disability accommodation and private housing at sites in Flemington, Brighton and Prahran through a Ground Lease Model. The term of the arrangement is 40 years. The project was procured and will be delivered as a public private partnership (PPP) under the Partnerships Victoria Framework.*

(g) *Commitments nominal value includes the capital portion of the service concession liability that is yet to be capitalised on the balance sheet. Refer to Note 5.3 for further details relating to service concession arrangements.*

(h) *The 2020 figures for High Capacity Metro Trains have been adjusted to remove GST amounts incorrectly included.*

(i) *The 2020 figures for Metro Tunnel Project – Tunnel and Stations and Western Roads Upgrade have been adjusted to reflect more accurate information.*

State of Victoria 2020				*General government sector 2020*			
Liability [(b)]	*Capital contribution [(d)]*	*Other commitments*	*Total commitments*	*Liability [(b)]*	*Capital contribution [(d)]*	*Other commitments*	*Total commitments*
Discounted value [(c)]		*Present value*	*Nominal value*	*Discounted value [(c)]*		*Present value*	*Nominal value*
..	..	..	..	..	..	..	..
..	..	..	..	..	..	..	..
1 403	310	977	5 575	1 403	310	977	5 575
3 422	4 032	604	10 089	3 422	4 032	604	10 089
760	..	705	2 281	760	..	705	2 281
..	1 295	..	1 295	..	1 295	..	1 295
5 585	**5 637**	**2 286**	**19 239**	**5 585**	**5 637**	**2 286**	**19 239**
		13 563	**40 883**			**13 407**	**40 646**

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

Nominal values	State of Victoria 2021	General government sector 2021	State of Victoria 2020	General government sector 2020
Public private partnership commitments [b]				
Less than 1 year	2 690	2 651	2 902	2 876
1 year but less than 5 years	9 367	9 189	8 776	8 664
5 years or more	32 243	31 496	29 205	29 107
Total public private partnership commitments	**44 300**	**43 336**	**40 883**	**40 646**

Notes:
(a) The figures presented are inclusive of GST.
(b) Certain 2020 figures have been restated to reflect more current information.

5.5 Deposits held and advances received

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

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

5.6 Cash flow information and balances

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

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

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

	State of Victoria		*General government sector*	
	2021	*2020*	*2021*	*2020*
Cash	8 567	7 884	7 938	7 153
Deposits at call [(a)]	13 366	11 301	6 671	5 884
Cash and cash equivalents	**21 933**	**19 185**	**14 609**	**13 037**
Bank overdraft	..	..	..	..
Balances as per cash flow statement	**21 933**	**19 185**	**14 609**	**13 037**

Note:

(a) The State's deposits at call includes $7.7 billion ($6.5 billion in 2020) relating to the Central Banking System (CBS) while the general government sector includes $6.5 billion ($5.7 billion in 2020) relating to the CBS.

Reconciliation of net result to net cash flows from operating activities **($ million)**

	State of Victoria		*General government sector*	
	2021	*2020*	*2021*	*2020*
Net result	**(11 321)**	**(15 699)**	**(13 797)**	**(7 899)**
Non-cash movements				
Impairment of loans receivable	..	..	142	..
Revenue related to economic service concession arrangements	(228)	(320)	(228)	(320)
Depreciation and amortisation	6 982	6 513	4 169	3 899
Revaluation of investments	(2 189)	1 657	(114)	160
Assets (received)/provided free of charge	(792)	(374)	(409)	(11)
Assets not previously/no longer recognised	(867)	(70)	(867)	(70)
Revaluation of assets	2 646	2 694	400	828
Discount/premium on other financial assets/borrowings	(412)	(102)	(2)	3
Foreign currency dealings	(1)	2	(1)	2
Unrealised (gains)/losses on borrowings	(2 633)	400	..	..
Discounting of assets and liabilities	(4)	1	(4)	1
Movements included in investing and financing activities				
Net gain/loss from sale of investments	(2 362)	448	(14)	59
Net gain/loss from sale of non-financial assets	37	185	14	87
Realised gains/losses on borrowings	409	(2)	200	(245)
Movements in assets and liabilities				
Increase/(decrease) in allowance for impairment losses	(81)	(148)	(73)	(169)
Increase/(decrease) in payables	(468)	1 212	(587)	1 222
Increase/(decrease) in employee benefits	374	1 059	355	1 009
Increase/(decrease) in superannuation	(87)	(125)	(73)	(125)
Increase/(decrease) in other provisions	3 520	4 584	219	151
(Increase)/decrease in receivables	(1 433)	(500)	(1 981)	(464)
(Increase)/decrease in other non-financial assets	(366)	(1 041)	(306)	(1 030)
Net cash flows from operating activities	**(9 277)**	**375**	**(12 958)**	**(2 913)**

5. FINANCING STATE OPERATIONS

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

State of Victoria			*Non-cash changes*		
2021	*Opening balance*	*Cash flows*	*New lease liabilities/service concession arrangements*	*Fair value changes*	*Closing balance*
Borrowings and derivative instruments	73 357	30 636	..	(2 886)	101 107
Lease liabilities	8 291	(775)	1 156	..	8 672
Service concession arrangements liabilities	6 130	(1 302)	1 691	..	6 519
Advances and deposits received	1 693	85	..	6	1 784
2020					
Borrowings and derivative instruments	56 713	15 689	..	956	73 357
Lease liabilities	8 351	(769)	709	..	8 291
Service concession arrangements liabilities	4 986	(437)	1 580	..	6 130
Advances and deposits received	1 691	1	..	..	1 693

General government sector			*Non-cash changes*		
2021	*Opening balance*	*Cash flows*	*New lease liabilities/service concession arrangements*	*Fair value changes*	*Closing balance*
Borrowings and derivative instruments	49 126	29 124	..	258	78 509
Lease liabilities	7 669	(723)	1 121	..	8 067
Service concession arrangements liabilities	6 012	(1 293)	1 691	..	6 409
Advances and deposits received	3 681	(896)	..	6	2 791
2020					
Borrowings and derivative instruments	31 940	17 508	..	(321)	49 126
Lease liabilities	7 661	(637)	644	..	7 669
Service concession arrangements liabilities	4 861	(429)	1 580	..	6 012
Advances and deposits received	5 250	(1 569)	..	..	3 681

5.7 Advances paid and investments, loans and placements

($ million)

	State of Victoria		General government sector	
	2021	2020	2021	2020
Current advances paid and investments, loans and placements				
Loans and advances paid	231	140	1 283	2 084
Equities and managed investment schemes	3 110	3 406	917	848
Australian dollar term deposits	695	130	107	112
Foreign currency term deposits	56	..	..	..
Debt securities	3 608	2 822	1	6
Derivative financial instruments	309	1 182	79	192
Total current advances paid and investments, loans and placements	**8 009**	**7 680**	**2 386**	**3 242**
Non-current advances paid and investments, loans and placements				
Loans and advances paid	307	343	4 190	4 466
Equities and managed investment schemes	36 100	29 113	1 805	1 379
Australian dollar term deposits	26	29	26	29
Debt securities	1 713	2 441	25	22
Derivative financial instruments [(a)]	478	1 258	..	1
Total non-current advances paid and investments, loans and placements	**38 623**	**33 184**	**6 046**	**5 897**
Total advances paid and investments, loans and placements	**46 633**	**40 864**	**8 432**	**9 139**
Represented by:				
Advances paid	538	483	5 473	6 550
Investments, loans and placements	46 094	40 381	2 960	2 589

Note:
(a) The year-on-year variance primarily reflects a change in treatment for a number of cross currency swaps (CCS) related to debt issues in foreign currency from the Treasury Corporation of Victoria (TCV). In the prior year, swaps between the asset and liability were disclosed on a gross basis. However, this year the asset and liability of the CCS have been netted to better reflect market practice.

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

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

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

5.8 Interest expense

($ million)

	State of Victoria		General government sector	
	2021	2020	2021	2020
Interest on interest-bearing liabilities	2 553	2 178	1 770	1 561
Finance charges on lease liabilities	436	413	419	391
Finance charges on service concessions	407	352	397	342
Discount interest on payables	41	58	28	33
Total interest expense	**3 437**	**3 002**	**2 614**	**2 328**

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

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

5.9 Commitments for future expenditure

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

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

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

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

Nominal values	*State of Victoria 2021*	*General government sector 2021*	*State of Victoria 2020*	*General government sector 2020*
Capital expenditure commitments				
Land and buildings	3 578	2 750	2 236	2 021
Plant, equipment and vehicles	333	308	358	311
Infrastructure systems	10 094	9 170	10 427	9 240
Road networks and earthworks	95	95	103	103
Other	196	160	216	99
Total capital expenditure commitments	**14 297**	**12 483**	**13 339**	**11 773**
Service and lease commitments not included in the lease liability				
Rail services	6 348	6 348	8 081	8 081
Bus services [(b)]	3 991	3 991	4 363	4 363
Other [(c)]	510	494	2 654	2 647
Total service and new short-term lease commitments	**10 849**	**10 833**	**15 097**	**15 091**
Other commitments				
Capital investment commitments	251	..	251	..
Cladding Safety Victoria	249	249	..	..
COVID-19 Quarantine Victoria	337	337	..	..
Commercial contracts	392	48	185	16
Emergency Alert System	16	16	27	27
Emergency Telecommunication Networks	321	321	340	340
Goulburn-Murray Water Connections Project	4	..	39	..
Grant program commitments [(d)]	1 327	1 540	584	684
Information technology	304	213	338	273
New ticketing solution (myki)	240	240	384	384
Outsourcing of services	340	241	262	204
Policing services	37	37	284	284
Provision for Health Services	1 234	1 234	1 694	1 694
Traffic camera services (Traffic camera office)	490	490	656	656
Transport Accident Commission funded medical research	3	..	9	..
Other	4 027	3 740	3 899	3 585
Total other commitments	**9 573**	**8 707**	**8 952**	**8 146**
Total commitments	**34 719**	**32 023**	**37 388**	**35 010**

Notes:
(a) The figures presented are inclusive of GST.
(b) The 2020 balances for bus services have been restated to reflect Metro Bus Contracts which are recognised as service concession arrangement liabilities on the State's balance sheet.
(c) The decrease from 2020 primarily relates to the practical completion of the new Victoria Police Centre at 311 Spencer Street in July 2020.
(d) The year-on-year increase in grant program commitments predominantly relate to COVID-19 support grants.

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

Nominal values	*State of Victoria 2021*	*General government sector 2021*	*State of Victoria 2020*	*General government sector 2020*
Capital expenditure commitments payable				
Less than 1 year	9 676	8 460	7 980	6 920
1 year but less than 5 years	4 531	3 937	5 252	4 747
5 years or more	90	86	107	106
Total capital expenditure commitments	**14 297**	**12 483**	**13 339**	**11 773**
Service and lease commitments not included in the lease liability [(b)]				
Less than 1 year	3 170	3 165	3 334	3 331
1 year but less than 5 years	6 033	6 022	8 335	8 331
5 years or more	1 645	1 645	3 429	3 429
Total service and new short-term lease commitments	**10 849**	**10 833**	**15 097**	**15 091**
Other commitments payable				
Less than 1 year	5 661	5 296	4 310	4 007
1 year but less than 5 years	3 612	3 240	3 964	3 591
5 years or more	300	171	678	548
Total other commitments	**9 573**	**8 707**	**8 952**	**8 146**
Total commitments	**34 719**	**32 023**	**37 388**	**35 010**

Notes:
(a) The figures presented are inclusive of GST.
(b) The 2020 balances for bus services have been restated to reflect Metro Bus Contracts which are recognised as service concession arrangement liabilities on the State's balance sheet.

6. OTHER ASSETS AND LIABILITIES

Introduction

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

Structure

Assets

6.1 Investments in other sector entities

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

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

Investments in other sector entities **($ million)**

	2021	2020
Balance of investment in PNFC and PFC sectors at beginning of period	75 043	73 350
Net contributions/(returns) to other sectors by owner [(a)]	(2 260)	4 276
Revaluation gain/(loss) for period	342	(2 583)
Total investments in other sector entities	**73 125**	**75 043**

Note:

(a) *Year-on-year change primarily reflects the transfer of non-financial assets from PNFC sector to the GG sector, mainly in the transport sector.*

6.2 Inventories

($ million)

	State of Victoria 2021	State of Victoria 2020	General government sector 2021	General government sector 2020
At cost				
Raw materials	9	8	8	7
Work in progress	111	107	3	13
Finished goods	95	91	5	6
Consumable stores	903	647	838	586
Land and other assets held as inventory	881	850	54	53
At net realisable value				
Finished goods	7	3	..	..
Consumable stores	4	4	..	..
Total inventories	**2 010**	**1 710**	**908**	**666**

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

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

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

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

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

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

6.3 Receivables and contract assets

($ million)

	State of Victoria		General government sector	
	2021	2020	2021	2020
Contractual				
Sales of goods and services	1 183	1 344	662	899
Accrued investment income	43	43	13	9
Contract assets	106	74	1	1
Other receivables	2 666	2 289	1 699	1 104
Allowance for impairment losses of contractual receivables	(261)	(211)	(187)	(129)
Statutory				
Sales of goods and services	8	8	5	5
Taxes receivable	4 522	3 611	4 628	3 715
Fines and regulatory fees	2 702	2 690	2 702	2 690
GST input tax credits recoverable	1 595	1 530	642	525
Other receivables [(a)]	616	1	614	..
Allowance for impairment losses of statutory receivables	(2 577)	(2 708)	(2 577)	(2 708)
Other				
Actuarially determined	590	398	..	..
Total receivables and contract assets	**11 194**	**9 069**	**8 201**	**6 108**
Represented by:				
Current receivables	9 695	7 607	7 709	5 894
Non-current receivables	1 499	1 461	492	214

Note:
(a) The 2020-21 figure includes GST receivable of $614 million representing funding to be received from the Commonwealth for the current year's GST income entitlement.

Receivables consist of:

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

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

Contract assets relate to the State's right to consideration in exchange for goods transferred to customers for works completed, but not yet billed at the reporting date. The contract assets are transferred to receivables when the State issues an invoice to the customer.

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

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

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

6.4 Payables and contract liabilities

($ million)

	State of Victoria		General government sector	
	2021	2020	2021	2020
Contractual				
Accounts payable	2 720	2 415	910	814
Accrued expenses	5 123	4 237	4 607	3 709
Contract liabilities	438	140	239	68
Grant of a right to the operator liability	9 635	9 392	9 635	9 392
Unearned income	10 818	11 141	1 206	1 491
Statutory				
Accrued taxes payable	76	128	46	94
Unearned income	..	1 302	..	1 302
Total payables and contract liabilities	**28 810**	**28 754**	**16 643**	**16 870**
Represented by:				
Current payables	10 069	10 569	6 681	7 010
Non-current payables	18 741	18 186	9 962	9 860

Payables consist of:

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

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

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

The aggregate amount of the transaction price allocated to the performance obligations that are not satisfied at the end of the reporting period was $160 million as at 30 June 2021 ($4 million in 2019-20) and is expected to be recognised as revenue in future periods.

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

Unearned income comprises upfront fees received for the medium-term lease over the Port of Melbourne. This unearned income is recognised progressively as revenue, over the term of the relevant arrangements. Unearned income in 2019-20 also includes the overpayment of GST resulting from a lower national GST pool than forecast (Note 2.5).

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

6.5 Superannuation

The disclosure in this note is for the consolidated State of Victoria only, as more than 99 per cent of the $27.2 billion superannuation liability is recorded in the general government sector.

Net superannuation liability

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

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

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

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

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

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

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

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

Net superannuation liability **($ million)**

	State of Victoria 2021	2020
Emergency Services and State Super		
Defined benefit obligation	49 056	48 606
Tax liability [(a)]	2 026	2 911
Plan assets	(25 270)	(21 658)
Net liability/(asset)	**25 813**	**29 859**
Other funds [(b)]		
Defined benefit obligation	2 997	2 929
Tax liability [(a)]	..	..
Plan assets	(1 564)	(1 496)
Net liability/(asset)	**1 433**	**1 434**
Total superannuation		
Defined benefit obligation	52 053	51 536
Tax liability [(a)]	2 026	2 911
Plan assets	(26 834)	(23 153)
Superannuation liability	**27 245**	**31 293**
Represented by:		
Current liability	1 014	1 115
Non-current liability	26 232	30 179
Total superannuation liability	**27 245**	**31 293**

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 (which is now part of Aware Super).

Reconciliation of the defined benefit obligation **($ million)**

	State of Victoria 2021	2020
Opening balance of defined benefit obligation	**54 446**	**53 025**
Current service cost	1 286	1 115
Interest cost	519	741
Contributions by plan participants	247	238
Remeasurements:		
Actuarial (gain)/loss arising from change in financial assumptions	(697)	1 298
Actuarial (gain)/loss arising from change in demographic assumptions	899	..
Actuarial (gain)/loss due to other experience	(324)	325
Benefits paid	(2 297)	(2 294)
Closing balance of defined benefit obligation	**54 079**	**54 446**

Reconciliation of the fair value of plan assets

($ million)

	State of Victoria	
	2021	*2020*
Opening balance of plan assets	**23 153**	**24 342**
Interest income	214	334
Remeasurements:		
Expected return on plan assets excluding interest income	1 333	1 316
Actuarial gain/(loss) relative to expected return	2 506	(2 428)
Employer contributions	1 678	1 646
Contributions by plan participants	247	238
Benefits paid (including tax paid)	(2 297)	(2 294)
Closing balance of plan assets	**26 834**	**23 153**

The State's defined benefit superannuation plans

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

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

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

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

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

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

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

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

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

Aware Super is a regulated public offer superannuation fund. Aware Super Pty Ltd (ASPL) is responsible for the governance of Aware Super and therefore Health Super. As trustee, ASPL has the following roles:

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

Superannuation assumptions

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

Victorian statutory superannuation funds	*Actuary*	*Financial assumptions*	*Per cent per annum* 2021	2020
Emergency Services and State Super	PwC Securities Ltd.	Expected return on assets [(a)]	7.6	7.6
		Discount rate [(b)]	1.8	1.0
		Wages growth [(c)]	3.3	2.4
		Inflation rate	1.8	0.9
Constitutionally Protected Pensions	PwC Securities Ltd.	Discount rate [(b)]	1.8	1.0
		Wages growth [(c)]	3.3	2.4
		Inflation rate	n.a.	n.a.
Health Super Fund	Mercer (Australia) Pty. Ltd.	Expected return on assets [(a)]	3.8	4.8
		Discount rate [(b)]	1.8	1.0
		Wages growth [(c)]	3.3	2.4
		Inflation rate	1.8	0.9

Notes:
(a) The expected return on assets stated is gross of tax. This rate is adjusted in the calculation process to reflect the assumed rate of tax payable by each scheme.
(b) In accordance with accounting standards, the discount rate is based on a long-term Commonwealth bond rate. The rate stated above is an annual effective rate, gross of tax.
(c) The wages growth rates in this table are actuarial assumptions and do not reflect the Government's wages policy.

Impact of COVID-19

While the economic uncertainty associated with COVID-19 adversely impacted investment returns on the State's defined benefit superannuation assets in 2019-20, the investment returns on these assets have exceeded expectations in 2020-21. The Commonwealth Government bond yields that underlie the key superannuation valuation assumptions also increased in 2020-21, which reduced the defined benefit superannuation obligation the State is required to report under Australian Accounting Standards. This is in contrast to the impact that reductions in these bond yields in 2019-20 had on the value of this obligation. In combination, favourable investment returns and bond yield movements have reduced the State's reported superannuation liability in 2020-21, and largely reversed the impact of the unfavourable experience in 2019-20.

Please note that changes in the reported superannuation liability that arise solely due to changes in the bond yields that underlie its valuation do not affect the amount of cash required to fund this liability over time. However, superannuation funding requirements will vary over time to reflect any differences between the actual and expected returns on superannuation assets. Based on investment experience to date, the investment volatility associated with COVID-19 has not had a significant impact on the State's superannuation funding requirements.

Sensitivity analysis

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

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

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

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

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

		Base case	Discount rate plus 0.5 per cent	Wage growth plus 0.5 per cent	Inflation rate plus 0.5 per cent
Discount rate	(per cent a year)	1.8	2.3	1.8	1.8
Salary growth	(per cent a year)	3.3	3.3	3.8	3.3
Inflation rate	(per cent a year)	1.8	1.8	1.8	2.3
Estimated increase/(decrease)	**(per cent)**	**n.a.**	**(5.9)**	**1.3**	**4.7**
Estimated increase/(decrease) in defined benefit obligation	**($ million)**	**n.a.**	**(3 153)**	**695**	**2 512**

Target asset allocation **(per cent)**

Asset class	*2021*	*2020*
Domestic equity	19.3	19.3
International equity	29.1	29.1
Domestic debt assets	17.2	24.9
International debt assets	4.2	3.0
Property	7.3	7.4
Cash	7.8	7.8
Other (including private equity, hedge funds and infrastructure)	15.1	8.6
Total	**100**	**100**

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

At 30 June 2021, the plans held investments within the central banking system worth $449 million.

Funding arrangements

The funding arrangements for each defined benefit plan are as follows:

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

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

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

Health Super – A funded scheme where employers contribute in accordance with the actuary's recommendations, which are designed to maintain scheme assets in excess of 100 per cent of the scheme's vested benefits.

In the 2021-22 financial year, employer contributions of $1.6 billion, in total, are expected to be paid to the defined benefit plans. Of this, $1 billion relates to the funding of the SSF's past service liability.

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

6.6 Other provisions

($ million)

	State of Victoria 2021	State of Victoria 2020	General government sector 2021	General government sector 2020
Current provision for insurance claims				
WorkSafe Victoria	3 172	2 830	..	..
Transport Accident Commission	1 596	1 671	..	..
Victorian Managed Insurance Authority	540	541	..	..
Other agencies	50	47	47	43
Current provision for insurance claims	**5 357**	**5 089**	**47**	**43**
Other provisions	1 078	868	593	511
Total current other provisions	**6 435**	**5 957**	**640**	**554**
Non-current provision for insurance claims				
WorkSafe Victoria	21 355	17 402	..	..
Transport Accident Commission	18 466	19 703	..	..
Victorian Managed Insurance Authority	2 179	2 002	..	..
Other agencies	76	78	75	77
Non-current provision for insurance claims	**42 075**	**39 186**	**75**	**77**
Other provisions	899	716	882	704
Total non-current other provisions	**42 974**	**39 902**	**957**	**781**
Total other provisions	**49 409**	**45 859**	**1 597**	**1 335**

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

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

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

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

6.6.1 Insurance claims

Assumptions used in measurement of liability for outstanding insurance claims

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

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

6. OTHER ASSETS AND LIABILITIES

Impact of COVID-19

From an operational perspective, the State's insurance agencies, the Transport Accident Commission (TAC), Victorian WorkCover Authority (WorkSafe) and the Victorian Managed Insurance Authority (VMIA), have all successfully adopted hybrid working models that minimise the impact that COVID-19, and associated public health measures, have on their operations.

From a financial perspective, while COVID-19 had an adverse impact on investment markets in 2019-20 and the return on the insurers' assets, markets rebounded in 2020-21 and the insurers earned investment returns well in excess of expectations in 2020-21.

Therefore, while COVID-19 has impacted investment markets, to date investment market performance has not had a material impact of the insurers' financial positions.

Of the State's insurers, COVID-19 has had the most significant impact on WorkSafe's operations and financial position due to the following:

- increased inspections at high-risk workplaces to ensure compliance with COVID-19 guidelines
- close to 1 100 COVID-19 related workplace injuries
- a deterioration in the ability to provide meaningful return to work opportunities for injured workers due to the impact of public health measures.

For the TAC, COVID-19 has reduced premium revenue due to lower than anticipated new car registrations and the Government's decision to suppress premium indexation, but this was largely offset by significantly lower claims costs due to the restrictions on movements of Victorians.

While COVID-19 had a modest impact on the volume of claims VMIA received in 2020-21, the key impact has been on the pricing, terms and availability of reinsurance due to market conditions and the addition of communicable disease exclusions. This has not yet had a significant impact on VMIA's financial position, but has changed the nature and level of risk that VMIA manages on behalf of the State.

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

	State of Victoria	
	2021	*2020*
Opening balance	44 275	39 632
Effect of changes in assumptions and claims experience	(259)	1 244
Cost of prior year claims (unwinding of discount)	655	726
Increase in claims incurred [(b)]	7 698	7 266
Claim payments during the year [(b)]	(4 398)	(4 151)
Other	(538)	(443)
Closing balance	**47 432**	**44 275**

Notes:

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

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

Insurance claims assumptions

		Weighted average expected term to settlement (years)		Financial assumptions used (%) [(a)(b)(c)] Weighted average inflation rate (%) [(d)(e)]		Weighted average discount rate (%)		Prudential margin used (%) [(f)]	
Entity	*Actuary*	*2021*	*2020*	*2021*	*2020*	*2021*	*2020*	*2021*	*2020*
Victorian WorkCover Authority (WorkSafe Victoria)	PwC Actuarial Ltd.	8.00	7.82	AWE inflation 0 to 20 years = 2.56 21+ years = 3.01 CPI inflation 0 to 20 years = 1.96 21+ years = 2.01	AWE inflation 0 to 20 years = 2.32 21+ years = 3.02 CPI inflation 0 to 20 years = 1.79 21+ years = 2.02	0 to 20 years = 1.67 21+ years = 3.00	0 to 20 years = 1.17 21+ years = 2.83	10.00	9.50
Transport Accident Commission	PwC Actuarial Ltd.	17.80	18.39	AWE inflation 0 to 20 years = 2.83 21+ years = 3.06 CPI inflation 0 to 20 years = 1.98 21+ years = 2.07	AWE inflation 0 to 20 years = 2.67 21+ years = 3.08 CPI inflation 0 to 20 years = 1.85 21+ years = 2.09	0 to 20 years = 1.99 21+ years = 3.36	0 to 20 years = 1.48 21+ years = 3.30	11.00	11.00
Victorian Managed Insurance Authority	Finity Consulting Pty. Ltd. (Medical Indemnity)	4.00	3.90	5.70	5.30	0.90	0.60	Risk margin = 18.80 CHE = 2.00	Risk margin = 20.00 CHE = 2.00
Victorian Managed Insurance Authority	Finity Consulting Pty Ltd. (Liability)	3.20	3.30	2.00	1.80	0.40	0.40	Risk margin = 31.70 CHE = 4.00	Risk margin = 31.70 CHE = 4.00
Victorian Managed Insurance Authority	Finity Consulting Pty. Ltd. (Property)	1.30	1.10	2.00	1.80	0.40	0.40	Risk margin = 17.50 CHE = 4.00	Risk margin = 17.50 CHE = 4.00
Victorian Managed Insurance Authority	Finity Consulting Pty. Ltd. (Other)	2.10	2.00	2.00	1.80	0.40	0.40	Risk margin = 39.30 CHE = 4.00	Risk margin = 30.60 CHE = 4.00
Victorian Managed Insurance Authority	Finity Consulting Pty. Ltd. (Dust Diseases and Workers' Compensation)	10.90	11.30	4.70	4.30	1.90	1.30	Risk margin = 39.40 CHE = 4.00	Risk margin = 30.30 CHE = 7.00
Victorian Managed Insurance Authority	Finity Consulting Pty. Ltd. (Domestic Building Insurance)	2.90	3.00	2.10	1.80	0.60	0.40	Risk margin =23.50 CHE = 4.50	Risk margin =23.50 CHE = 4.50

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

7. RISKS, CONTINGENCIES AND VALUATION JUDGEMENTS

Introduction

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

This section presents information on financial instruments, contingent assets and liabilities, and fair value determinations on the State's assets and liabilities.

Structure

7.1 Financial instruments

Introduction

Financial instruments arise out of contractual agreements that give rise to a financial asset of one entity and a financial liability or equity instrument of another entity. Due to the nature of the State's activities, certain assets and liabilities arise under statute rather than a contract (for example, taxes, fines and penalties). Such assets and liabilities (statutory receivables and payables) are initially recognised and measured in the same manner as financial instruments, even though they are not financial instruments. The disclosure requirements associated with financial instruments therefore do not apply.

The main purposes for the State to hold financial instruments are:

- for liquidity management purposes
- to manage financial risk
- to fund the State's capital expenditure program
- to meet long-term insurance and superannuation liabilities.

Categories of financial instruments **($ million)**

2021	*State of Victoria*	*General government sector*
Financial assets		
Cash and deposits	21 933	14 609
Financial assets designated at fair value through profit/loss (FVTPL)	42 960	889
Financial assets mandatorily measured at fair value through profit or loss	195	79
Financial assets at amortised cost	4 390	7 801
Financial assets measured at fair value through other comprehensive income	18	17
Investment in equity instrument designated at fair value through other comprehensive income	2 701	1 833
Total financial assets [(a)]	**72 197**	**25 228**
Financial liabilities		
Financial liabilities designated at fair value through profit and loss	90 182	1
Financial liabilities mandatorily measured at fair value through profit or loss	578	411
Financial liabilities at amortised cost	35 109	100 880
Total financial liabilities [(b)]	**125 869**	**101 292**

2020	*State of Victoria*	*General government sector*
Financial assets		
Cash and deposits	19 185	13 037
Financial assets designated at fair value through profit/loss (FVTPL)	37 629	766
Financial asset mandatorily measured at fair value through profit or loss	1 094	193
Financial assets at amortised cost	4 091	8 548
Financial assets measured at fair value through other comprehensive income	52	52
Investment in equity instrument designated at fair value through other comprehensive income	1 462	1 461
Total financial assets [(a)]	**63 514**	**24 058**
Financial liabilities		
Financial liabilities designated at fair value through profit and loss	62 322	..
Financial liabilities mandatorily measured at fair value through profit or loss	1 137	269
Financial liabilities at amortised cost	32 621	70 741
Total financial liabilities [(b)]	**96 079**	**71 011**

Notes:
(a) The State's total financial assets exclude statutory receivables, contract assets and other receivables of $7 562 million ($5 604 million in 2020) while the general government's total financial assets exclude statutory receivables and contract assets of $6 014 million ($4 226 million in 2020).
(b) The State's total financial liabilities exclude statutory taxes payable, unearned income, contract liabilities, grant of a right to the operator liabilities and advance premiums of $21 023 million ($22 146 million in 2020) while the general government's total financial liabilities exclude statutory taxes payable, contract liabilities, grant of a right to the operator liabilities, and unearned income of $11 127 million ($12 347 million in 2020).

Categories of financial instruments

Financial assets at amortised cost are classified within this category if both of the following criteria are met and the assets are not designated as fair value through profit or loss:

- the assets are held within a business model whose objective is to hold financial assets in order to collect the contractual cash flows
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

These assets are initially recognised on the date they originated and initially measured at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, these assets are measured at amortised cost using the effective interest method (less any impairment).

Financial assets measured at fair value through other comprehensive income

Debt instruments are measured at fair value through other comprehensive income if both of the following criteria are met and the assets are not designated as fair value through profit or loss:

- the assets are held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Upon disposal of these debt instruments, any related balance in the fair value reserve is reclassified to profit or loss.

Equity investments are measured at fair value through other comprehensive income if the assets are not held for trading and the State has irrevocably elected at initial recognition to recognise these equity investments in this category.

Such assets are initially recognised at fair value. Subsequent to initial recognition, they are measured at fair value with gains and losses arising from changes in fair value, recognised in other economic flows – other comprehensive income.

Upon disposal of these equity instruments, any related balance in fair value reserve is reclassified to accumulated surplus.

Financial assets at fair value through the profit or loss are financial instruments that are not classified at amortised cost or at fair value through other comprehensive income.

At initial recognition, an irrevocable designation at fair value through profit or loss is allowed subject to certain criteria. Financial instruments may be designated at fair value through profit or loss, if doing so eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or recognising the gains and losses on them on different bases.

Financial instruments at fair value through the profit or loss are initially measured at fair value and attributable transaction costs are expensed as incurred. Subsequently, any changes in fair value are recognised in the net result as an other economic flow.

Financial assets and liabilities at fair value through net result are categorised as such at trade date, or if they are classified as held for trading or designated as such upon initial recognition. Financial instrument assets are designated at fair value through the net result on the basis that the financial assets form part of a group of financial assets that are managed based on their fair values and have their performance evaluated in accordance with documented risk management and investment strategies. Financial instruments at fair value through the net result are initially measured at fair value; attributable transaction costs are expensed as incurred. Subsequently, any changes in fair value are recognised in the net result as other economic flows unless the changes in fair value relate to changes in the State's own credit risk. In this case, the portion of the change attributable to changes in the State's own credit risk is recognised in other comprehensive income with no subsequent recycling to net result when the financial liability is derecognised. The State recognises some debt securities that are held for trading in this category and designated certain debt securities as fair value through net result in this category.

Financial liabilities at amortised cost are initially recognised on the date they are originated. They are initially measured at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, these financial instruments are measured at amortised cost with any difference between the initial recognised amount and the redemption value being recognised in profit or loss over the period of the interest bearing liability, using the effective interest rate method (refer to Note 5.1).

Financial instrument liabilities measured at amortised cost include all of the State's payables, deposits held and advances received, and interest bearing arrangements other than those designated at fair value through profit or loss.

Derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into. Derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative. Any gains or losses arising from changes in the fair value of derivatives after initial recognition are recognised in the consolidated comprehensive operating statement as an other economic flow included in the net result.

Derecognition of financial assets and liabilities

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised in any of the following instances:

- the rights to receive cash flows from the asset have expired
- the State retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a pass through arrangement
- the State has transferred its rights to receive cash flows from the asset and either:
  - has transferred substantially all the risks and rewards of the asset
  - has neither transferred nor retained substantially all the risks and rewards of the asset but has transferred control of the asset.

Where the State has retained substantially all the risks and rewards and not transferred control, the asset is recognised to the extent of the State's continuing involvement in the asset.

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised as an other economic flow in the consolidated comprehensive operating statement.

Reclassification of financial instruments

Subsequent to initial recognition, reclassification of financial liabilities is not permitted. Financial assets are required to be reclassified between fair value through the net result, fair value through other comprehensive income and amortised cost when and only when the State's business model for managing its financial assets has changes such that its previous classification would no longer apply.

If under rare circumstances an asset is reclassified, the reclassification is applied prospectively from the reclassification date and previously recognised gains, losses or interest should not be restated. If the asset is reclassified to fair value, the fair value should be determined at the reclassification date and any gain or loss arising from a difference between the previous carrying amount and fair value is recognised in the net result.

Impairment of financial assets

The State records the allowance for impairment for the relevant financial instruments consistent with the expected credit loss approach required by AASB 9. Subject to AASB 9, impairment assessment include the State's contractual receivables, statutory receivables and its investment in debt instruments.

All financial instrument assets, except those measured at fair value through profit or loss, are subject to review at each reporting date.

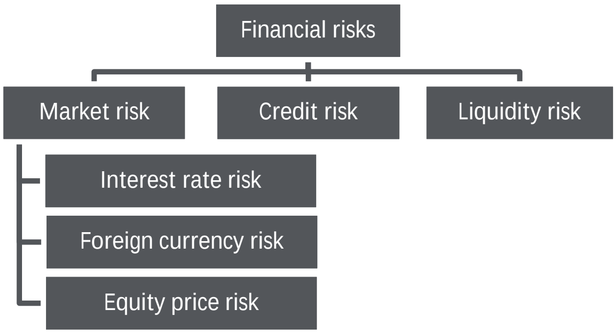
Recognition of a loss allowance for expected credit losses on a financial asset is required. Under the general approach, if the credit risk for a financial asset has increased significantly, then the loss allowance is measured at an amount equal to the lifetime expected credit losses. If the credit risk has not increased significantly, then the loss allowance is measured at an amount equal to 12 months' expected credit losses. Under the simplified approach which has been applied to trade receivables, the measurement of their loss allowance is at an amount equal to lifetime expected credit losses.

The amount of the allowance is the difference between the financial asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. In assessing impairment of statutory (non-contractual) financial assets, which are not financial instruments, professional judgement is applied in assessing materiality using estimates, averages and other computational methods in accordance with AASB 136 *Impairment of Assets*.

7. RISKS, CONTINGENCIES AND VALUATION JUDGEMENTS

Financial risk management

The State is exposed to a number of financial risks, including:



As a whole, the State's financial risk management program seeks to manage these risks and the associated volatility on its financial performance.

Responsible and prudent financial risk management is carried out individually by the State's entities, in accordance with the State's risk management framework, developed by the Department of Treasury and Finance (DTF) and established by the Treasurer. The State's risk management framework comprises the following key components:

- the Treasurer is responsible for approving and establishing the prudential framework containing policies and guidelines on financial risk management
- the Senior Executive Group of DTF is responsible for advising the Government on the management of the State's financial risks
- DTF's Financial Assets and Liabilities Group provides oversight of the State's key financial balance sheet and financial market risks. These risks relate to the State's investments, borrowings, superannuation and insurance claims liabilities, as well as exposures to interest rate, foreign exchange and commodity price volatility and liquidity position
- DTF administers the State's Central Banking System (CBS). The CBS is a DTF cash management initiative that allows the State to reduce its external borrowings, resulting in interest savings. Savings are achieved through a bank account pooling arrangement of department and agency accounts, utilising surplus funds to reduce the State's funding obligations
- the Treasury Corporation of Victoria (TCV) is the State's central borrowing authority and financing advisor. An independent prudential supervisor is appointed by the Treasurer to monitor TCV's compliance with its prudential framework
- the Victorian Funds Management Corporation (VFMC) acts as the State's central investment fund manager providing expertise in developing investment strategy and providing funds management services in accordance with each entity's investment objectives. An independent prudential supervisor is appointed by the Treasurer to monitor VFMC's compliance with its prudential framework
- the State's entities are responsible for setting their own financial risk policy and objectives in accordance with the Standing Directions 2018. All entities are responsible for the day-to-day operational management of their financial instruments and associated risks in accordance with the Standing Directions.

The Standing Directions cover areas such as financial management objectives, responsibility structure and delegation, and policies and guidance on interest rate risk, foreign exchange risk, counterparty risk, commodity price risk, investment risk, credit risk, liquidity risk and operational risk. The Accountable Officer of each of the State's entities is responsible for advising its board, the responsible Minister and, for Portfolio Agencies, the Accountable Officer of their Portfolio Department, and DTF of any material compliance deficiency, and of planned and completed remedial actions, as soon as practicable.

A number of the State's entities enter into derivative financial instruments in accordance with the Treasurer's prudential and financial management framework, in order to manage their exposure to movements in interest rates, foreign currency exchange rates and commodity-related exposures.

These derivative financial instruments, which include interest rate swaps, futures and forward foreign exchange contracts, are used to manage the risks inherent in either borrowings, financial asset investments or cash flow denominated in foreign currency. Derivative financial instruments are not used to add leverage to the State's financial position.

7.1.1 Interest rate risk

The State is exposed to interest rate risk through borrowings and investments in interest bearing financial assets, such as deposits and debt securities. Interest rate risk could be in the form of fair value risk or cash flow risk:

- Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. It relates to financial instruments with fixed interest rates, measured at fair value and represents the most significant interest rate risk for the State
- Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Only a small portion of the State's financial instruments are exposed to cash flow interest rate risk and these arise from financial assets and financial liabilities with floating interest rates, which are measured at amortised cost.

The interest rate exposure table provides details of the carrying amounts of financial assets and liabilities that expose the State to either interest rate fair value risk or interest rate cash flow risk.

Interest rate exposure as at 30 June ($ million)

	State of Victoria				General government sector			
2021	Floating rate	Fixed rate	Non-interest bearing	Total	Floating rate	Fixed rate	Non-interest bearing	Total
Financial assets								
Cash and deposits	19 641	460	1 832	21 933	12 337	457	1 815	14 609
Receivables	74	19	3 540	3 632	6	5	2 176	2 187
Advances paid	207	43	289	538	1 447	3 606	420	5 473
Term deposits	11	766	..	777	13	120	..	133
Derivative financial instruments	..	89	699	787	..	..	79	79
Equities and managed investment schemes	326	966	37 919	39 210	278	966	1 478	2 722
Debt securities	1 181	4 131	8	5 320	17	..	8	26
Total financial assets	**21 439**	**6 472**	**44 286**	**72 197**	**14 098**	**5 154**	**5 976**	**25 228**
Financial liabilities								
Payables, deposits held and advances received	483	83	9 006	9 571	1 650	77	6 580	8 307
Derivative financial instruments	34	403	510	947	211	55	214	479
Interest-bearing liabilities	4 451	95 710	..	100 160	43	77 986	..	78 030
Lease liabilities	178	8 120	374	8 672	157	7 713	197	8 067
Service concession arrangement liabilities	..	6 519	..	6 519	..	6 409	..	6 409
Total financial liabilities	**5 145**	**110 834**	**9 890**	**125 869**	**2 061**	**92 240**	**6 991**	**101 292**

2020	Floating rate	Fixed rate	Non-interest bearing	Total	Floating rate	Fixed rate	Non-interest bearing	Total
Financial assets								
Cash and deposits	18 644	177	364	19 185	12 543	172	322	13 037
Receivables	88	36	3 340	3 465	10	5	1 866	1 882
Advances paid	244	2	237	483	2 412	3 603	535	6 550
Term deposits	20	139	..	159	20	120	..	140
Derivative financial instruments	189	896	1 355	2 440	189	..	4	193
Equities and managed investment schemes	489	299	31 731	32 519	189	295	1 744	2 227
Debt securities	1 276	3 980	7	5 263	18	3	7	28
Total financial assets	**20 950**	**5 531**	**37 034**	**63 514**	**15 381**	**4 199**	**4 478**	**24 058**
Financial liabilities								
Payables, deposits held and advances received	438	40	7 823	8 301	2 520	30	5 654	8 204
Derivative financial instruments	..	1 121	311	1 432	..	266	71	337
Interest-bearing liabilities	1 933	69 992	..	71 925	11	48 778	..	48 789
Lease liabilities	129	7 967	195	8 291	106	7 380	183	7 669
Service concession arrangement liabilities	..	6 130	..	6 130	..	6 012	..	6 012
Total financial liabilities	**2 501**	**85 250**	**8 328**	**96 079**	**2 637**	**62 466**	**5 907**	**71 011**

Interest rate risk management

The State's policy for managing interest rate risk on borrowings is to achieve relative certainty of the cash interest cost impact on the net result from transactions on the operating statement, while seeking to minimise the net borrowing cost within portfolio risk management guidelines. Generally, this is achieved by undertaking fixed rate borrowings across a range of maturity profiles.

Derivative instruments, such as interest rate swaps and futures contracts, are used to either change the interest rate between fixed and floating rates of interest or between different floating rates of interest.

At 30 June 2021, approximately 90 per cent (96 per cent in 2020) of the State's borrowings are at fixed rates of interest. There has been no material change in the State's exposure to interest rate risk or the manner in which it manages and measures the risk from the previous reporting period.

Interest rate sensitivity analysis on total borrowings

The State has analysed the possible effects of changes in interest rates on the total reported value of borrowings and the operating statement using the following assumptions:

- The impact of a movement in interest rates on the market value of total State borrowings for both derivative and non-derivative instruments at the reporting date, and the stipulated change occurs at the beginning of the financial year and is held constant throughout the reporting period
- An increase or decrease of 50 basis points (50 basis points in 2020). Based on historic movements, and in particular, management's knowledge and experience of the recent volatility in global financial markets, the State has assessed that a movement of this magnitude is reasonably possible.

With all other variables held constant, the impact of a 50 basis point increase or decrease on market value of total net borrowings of the State is $2.6 billion increase / $2.8 billion decrease (30 June 2020 $1.7 billion increase / $1.8 billion decrease). This revaluation impact on total net borrowings is unrealised, and is recognised in the operating statement as other economic flows and impacts the net result.

The sensitivity to interest rates is mainly attributable to the revaluation of fixed interest rate borrowings at fair value, however this does not impact on the net result from transactions.

7.1.2 Foreign currency risk

All foreign currency transactions during the financial year are brought to account using the exchange rate in effect at the date of the transaction. Foreign monetary items existing at the end of the reporting period are translated at the closing rate at the end of the reporting period. Non-monetary assets carried at fair value that are denominated in foreign currencies are translated to the functional currency at the rates prevailing at the date when the fair value was determined.

Foreign currency translation differences are recognised in other economic flows in the consolidated comprehensive operating statement and accumulated in a separate component of equity, in the period in which they arise.

The State is also exposed to foreign currency risk through investments in foreign currency denominated financial assets, primarily international equities. This exposure is mainly via the major currencies such as the United States dollar, Canadian dollar, Japanese yen, Swiss franc, the euro, British pound and the New Zealand dollar.

The carrying amount of the State's foreign currency denominated monetary assets and monetary liabilities at the reporting date is $3.9 billion ($4.8 billion in 2020) of equities and managed investment schemes and $627 million ($555 million in 2020) of foreign currency borrowings.

When managing foreign currency, VFMC, the State's fund manager, determines an optimal foreign currency exposure range at the total portfolio level in accordance with the investment risk management plan approved by the Treasurer. In the implementation of this approach, international equities and a portion of international debt investments are unhedged, whilst other investments denominated in foreign currency such as infrastructure and hedge funds, are hedged back to Australian dollars. In certain circumstances, VFMC may deviate from this approach with the aim to improve the expected risk-adjusted portfolio outcomes, in accordance with VFMC's governance frameworks.

TCV is the State's central borrowing authority and part of its funding program is comprised of foreign currency borrowings. The State's policy is to hedge any material foreign currency exposures arising from borrowings. TCV uses foreign exchange options, spot and forward foreign exchange rate contracts to manage offshore borrowings.

There has been no material change in the State's exposure to foreign currency risk or the manner in which it manages and measures this risk from the previous reporting period.

Foreign currency sensitivity analysis

The State has analysed the possible effects of change in exchange rates against the Australian dollar on its financial position and result using the following assumptions:

- Exposure to the pool of foreign currencies for both derivative and non-derivative instruments at the reporting date, and the stipulated change taking place at the beginning of the financial year are held constant throughout the reporting period
- Based on historic movements, future expectations and management's knowledge and experience of the foreign currency markets, the State has assessed that it may be exposed to an increase or decrease of 15 per cent against the Australian dollar (15 per cent in 2020).

With all other variables held constant, the impact of a 15 per cent increase or decrease in exchange rates on economic flows and net assets at 30 June 2021 is $337 million decrease / $276 million increase ($177 million decrease / $139 million increase in 2020).

The State's exposure to foreign currency risk has no direct impact on the net result from transactions.

7.1.3 Equity price risk

The State is exposed to equity price risk from Australian and international investments in equities directly and indirectly via managed investment schemes or funds. These investments are selected as part of a diversified portfolio to match investment objectives appropriate to the State's liabilities. The State limits its equity price risk through diversifying its investment portfolio. This is determined by VFMC and reflected in the investment risk management plans approved by the Treasurer, and in accordance with the *Borrowing and Investments Powers Act 1987* and the prudential supervisory policies and framework of the State.

There has been no material change in the State's exposure to equity price risk or the manner in which it manages and measures the risk from the previous reporting period.

Equity price sensitivity analysis

The State has analysed the possible effects of changes in equity prices on its financial position and result using the following assumptions:

- Exposure to equity securities for both derivative and non-derivative instruments at the reporting date, and the stipulated change taking place at the beginning of the financial year are held constant throughout the reporting period
- Based on historic movements, future expectations and management's knowledge and experience of the volatility of the equity markets, the State has assessed that it may be exposed to a reasonably possible increase or decrease of 15 per cent to equity prices (increase or decrease of 15 per cent in 2020).

With all other variables held constant, the impact of a 15 per cent increase or decrease in listed equities prices on economic flows and net assets at 30 June 2021 is $6.3 million increase / $6.3 million decrease ($1 million increase / $1 million decrease in 2020) and from unlisted equities is $3.7 billion increase / $3.7 billion decrease ($3.0 billion increase / $3.0 billion decrease in 2020).

The State's exposure to equity price sensitivity has no direct impact on the net result from transactions.

7.1.4 Credit risk

Credit risk refers to the possibility that a borrower will default on its financial obligations as and when they fall due. The State's exposure to credit risk mainly arises through its investments in fixed interest instruments and contractual loans and receivables. Most of the State's investments and derivatives are centrally managed by TCV and VFMC. Limits are set both in terms of the quality and amount of credit exposure in accordance with the *Borrowings and Investment Powers Act 1987* and the prudential supervisory policies and framework of the State.

The State has a material credit risk exposure resulting from the level of investments and derivative transactions with the four major Australian banks, which is managed by reference to the credit quality and exposure policies that have been established.

The State's maximum exposure to credit risk, without taking account of the value of any collateral obtained at the reporting date, in relation to each class of recognised financial asset, is the carrying amount of those assets as recognised in the balance sheet.

There has been no material change to the State's credit risk profile in 2020-21.

The table below provides information on the credit quality of the State's financial assets.

Credit quality of financial assets **($ million)**

State of Victoria *2021*	*(Aa1/ AA credit rating)*	*Other (min triple-B credit rating)*	*Other (not rated)*	*Total*
Financial assets				
Financial assets with loss allowance measured at 12 month expected credit loss				
Cash and deposits	2 380	11 302	495	14 177
Advances paid	24	..	109	133
Term deposits	11	102	11	124
Debt securities	..	..	8	9
Financial assets with loss allowance measured at lifetime credit loss (not credit impaired)				
Cash and deposits	4 679	3 058	18	7 755
Receivables applying the simplified approach for impairment	866	323	2 761	3 950
Advances paid	..	82	..	82
Term deposits	..	58	..	58
Financial assets with loss allowance measured at lifetime credit loss (credit impaired)				
Term deposits	..	25	..	25
Debt securities	..	17	..	17
Total financial assets	**7 960**	**14 968**	**3 403**	**26 331**

2020	*(triple-A credit rating)*	*Other (min triple B credit rating)*	*Other (not rated)*	*Total*
Financial assets				
Financial assets with loss allowance measured at 12 month expected credit loss				
Cash and deposits	14 698	3 000	209	17 907
Advances paid	50	..	91	142
Term deposits	28	24	11	63
Debt securities	..	..	8	8
Financial assets with loss allowance measured at lifetime credit loss (not credit impaired)				
Cash and deposits	24	1 237	17	1 278
Receivables applying the simplified approach for impairment	1 618	281	1 886	3 785
Advances paid	..	..	16	16
Term deposits	3	69	..	72
Financial assets with loss allowance measured at lifetime credit loss (credit impaired)				
Term deposits	..	25	..	25
Debt securities	..	20	..	20
Total financial assets	**16 421**	**4 657**	**2 238**	**23 315**

7. RISKS, CONTINGENCIES AND VALUATION JUDGEMENTS

Credit quality of financial assets *(continued)* **($ million)**

General government sector *2021*	*Government agencies (Aa1/ AA credit rating)*	*(Aa1/ AA credit rating)*	*(min triple-B credit rating)*	*(not rated)*	*Total*
Financial assets					
Financial assets with loss allowance measured at 12 month expected credit loss					
Cash and deposits	349	1 334	8 169	334	10 185
Advances paid	4 815	24	..	100	4 938
Term deposits	2	6	41	1	50
Debt securities	..	..	..	8	9
Financial assets with loss allowance measured at lifetime credit loss (not credit impaired)					
Cash and deposits	20	1 786	2 598	18	4 423
Receivables applying the simplified approach for impairment	139	473	20	1 840	2 471
Advances paid	164	..	82	..	247
Term deposits	..	..	58	..	58
Financial assets with loss allowance measured at lifetime credit loss (credit impaired)					
Term deposits	..	..	25	..	25
Debt securities	..	..	17	..	17
Total financial assets	**5 489**	**3 624**	**11 010**	**2 301**	**22 424**

2020	*Government agencies (triple-A credit rating)*	*(triple A credit rating)*	*(min triple B credit rating)*	*(not rated)*	*Total*
Financial assets					
Financial assets with loss allowance measured at 12 month expected credit loss					
Cash and deposits	11 664	118	304	144	12 230
Advances paid	5 782	50	..	83	5 915
Term deposits	2	22	18	1	44
Debt securities	..	..	..	8	8
Financial assets with loss allowance measured at lifetime credit loss (not credit impaired)					
Cash and deposits	..	5	802	..	807
Receivables applying the simplified approach for impairment	273	575	115	1 204	2 168
Advances paid	329	..	..	16	345
Term deposits	..	3	69	..	72
Financial assets with loss allowance measured at lifetime credit loss (credit impaired)					
Term deposits	..	..	25	..	25
Debt securities	..	..	20	..	20
Total financial assets	**18 051**	**773**	**1 354**	**1 456**	**21 634**

7.1.5 Other matters

Offsetting financial instruments

A master netting arrangement or similar arrangement can be set up with counterparties where required by general market practice. To the extent that these arrangements meet the criteria for offsetting in the consolidated balance sheet, they are reported on a net basis.

Financial instrument assets and liabilities are offset, with the net amount reported in the consolidated balance sheet only where there is a currently legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

Some master netting arrangements do not result in an offset of balance sheet assets and liabilities. Where the State does not have a legally enforceable right to offset recognised amounts, because the right to offset is enforceable only on the occurrence of future events such as default, insolvency or bankruptcy, they are reported on a gross basis.

The following tables provide information on the impact of offsetting on the balance sheet, as well as the financial impact of netting for instruments subject to an enforceable master netting arrangement, as well as available cash and financial instrument collateral.

The State has entered into arrangements that do not meet the criteria for offsetting in a normal course of business but allow for the relevant amounts to be set off in certain circumstances, such as bankruptcy, default or insolvency.

The effect of these arrangements is reflected in the column related amounts not offset.

The net amount column shows the impact on the State balance sheet if all existing rights of offset were exercised.

Master netting or similar arrangements (a)(b) **($ million)**

State of Victoria		*Effects of offsetting on the balance sheet*			
2021	*Gross amounts*	*Gross amounts set off in the consolidated balance sheet*	*Net amounts presented in the consolidated balance sheet*	*Related amounts not offset*	*Net amount*
Financial assets					
Derivative financial instruments	1 032	(245)	787	(406)	381
Financial liabilities					
Derivative financial instruments	1 194	(247)	947	(323)	623
2020					
Financial assets					
Derivative financial instruments	3 206	(766)	2 440	(1 232)	1 208
Financial liabilities					
Derivative financial instruments	2 200	(769)	1 432	(1 292)	140

Notes:

(a) Master netting or similar arrangements is only disclosed for the whole of State as they are only material for the State's insurance entities in the public financial corporations sector.

(b) The year-on-year variance primarily reflects a change in treatment for a number of cross currency swaps (CCS) related to debt issues in foreign currency from the Treasury Corporation of Victoria (TCV). In the prior year, swaps between the asset and liability were disclosed on a gross basis. However, this year the asset and liability of the CCS have been netted to better reflect market practice.

Net gain or loss by category of financial instruments

The net gains or losses on financial assets and liabilities held at 30 June 2021 are determined as follows:

- For financial assets at amortised cost the net gain or loss is calculated by taking the interest revenue, plus or minus foreign exchange gains or losses arising from revaluation of the financial assets, and minus any impairment recognised in the net result
- For financial liabilities measured at amortised cost, the net gain or loss is calculated by taking the interest expense, plus or minus foreign exchange gains or losses arising from the revaluation of financial liabilities measured at amortised cost
- For financial assets and liabilities that are designated at fair value through profit or loss, the net gain or loss is calculated by taking the movement in the fair value of the financial asset or liability.

Net gain or loss by category of financial instruments **($ million)**

2021	*State of Victoria*	*General government sector*
Financial assets		
Cash and deposits	(8)	(6)
Financial assets designated at fair value through profit/loss (FVTPL)	2 399	43
Financial assets mandatorily measured at fair value through profit or loss	2 080	56
Financial assets at amortised cost	118	(157)
Financial assets measured at fair value through other comprehensive income	1	123
Total financial assets	**4 590**	**58**
Financial liabilities		
Financial liabilities designated at fair value through profit and loss	2 525	..
Financial liabilities mandatorily measured at fair value through profit or loss	(135)	..
Financial liabilities at amortised cost	..	..
Total financial liabilities	**2 389**	**..**

2020		
Financial assets		
Cash and deposits	(7)	(45)
Financial assets designated at fair value through profit/loss (FVTPL)	(972)	(20)
Financial assets mandatorily measured at fair value through profit or loss	(975)	(39)
Financial assets at amortised cost	(23)	(7)
Financial assets measured at fair value through other comprehensive income	(2)	(58)
Total financial assets	**(1 978)**	**(168)**
Financial liabilities		
Financial liabilities designated at fair value through profit and loss	(690)	..
Financial liabilities mandatorily measured at fair value through profit or loss	(70)	..
Financial liabilities at amortised cost	(283)	(283)
Total financial liabilities	**(1 043)**	**(284)**

Breakdown of interest income [(a)] **($ million)**

	State of Victoria		*General government sector*	
	2021	*2020*	*2021*	*2020*
Interest revenue from financial assets not at fair value through the operating statement	182	180	594	619
Interest revenue from financial assets at fair value through the operating statement	566	412	..	..
Total	**747**	**592**	**594**	**619**

Note:
(a) These items include amounts that relate to discount interest on financial assets. Therefore, figures in this table cannot be reconciled to the primary financial statements.

Breakdown of interest and fee expense items [(a)] **($ million)**

	State of Victoria		General government sector	
	2021	2020	2021	2020
Interest expense from financial liabilities not at fair value through the operating statement	1 250	1 196	2 584	2 295
Interest expense from financial liabilities at fair value through the operating statement	2 223	1 883	..	3
Fee expenses from financial liabilities not at fair value through the operating statement	35	100	50	106
Fee expenses from financial liabilities at fair value through the operating statement	474	450	1	3
Total	**3 981**	**3 630**	**2 636**	**2 406**

Note:
(a) These items do not include amounts that relate to discount interest on financial liabilities. Therefore, figures in this table cannot be reconciled to the primary financial statements.

7.1.6 Liquidity risk

Liquidity risk arises from being unable to meet financial obligations as they fall due. The State is exposed to liquidity risk mainly through the maturity of its external borrowings raised by TCV and the requirement to fund cash deficits. Liquidity management policy has three main components as follows.

Short-term liquidity management and control

The State's central treasury, TCV, is responsible for ensuring that the State's liquidity requirements can be met at all times.

TCV has an enhanced liquidity policy to assist the Government to manage the whole of Victorian government liquidity risk. The policy requires daily measurement of the whole of Victorian government liquidity ratio, which measures TCV's liquid assets (after discounting to reflect potential loss of value in the event of a quick sale), versus 12 months of debt refinancing and interest obligations.

The policy also measures the daily going concern net and cumulative cash flow limits to manage short-term liquidity exposures during normal operating liquidity conditions and the monitoring of going concern and liquidity stress scenario cash flows out to 12 months.

At 30 June 2021, the whole of Victorian government liquidity ratio stood at 214 per cent against a limit of 80 per cent (248 per cent against a limit of 80 per cent in 2020). The high level of liquidity at 30 June 2021 was due to TCV accessing financial markets to pre-position itself ahead of the forecast increase in borrowing requirements. The investment of these additional funds in liquid assets in advance of the timing of expenditure, has resulted in a high liquidity ratio.

Long-term liquidity management monitoring

The State's policy on long-term management of liquidity primarily focuses on the diversification of funding sources and debt maturities.

Managing a liquidity crisis

In the event of a liquidity crisis, the State has liquidity crisis management plans in place to manage liquidity conditions. The liquidity crisis management plans are a set of protocols established to respond to specific conditions during a crisis.

Maturity analysis of financial liabilities

Disclosed are details of the State's maturity analysis for its domestic borrowings, lease liabilities and service concession arrangement liabilities. The maturity analysis for the remainder of the State's financial liabilities are immaterial to the financial report.

Domestic borrowings **($ million)**

	State of Victoria		*General government sector*	
	2021	*2020*	*2021*	*2020*
Carrying amount	98 850	71 370	78 030	48 789
Nominal amount [(a)]	110 825	76 502	79 478	58 419
Contractual maturity				
0 to 3 months	2 737	4 167	2 774	3 453
3 months to 1 year	9 538	7 451	8 329	10 555
1 to 2 years	6 938	5 297	2 615	2 340
2 to 5 years	27 547	19 934	15 170	9 444
5 years or more	64 065	39 652	50 590	32 627

Note:
(a) Represents undiscounted nominal amount.

Lease liabilities payable **($ million)**

	State of Victoria		*General government sector*	
	2021	*2020*	*2021*	*2020*
Less than 1 year	958	878	865	812
1 year but less than 5 years	6 067	3 159	5 824	2 942
5 years or more	4 632	5 288	4 346	4 930
Minimum lease payments	**11 657**	**9 325**	**11 035**	**8 685**
Future finance charges	2 985	1 034	2 967	1 016
Total lease liabilities	**8 672**	**8 291**	**8 067**	**7 669**

Service concession arrangement liabilities payable **($ million)**

	State of Victoria		*General government sector*	
	2021	*2020*	*2021*	*2020*
Less than 1 year	1 684	190	1 674	181
1 year but less than 5 years	2 256	1 910	2 208	1 869
5 years or more	4 400	5 634	4 348	5 566
Minimum liability payments	**8 340**	**7 734**	**8 231**	**7 616**
Future finance charges	1 821	1 604	1 821	1 604
Total service concession arrangement liabilities	**6 519**	**6 130**	**6 409**	**6 012**

7.2 Contingent assets and contingent liabilities (State of Victoria)

Contingent assets and contingent liabilities are not recognised in the balance sheet but are disclosed and, if quantifiable, are measured at nominal value.

Contingent assets and liabilities are presented inclusive of GST receivable or payable respectively.

Contingent assets

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

These are classified as either quantifiable, where the potential economic benefit is known, or non-quantifiable.

The table below contains quantifiable contingent assets as at 30 June 2021 (arising from outside of government).

Quantifiable contingent assets [(a)] **($ million)**

	State of Victoria 2021	State of Victoria 2020
General government	100	127
Public non-financial corporations	471	431
Public financial corporations	..	..
Eliminations	*(62)*	*(65)*
Total contingent assets – State of Victoria[(b)]	**509**	**494**
Guarantees, indemnities and warranties	144	150
Legal proceedings and disputes	6	17
Other	359	326
Total contingent assets – State of Victoria[(b)]	**509**	**494**

Notes:

(a) Figures reflect contingent assets that arise from outside of government.

(b) As at 30 June 2021, the majority of contingent assets held by the State relate to developer contributions of water and sewerage infrastructure whereby control is transferred to the State's water entities upon completion of various development projects.

Non-quantifiable contingent assets

Peninsula Link compensable enhancement claim

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

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

Contingent liabilities

Contingent liabilities are either:

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

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

The table below contains quantifiable contingent liabilities as at 30 June 2021.

Quantifiable contingent liabilities **($ million)**

	State of Victoria 2021	State of Victoria 2020
General government	16 980	15 947
Public non-financial corporations	190	203
Public financial corporations	..	..
Eliminations [(a)]	*(15 004)*	*(14 731)*
Total contingent liabilities – State of Victoria	**2 165**	**1 419**
Guarantees, indemnities and warranties [(b)]	1 227	881
Legal proceedings and disputes	386	286
Other	553	252
Total contingent liabilities – State of Victoria	**2 165**	**1 419**

Notes:

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

(b) Inclusive of loans provided by TCV to entities other than the State of Victoria and participating authorities, subject to the provision of a guarantee by the Treasurer.

Non-quantifiable contingent liabilities

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

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

Biosciences Research Centre (known as AgriBio)

The quarterly service fee payment obligations of Biosciences Research Centre Pty Ltd (BRC Co) on behalf of the joint venture participants (Department of Jobs, Precincts and Regions and La Trobe University) are backed by the State of Victoria under a State Support Deed. Under this Deed, the State ensures that the joint venture participants have the financial capacity to meet their payment obligations to BRC Co, thereby enabling BRC Co to meet its obligations to pay the quarterly service fee to the concessionaire under the Project Agreement. The State underwrites the risk of any default by BRC Co.

Department of Education and Training

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

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

National redress scheme – sexual abuse of children in institutions

On 13 June 2018, the *National Redress Scheme for Institutional Child Sexual Abuse (Commonwealth Powers) Act 2018 (Vic)* began.

The Act refers power to the Commonwealth Parliament to ensure that Victorian institutions can participate in the National Redress Scheme. The National Redress Scheme began on 1 July 2018 and will run for 10 years. The Scheme will deliver a financial payment of up to $150 000, access to psychological counselling and an apology from the responsible institution to eligible survivors of institutional child abuse. This implements a recommendation of the Victorian Parliamentary Inquiry Betrayal of Trust report and the Royal Commission into Institutional Responses to Child Sexual Abuse.

The Government has set aside funding in the budget estimates over the next ten years for redress. If a survivor is eligible for redress payments, funding will be made available. Due to the historical nature of the abuse in question, the precise number of eligible survivors of abuse is difficult to estimate. Consequently, the exact financial implications of Victoria's participation remain uncertain.

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

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

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

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

Public transport rail partnership agreements

The Department of Transport (DoT) is party to contractual arrangements with franchisees to operate metropolitan rail transport services across the State, from 30 November 2017 until 30 November 2024. The major contingent liabilities arising in the event of early termination or expiry of the contract are:

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

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

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

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

Fiskville independent investigation and closure of training college

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

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

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

The Government's response to the Fiskville Inquiry was tabled in Parliament on 24 November 2016. The response supported all of the 31 recommendations of the Victorian Parliamentary Inquiry into the CFA Training College at Fiskville, either in full, in principle or in part.

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

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

Compulsory property acquisitions

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

Land remediation – environmental concerns

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

Royal Melbourne Showgrounds redevelopment

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

Native Title

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

Victorian Managed Insurance Authority – insurance cover

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

VMIA reinsures in the private market up to limits that protect from events with a likelihood of at least 1 in 200 years and considers reinsurance on a cost benefit basis beyond that point. The risk of losses above what VMIA reinsures in the private market is borne by the State.

VMIA also insures the Department of Health for all public sector medical indemnity claims incurred from 1 July 2003. Under a deed of indemnity, that provides stop-loss protection for VMIA, the Department of Treasury and Finance has agreed to reimburse VMIA if the cost of claims for a policy year exceeds the initial estimate, on which the risk premium was based, by more than 20 per cent.

Under a separate deed of indemnity, the State has agreed to reimburse VMIA for losses above a certain limit that VMIA may incur due to changes in the availability of reinsurance.

Coronavirus (COVID-19) class action – Victorian businesses

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

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

Coronavirus (COVID-19) class action – Victorian residents

A class action has been filed in the Supreme Court of Victoria against the State of Victoria, the Ministers for Health and Jobs, and the Secretaries of DHHS and DJPR, relating to the psychological and psychiatric injury suffered and economic loss suffered by way of loss of wages or income by Victorian residents under stage 3 and 4 public health restrictions. The VMIA has been notified of this proceeding. VMIA's Combined Liability Policy will respond.

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

Coronavirus (COVID-19) related claim notifications

The Department of Transport may receive notifications under the contractual agreements by the contractors in relation to the possible impact of COVID-19 on a number of projects. Possible future claims cannot be reliably estimated at this stage as quantifiable claims have not yet been provided under the contract.

Until detailed claims have been submitted and substantiated by the contractors, it is not possible to estimate the financial effect of the claims.

Coronavirus (COVID-19) class action – Public Housing Towers residents

A class action has been filed in the Supreme Court of Victoria against the State of Victoria, the Chief Commissioner of Police, and Drs Annaliese Van Diemen and Finn Romanes in their capacity as authorised officers under the *Public Health and Wellbeing Act 2008* (Vic) relating to the decision to declare localised public health restrictions and damages for battery, assault, false imprisonment and negligence arising from the implementation of that decision. The VMIA has been notified of this proceeding. VMIA's Combined Liability Policy will respond.

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

Southern Cross Station Target Capacity Threshold

The State has a possible liability relating to a claim from a contractor responsible for operating and maintaining Southern Cross Station. The claim relates to patronage levels at the station and the contract provides a process to assess whether modifications to the station, compensation to the contractor or changes to the service standards are required. The claim is being considered and the financial effect is yet to be determined.

The Royal Commission into the Management of Police Informants

The Royal Commission into the Management of Police Informants commenced hearings in February 2019. The final report and recommendations were delivered to the Governor of Victoria on 30 November 2020.

Victoria Police anticipates it may receive claims for compensation. Victoria Police will assess any litigation as it arises.

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

Planning scheme compensation

Under section 98 of the *Planning and Environment Act 1987*, the owner or occupier of any land may claim compensation from the planning authority for financial loss suffered as the natural, direct and reasonable consequence of the land being reserved, or declared as reserved for a public purpose under a planning scheme.

Any future liability depends on a number of factors and cannot be reliably quantified.

Yallourn Power Station safety net

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

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

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

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

West Gate Tunnel Project

The State and the Transurban Group entered into a public private partnership contract for the Transurban Group to build, operate and maintain the West Gate Tunnel project. This project has been reported as a service concession arrangement with detailed information disclosed in Note 5.3.

The project has experienced difficulties in its delivery program and as a result, Transurban has advised the Australian Stock Exchange that it no longer believes the project can be completed in 2023. In addition, parties to the Project Agreement and design and construction subcontract have lodged legal claims against the other parties. The State has engaged in active negotiations with all parties to resolve disputes in relation to the project.

Victorian Building Authority

The Victorian Building Authority (VBA) has been appointed by the Minister to perform the functions of a municipal building surveyor (MBS) in relation to various sites across Victoria and has statutory obligations under the *Building Act 1993* (Vic) to issue occupancy permits for prescribed places of public entertainment.

In discharging MBS functions, the VBA is required to issue building notices and orders where appropriate, requiring building owners to bring non-compliant building work into compliance. It is also required to ensure that rectification work is completed to the VBA's satisfaction as required by the notice / order.

Discharging the statutory functions of an MBS and issuing occupancy permits for prescribed places of public entertainment exposes the VBA to potential liability for the manner in which it has exercised or discharged those statutory functions or failed to exercise those functions (as the case may be).

The potential liability associated with these activities is not readily quantifiable at this time, as no legal action has been commenced against the VBA in relation to these activities. However, these activities increase the likelihood of litigation against the VBA and therefore increase the VBA's risk profile.

7.3 Fair value determination

This section sets out information on how the State determines fair value for financial reporting purposes. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Fair values are determined for the following assets and liabilities:

- financial assets and liabilities at fair value
- land, buildings, infrastructure, plant and equipment (including service concession and right-of-use assets)
- investment properties
- biological assets.

In addition, the fair values of other assets and liabilities are determined for disclosure purposes (financial assets and liabilities carried at amortised cost).

The State determines the policies and procedures for determining fair values for both financial and non-financial assets and liabilities as required.

For the purpose of fair value disclosures, the State has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability.

Fair value hierarchy

In determining fair values a number of inputs are used. To increase consistency and comparability in the financial statements, these inputs are categorised into three levels, also known as the fair value hierarchy. The levels are as follows:

- Level 1 – Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

The State determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Fair value disclosure

For those assets and liabilities for which fair value determination is applied, the following disclosures are provided:

- Carrying amount and the fair value (which would be the same for those assets measured at fair value)
- Which level of the fair value hierarchy was used to determine the fair value
- In respect of those assets and liabilities subject to fair value determination using Level 3 inputs:
  - a reconciliation of the movements in fair values from the beginning of the year to the end
  - details of significant unobservable inputs used in the fair value determination.

This section is divided between financial instruments and non-financial physical assets.

7.4 Fair value determination of financial assets and liabilities

How fair values are determined

The fair values of the State's financial assets and liabilities are determined as follows:

- Level 1 – the financial instruments with standard terms and conditions and traded in an active liquid market are determined with reference to quoted market prices
- Level 2 – the fair value of other financial assets and financial liabilities (excluding derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis, using prices from observable current market transactions
- Level 3 – the fair value of derivative instruments, such as interest rate futures contracts, are calculated using quoted prices. Where such prices are not available, use is made of discounted cash flow analysis using the applicable yield curve for the duration of the instrument for non-optional derivatives, and option pricing models for optional derivatives.

Fair value of financial instruments measured at amortised cost **($ million)**

	2021		2020	
State of Victoria	*Carrying amount*	*Fair value*	*Carrying amount*	*Fair value*
Financial assets				
Non-current receivables	377	377	104	102
Financial liabilities				
Lease liabilities	8 672	8 740	8 291	9 777
Service concession arrangement liabilities	6 519	6 520	6 130	7 281

General government sector				
Financial assets				
Non-current receivables	353	353	80	78
Financial liabilities				
Lease liabilities	8 067	8 076	7 669	9 107
Service concession arrangement liabilities	6 409	6 409	6 012	7 163

7. RISKS, CONTINGENCIES AND VALUATION JUDGEMENTS

Financial assets and liabilities measured at fair value **($ million)**

State of Victoria	*Carrying amount as at*	*Fair value measurement at end of reporting period using:*		
2021	*30 June*	*Level 1*	*Level 2*	*Level 3*
Financial assets				
Cash	21 933	21 933	..	..
Derivative assets	787	4	705	79
Term deposits	..	..	..	..
Advances paid	575	4	571	..
Equities and managed investment schemes	39 210	3 345	26 037	9 828
Debt securities at fair value	5 320	190	5 130	..
Total financial assets	**67 825**	**25 476**	**32 443**	**9 907**
Financial liabilities				
Domestic borrowings	98 850	88 078	10 772	..
Foreign currency borrowings	1 310	..	1 310	..
Derivative financial liabilities	947	110	634	203
Total financial liabilities	**101 107**	**88 188**	**12 716**	**203**
2020				
Financial assets				
Cash	19 185	19 185	..	..
Derivative assets	2 440	10	2 241	189
Term deposits	..	..	..	..
Advances paid	37	36	1	..
Equities and managed investment schemes	32 519	2 942	21 046	8 531
Debt securities at fair value	5 263	1 199	4 064	..
Total financial assets	**59 444**	**23 372**	**27 352**	**8 720**
Financial liabilities				
Domestic borrowings	71 370	61 424	9 947	..
Foreign currency borrowings	555	..	555	..
Derivative financial liabilities	1 432	132	1 300	..
Total financial liabilities	**73 357**	**61 555**	**11 802**	**..**

General government sector (a)	*Carrying amount as at*	*Fair value measurement at end of reporting period using:*		
2021	*30 June*	*Level 1*	*Level 2*	*Level 3*
Financial assets				
Cash	14 609	14 609	..	..
Derivative assets	79	..	..	79
Term deposits	..	..	..	..
Advances paid	4	4	..	..
Equities and managed investment schemes	2 722	2 037	550	135
Debt securities at fair value	26	26	..	..
Total financial assets	**17 439**	**16 676**	**550**	**214**
2020				
Financial assets				
Cash	13 037	13 037	..	..
Derivative assets	193	4	..	189
Term deposits	..	..	..	..
Advances paid	36	36	..	..
Equities and managed investment schemes	2 227	1 606	510	112
Debt securities at fair value	28	28	..	..
Total financial assets	**15 521**	**14 711**	**510**	**301**

Note:
(a) The general government sector's financial liabilities are measured at amortised cost and therefore not required to be disclosed in the above table for financial assets and liabilities measured at fair value, in accordance with Australian Accounting Standards.

Reconciliation of Level 3 fair value movements [(a)] **($ million)**

	Derivative assets		Equities and managed investment schemes		Debt securities at fair value	
State of Victoria	*2021*	*2020*	*2021*	*2020*	*2021*	*2020*
Opening balance	**189**	**285**	**8 531**	**7 575**	**..**	**..**
Total gains and losses recognised in:	..	..	..	..	..	..
Net result	..	8	78	(367)	..	..
Other comprehensive income	(110)	(104)	25	(310)	..	..
Purchase	..	..	2 093	2 633	..	..
Sales	..	..	(1 068)	(1 000)	..	..
Settlements	..	..	26	..	..	..
Transfers from other levels	..	..	144	..	..	..
Transfers out of Level 3	..	..	..	(1)	..	..
Closing balance	**79**	**189**	**9 828**	**8 531**	**..**	**..**

Note:
(a) Reconciliation of Level 3 fair value movements is only disclosed for the whole of State as they are only material for the State's insurance entities in the public financial corporations sector.

Description of Level 3 valuation techniques used and key inputs to valuation

The majority of the State's Level 3 financial assets relate to either investment funds / trusts managed by VFMC on behalf of the State's insurance entities or derivative financial instruments in the general government sector. Approximately one third of the funds under management by VFMC are directly managed internally while two-thirds are managed externally by fund managers selected by VFMC.

The disclosure below provides details of the inputs and assumptions used in the valuation models for various asset classes. The State is not privy to the detailed inputs and assumptions used by external fund managers to value the underlying investment assets and is not in a position to provide a sensitivity analysis.

The unlisted investment fund / trust assets include the following asset classes; infrastructure, non-traditional strategies, property and private equity.

Infrastructure

Infrastructure investments comprise both domestic and international exposures to transport, social, energy and other infrastructure assets through unlisted funds and trusts. The valuations of unlisted infrastructure investments are based primarily on the discounted cash flow methodology. Key inputs and assumptions, which are subject to estimation uncertainty, include the risk-free discount rate, risk premium, asset utilisation rates, capital expenditure and operating cost forecasts and other estimated future cash flows dependent on the longer-term general economic forecasts and the forecast performance of applicable underlying assets.

Non-traditional strategies

Non-traditional strategies comprise investments in hedge funds and other non-traditional investments such as insurance investments. These are assets that do not fit within the definition of other asset classes, but which provide diversification benefits to the total portfolio. Investments are made through externally managed unlisted pooled vehicles.

The valuation of hedge fund investments is based primarily on the underlying assets, which may be quoted on an exchange or traded in a dealer market. For less liquid securities, valuation methodologies are set out by each fund manager. Depending on the investment, the methodologies applied include discounted cash flow, amortised cost, direct comparison and other market accepted methodologies. The fund manager may choose to appoint independent valuation agents to seek independent price verification. Key inputs and assumptions, which are subject to estimation uncertainty, include the appropriate credit spread and other risk premium, the risk-free discount rate, future cash flows, and future economic and regulatory conditions.

The insurance investments include an unlisted trust with exposure to a portfolio of United States of America life insurance policies. The valuation of insurance investments is based on the discounted cash flow methodology, with key assumptions of insureds' mortality and premium payments on the valuation date. Other assumptions and interdependencies include the weighted average discount rate, life expectancy estimates obtained from qualified providers, and expected premium payments based on the back-solving premiums optimisation method.

Property investments

Property investments comprise externally managed unlisted property trusts with exposure to the domestic and international commercial, industrial, retail and development property market.

The valuations of unlisted property investments are primarily based on discounted cash flow, capitalisation and direct comparison methodologies. The assumptions, which may be subject to estimation uncertainty, include the estimated future profits and cash flows, risk-free rate, risk premium, and future economic and regulatory conditions.

Private equities

VFMC's holdings of private equity investments are small and being phased out. Private equity investments are valued primarily on multiples of earnings, discounted cash flow, market equivalents and other accepted methodologies. Key inputs and assumptions, which are subject to estimation uncertainty, include the estimated future profits and cash flows, the risk-free discount rate, the risk premium, and future economic and regulatory conditions.

Derivative financial instruments

The fair value of derivative instruments resulting from the forward sale of large-scale generation certificates (LGCs) are determined by the State with reference to observable market prices of LGCs currently trading in the market as at reporting date. These instruments are categorised as Level 1 for fair value purposes.

In the absence of an active market, the fair value of derivative contracts for difference and the LGCs receivable are valued using unobservable inputs such as future wholesale electricity prices provided by external advisors, comparable risk-free rates of zero coupon government bonds and LGC price forecasts. In addition, assumptions are applied to forecast the renewable energy generation volumes over the life of the instrument. Adjustments are made to the valuations when necessary to recognise differences in the instrument's terms. To the extent that the significant inputs are unobservable, the State categorises these investments as Level 3.

The fair value of derivative financial instruments is based on the discounted cash flow technique. The selection of variables requires significant judgement and therefore there is a range of reasonably possible assumptions in estimating the fair value of derivatives. Significant inputs in applying this technique include growth rates applied for cash flows and discount rates used.

7.5 Fair value determination of non-financial assets

Revaluations of non-financial physical assets

Non-financial physical assets are revalued on a cyclical basis in accordance with the Financial Reporting Directions (FRDs) issued by the Assistant Treasurer. A full revaluation normally occurs every five years, based upon the asset's classification of the functions of government framework. This led to assets within the transport purpose group being formally revalued in 2019-20. However, a revaluation may occur more frequently if fair value assessments indicate material changes in values. Independent valuers are generally used to conduct these scheduled revaluations.

Certain infrastructure assets are revalued using specialised advisors. Any interim revaluations are determined in accordance with the requirements of the FRDs.

Revaluation increases or decreases arise from differences between an asset's carrying value and fair value.

Net revaluation increases (where the carrying amount of a class of assets is increased) are recognised in other economic flows – other comprehensive income and accumulated in equity under the asset revaluation surplus. However, the net revaluation increase is recognised in the net result to the extent that it reverses a net revaluation decrease in respect of the same class of non-financial asset previously recognised as an expense (other economic flows) in the net result.

Net revaluation decreases are recognised in other economic flows – other comprehensive income to the extent that a credit balance exists in the asset revaluation surplus in respect of the same class of non-financial asset. Otherwise, the net revaluation decreases are recognised immediately as other economic flows in the net result. The net revaluation decrease recognised in other economic flows – other comprehensive income reduces the amount accumulated in equity under the asset revaluation surplus.

Revaluation increases and decreases relating to individual assets within a class of non-financial asset, are offset against one another within that class but are not offset in respect of assets in different classes.

Biological assets are measured at fair value less costs to sell and are revalued at 30 June each year. For breeding livestock, fair value is based on the amount that could be expected to be received from the disposal of livestock with similar attributes.

For productive trees, revaluation to fair value is determined using a discounted cash flow method based on expected net future cash flows, discounted by a current market determined rate. After harvest, productive trees are treated as inventories.

An increase or decrease in the fair value of these biological assets is recognised in the consolidated comprehensive operating statement as an other economic flow.

The fair value of **cultural assets** and collections, **heritage assets** and other non-financial physical assets (including Crown land and infrastructure assets) that the State intends to preserve because of their unique historical, cultural or environmental attributes, is measured at the replacement cost of the asset less, where applicable, accumulated depreciation (calculated on the basis of such cost to reflect the already consumed or expired future economic benefits of the asset) and any accumulated impairment. These policies and any legislative limitations and restrictions imposed on their use and/or disposal may impact their fair value.

Road network assets (including earthworks of the declared road networks) are measured at fair value, determined by reference to the asset's current replacement cost.

Land under declared roads acquired prior to 1 July 2008 is measured at fair value. Land under declared roads acquired on or after 1 July 2008 is measured initially at the cost of acquisition and subsequently at fair value. The fair value methodology applied by the Valuer-General Victoria is based on discounted site values for relevant municipal areas applied to the land area under the arterial road network, including related reservations.

Infrastructure assets of water, rail and port authorities within the public non-financial corporation sector are measured at fair value. The fair value of infrastructure systems and plant, equipment and vehicles, is normally determined by reference to the asset's current replacement cost, or where the infrastructure is held by a for-profit entity, the fair value may be derived from estimates of the present value of future cash flows.

Note 4.1.1 describes the recognition and measurement of land, buildings, infrastructure, plant and equipment.

7.5.1 Land, buildings, infrastructure, plant and equipment

Carry amounts, fair values and fair value hierarchy [(a)] **($ million)**

State of Victoria	Carrying amount 2021	Fair value measurement at the end of the 2021 reporting period using: Level 1	Level 2	Level 3	Carrying amount 2020	Fair value measurement at the end of the 2020 reporting period using: Level 1	Level 2	Level 3
Buildings	**63 521**	**..**	**13 355**	**50 166**	**60 474**	**..**	**13 654**	**46 819**
Non-specialised buildings	13 894	..	9 790	4 104	13 295	..	9 273	4 021
Specialised buildings	48 474	..	3 548	44 926	46 008	..	4 371	41 637
Heritage buildings	1 154	..	17	1 136	1 171	..	10	1 161
Land and national parks	**118 687**	**..**	**25 466**	**93 221**	**102 857**	**..**	**23 060**	**79 797**
Non-specialised land	25 085	..	23 730	1 355	20 047	..	18 767	1 280
Specialised land	57 815	..	1 737	56 079	47 031	..	4 293	42 738
Land under roads	34 120	..	..	34 120	34 398	..	..	34 398
National parks and other land only holdings	1 667	..	..	1 667	1 379	..	..	1 379
Plant, equipment, vehicles and infrastructure systems	**83 215**	**..**	**379**	**82 836**	**78 251**	**..**	**1 394**	**76 857**
Infrastructure systems	73 565	..	2	73 563	69 824	..	1 227	68 598
Rolling stock	3 305	..	..	3 305	2 854	..	..	2 854
Plant, equipment and vehicles	6 346	..	377	5 969	5 573	..	167	5 406
Roads, road infrastructure and earthworks	**41 843**	**..**	**..**	**41 843**	**41 594**	**..**	**..**	**41 594**
Cultural assets	**6 624**	**..**	**123**	**6 501**	**5 756**	**..**	**115**	**5 640**
Total land, buildings, infrastructure, plant and equipment [(b)]	**313 889**	**..**	**39 323**	**274 566**	**288 931**	**..**	**38 223**	**250 707**

Notes:
(a) 2019-20 comparatives have been restated to include leased and construction in progress service concessions arrangement assets. Leased and construction in progress service concession arrangement assets are measured at fair value.
(b) The State's total land, building, infrastructure, plant and equipment in this table excludes most construction in progress assets, which are valued at cost. Construction in progress assets arising from service concession arrangements are measured at fair value and included in this disclosure. The total of excluded assets is $21 billion (2020: $20.1 billion).

General government sector	Carrying amount 2021	Fair value measurement at the end of the 2021 reporting period using: Level 1	Level 2	Level 3	Carrying amount 2020	Fair value measurement at the end of the 2020 reporting period using: Level 1	Level 2	Level 3
Buildings	**42 892**	**..**	**4 345**	**38 548**	**40 169**	**..**	**3 165**	**37 004**
Non-specialised buildings	4 125	..	824	3 302	3 991	..	716	3 275
Specialised buildings	37 630	..	3 520	34 110	35 017	..	2 448	32 568
Heritage buildings	1 137	..	1	1 136	1 161	..	1	1 161
Land and national parks	**77 599**	**..**	**3 300**	**74 299**	**70 352**	**..**	**2 550**	**67 802**
Non-specialised land	2 941	..	1 679	1 262	2 409	..	1 117	1 292
Specialised land	38 871	..	1 621	37 251	32 165	..	1 433	30 732
Land under roads	34 120	..	..	34 120	34 398	..	..	34 398
National parks and other land only holdings	1 667	..	..	1 667	1 379	..	..	1 379
Plant, equipment, vehicles and infrastructure systems	**10 508**	**..**	**269**	**10 239**	**8 506**	**..**	**106**	**8 400**
Infrastructure systems	6 496	..	4	6 492	4 857	..	..	4 857
Plant, equipment and vehicles	4 012	..	265	3 747	3 649	..	106	3 543
Roads, road infrastructure and earthworks	**41 740**	**..**	**..**	**41 740**	**41 495**	**..**	**..**	**41 495**
Cultural assets	**6 525**	**..**	**43**	**6 482**	**5 691**	**..**	**51**	**5 640**
Total land, buildings, infrastructure, plant and equipment [(b)]	**179 264**	**..**	**7 956**	**171 308**	**166 213**	**..**	**5 871**	**160 341**

Notes:
(a) 2019-20 comparatives have been restated to include leased and construction in progress service concessions arrangement assets. Leased and construction in progress service concession arrangement assets are measured at fair value.
(b) The general government's sectors total land, building, infrastructure, plant and equipment in this table excludes most construction in progress assets, which are valued at cost. Construction in progress assets arising from service concession arrangements are measured at fair value and included in this disclosure. The total of excluded assets is $16.3 billion (2020: $7.5 billion).

Reconciliation of Level 3 fair value movements

($ million)

State of Victoria *2021*	*Opening balance*	*Depreciation*	*Impairment*	*Assets recognised for the first time*	*Revaluation*	*Acquisitions/ (disposals)*	*Capitalisation of work-in-progress*	*Transfers in/out of Level 3*	*Reclassification*	*Closing balance*
Buildings	**46 819**	**(2 381)**	**(79)**	**330**	**(91)**	**1 418**	**3 910**	**12**	**228**	**50 166**
Non-specialised buildings	4 021	(296)	(3)	40	25	125	255	1	(64)	4 104
Specialised buildings	41 637	(2 066)	(76)	290	(96)	1 292	3 655	10	278	44 926
Heritage buildings	1 161	(19)	..	..	(20)	1	..	..	14	1 136
Land and national parks	**79 797**	**..**	**..**	**707**	**9 393**	**569**	**34**	**2 561**	**160**	**93 221**
Non-specialised land	1 280	..	..	2	161	(52)	..	(124)	88	1 355
Specialised land	42 738	..	..	704	8 945	622	34	2 685	351	56 079
Land under roads	34 398	..	..	..	..	..	..	..	(279)	34 120
National parks and other land only holdings	1 380	..	..	1	288	(1)	..	..	..	1 667
Plant, equipment, vehicles and infrastructure systems	**76 857**	**(2 819)**	**(3 885)**	**1 627**	**1 713**	**2 942**	**5 288**	**1 209**	**(96)**	**82 836**
Infrastructure systems	68 598	(1 624)	(2 326)	86	2 089	2 107	3 460	1 219	(48)	73 563
Rolling stock	2 854	(311)	..	..	(391)	7	1 146	..	..	3 305
Plant, equipment and vehicles	5 405	(885)	(1 559)	1 541	15	828	681	(10)	(49)	5 969
Roads, road infrastructure and earthworks	**41 594**	**(940)**	**..**	**98**	**(207)**	**842**	**2**	**..**	**453**	**41 843**
Cultural assets	**5 640**	**(20)**	**..**	**522**	**338**	**23**	**..**	**9**	**(13)**	**6 501**
Total	**250 708**	**(6 160)**	**(3 963)**	**3 285**	**11 147**	**5 794**	**9 233**	**3 791**	**732**	**274 566**
2020 [(a)]										
Buildings	**46 617**	**(1 713)**	**(7)**	**305**	**31**	**947**	**1 744**	**2 141**	**(3 245)**	**46 819**
Non-specialised buildings	3 983	(171)	..	155	16	142	5	285	(394)	4 021
Specialised buildings	41 543	(1 518)	(7)	149	15	799	1 739	1 768	(2 851)	41 637
Heritage buildings	1 091	(24)	..	..	..	6	..	88	..	1 161
Land and national parks	**64 884**	**..**	**(2)**	**200**	**11 746**	**57**	**29**	**(602)**	**3 485**	**79 797**
Non-specialised land	2 732	..	..	..	116	56	..	..	(1 624)	1 280
Specialised land	36 666	..	(2)	200	1 498	(160)	29	(602)	5 109	42 738
Land under roads	24 266	..	..	..	10 132	..	..	..	..	34 398
National parks and other land only holdings	1 219	..	..	..	..	161	..	..	..	1 380
Plant, equipment, vehicles and infrastructure systems	**73 710**	**(2 471)**	**(5)**	**224**	**1 507**	**2 946**	**1 709**	**(801)**	**39**	**76 857**
Infrastructure systems	66 065	(1 131)	(4)	107	1 451	1 838	1 463	(1 184)	(7)	68 598
Rolling stock	3 551	(238)	..	..	(482)	..	..	..	22	2 854
Plant, equipment and vehicles	4 093	(1 102)	(1)	117	537	1 108	246	383	24	5 405
Roads, road infrastructure and earthworks	**39 318**	**(893)**	**..**	**..**	**(33)**	**1 836**	**553**	**..**	**814**	**41 594**
Cultural assets	**3 795**	**(20)**	**..**	**..**	**10**	**39**	**..**	**1 815**	**..**	**5 640**
Total	**228 323**	**(5 097)**	**(14)**	**728**	**13 261**	**5 825**	**4 035**	**2 552**	**1 094**	**250 708**

Note:

(a) 2019-20 comparatives have been restated to include leased and construction in progress service concession arrangement assets. Leased and construction in progress service arrangement assets are measured at fair value.

Reconciliation of Level 3 fair value movements *(continued)* **($ million)**

General government sector *2021*	*Opening balance*	*Depreciation*	*Impairment*	*Assets recognised for the first time*	*Revaluation*	*Acquisitions/ (disposals)*	*Capitalisation of work-in-progress*	*Assets transferred between Government entities*	*Transfers in/out of Level 3*	*Reclassification*	*Closing balance*
Buildings	**37 004**	**(1 755)**	**(9)**	**256**	**79**	**924**	**1 875**	**(14)**	**(11)**	**199**	**38 548**
Non-specialised buildings	3 275	(243)	..	24	8	84	254	..	(38)	(63)	3 302
Specialised buildings	32 568	(1 493)	(9)	232	90	839	1 621	(14)	27	248	34 110
Heritage buildings	1 161	(19)	..	..	(20)	..	..	..	..	14	1 136
Land and national parks	**67 803**	**..**	**..**	**709**	**5 313**	**587**	**12**	**(20)**	**(94)**	**(10)**	**74 301**
Non-specialised land	1 292	..	..	2	180	(1)	..	..	(121)	(89)	1 262
Specialised land	30 732	..	..	707	4 845	589	12	(19)	28	358	37 252
Land under roads	34 398	..	..	..	..	..	..	..	..	(279)	34 120
National parks and other land only holdings	1 380	..	..	1	288	..	..	(1)	..	..	1 667
Plant, equipment, vehicles and infrastructure systems	**8 400**	**(904)**	**..**	**38**	**240**	**2 393**	**294**	**(24)**	**(11)**	**(189)**	**10 239**
Infrastructure systems	4 857	(98)	..	3	180	1 652	..	(27)	(11)	(64)	6 492
Plant, equipment and vehicles	3 543	(806)	..	36	60	742	294	3	..	(126)	3 747
Roads, road infrastructure and earthworks	**41 495**	**(936)**	**..**	**97**	**(207)**	**856**	**..**	**(19)**	**..**	**453**	**41 740**
Cultural assets	**5 640**	**(20)**	**..**	**516**	**326**	**23**	**..**	**..**	**9**	**(13)**	**6 482**
Total	**160 342**	**(3 615)**	**(9)**	**1 617**	**5 751**	**4 785**	**2 181**	**(76)**	**(106)**	**441**	**171 310**
2020[(a)]											
Buildings	**35 748**	**(1 489)**	**(4)**	**286**	**232**	**705**	**1 664**	**(356)**	**364**	**(146)**	**37 004**
Non-specialised buildings	3 278	(148)	..	155	16	88	1	..	276	(391)	3 275
Specialised buildings	31 379	(1 316)	(4)	131	216	612	1 663	(357)	..	245	32 568
Heritage buildings	1 091	(24)	..	..	..	5	..	1	88	..	1 161
Land and national parks	**55 220**	**..**	**(1)**	**200**	**11 247**	**(5)**	**24**	**(7)**	**1 239**	**(115)**	**67 803**
Non-specialised land	2 801	..	..	..	116	(5)	..	..	..	(1 620)	1 292
Specialised land	26 933	..	(1)	200	999	(1)	24	(167)	1 240	1 505	30 732
Land under roads	24 266	..	..	..	10 132	..	..	..	..	..	34 398
National parks and other land only holdings	1 219	..	..	..	..	..	..	161	..	..	1 380
Plant, equipment, vehicles and infrastructure systems	**6 305**	**(599)**	**(2)**	**103**	**63**	**2 325**	**206**	**(4)**	**..**	**3**	**8 400**
Infrastructure systems	3 687	(71)	..	..	59	1 185	..	1	..	(3)	4 857
Plant, equipment and vehicles	2 618	(528)	(1)	102	5	1 140	206	(5)	..	5	3 543
Roads, road infrastructure and earthworks	**39 219**	**(890)**	**..**	**..**	**(33)**	**1 830**	**552**	**2**	**..**	**814**	**41 495**
Cultural assets	**3 795**	**(20)**	**..**	**..**	**10**	**39**	**..**	**..**	**1 815**	**..**	**5 640**
Total	**140 287**	**(2 998)**	**(6)**	**588**	**11 520**	**4 894**	**2 447**	**(365)**	**3 419**	**556**	**160 342**

Note:
(a) 2019-20 comparatives have been restated to include leased and construction in progress service concession arrangement assets. Leased and construction in progress service arrangement assets are measured at fair value.

Description of valuation techniques and significant unobservable inputs to Level 3 fair value measurements

The State measures all non-financial physical assets initially at cost and subsequently revalues the assets at fair value less accumulated depreciation and impairment. The disclosure below provides additional information about the Level 3 measurements (fair value measurements using significant unobservable inputs).

The Victorian not-for-profit public sector entities hold their recurring non-financial assets measured at Level 3 primarily for service potential rather than their ability to generate net cash inflows, which is the case with the Victorian for-profit public sector entities.

The Government's designated entities as for profit in accordance with FRD 108C *Classification of entities as for profit*, are considered to be primarily held to generate future net cash flows.

See below the respective fair value disclosures for not-for-profit and for-profit public sector entities. The disclosures refer to the significant asset balances within each of the different Level 3 asset classes. These assets are measured at the end of the reporting period using inputs not based on observable market data. The sensitivity of the unobservable input to fair value has been assessed and a significant increase or decrease in the significant unobservable input will result in significant higher or lower valuation of the underlying asset.

Fair value disclosure for assets held primarily for service potential

Asset class	*Valuation technique*	*Significant unobservable input*
Buildings		
Non-specialised buildings	Depreciated replacement cost	Direct cost per square metre Useful life
Specialised buildings	Depreciated replacement cost	Direct cost per square metre Useful life
Heritage buildings	Depreciated replacement cost	Direct cost per square metre Useful life
Land and national parks		
Non-specialised land	Market approach	CSO adjustment [(a)]
Specialised land	Market approach	CSO adjustment [(a)]
Land under roads	Market approach	CSO adjustment [(a)]
National parks	Market approach	CSO adjustment [(a)]
Plant, equipment, vehicles and infrastructure systems		
Infrastructure systems and rolling stock	Depreciated replacement cost	Cost: per square metre per unit Useful life
Plant, equipment and vehicles	Depreciated replacement cost	Cost per unit Useful life
Roads and roads infrastructure		
Roads and roads infrastructure	Depreciated replacement cost	Cost per kilometre lane
Earthworks	Depreciated replacement cost	Cost per kilometre
Cultural assets		
Cultural assets	Depreciated replacement cost	Unit of value by comparative basis

Note:

(a) The CSO adjustment reflects the specialised nature of the asset being valued through a market approach. The CSO adjustment is a reflection of the valuer's assessment of the impact of restrictions associated with an asset to the extent that is also equally applicable to market participants. This approach takes into account the highest and best use consideration for fair value measurement and considers the use of the asset that is physically possible, legally permissible, and financially feasible.

7. RISKS, CONTINGENCIES AND VALUATION JUDGEMENTS

Fair value disclosure for assets held primarily for generating net cash inflows

Asset class	*Valuation technique*	*Significant unobservable input*	*Range*
Buildings			
Metropolitan water corporations	Depreciated replacement cost	Direct cost per unit Direct cost per square metre Useful life	\$3 000 to \$51 450 000 \$13 to \$10 000 1–150 years
Land			
Metropolitan water corporations	Market approach	CSO adjustment [(a)]	1–92 per cent
Channels			
Ports	Discounted cash flow method (income approach)	Discount rates [(b)]	8.6 per cent
Infrastructure			
Ports	Depreciated replacement cost	Cost per unit	\$33 700 to \$4 831 000
Metropolitan water corporations	Discounted cash flow method (income approach)	Discount rates [(b)]	5.0 – 6.0 per cent
		Terminal value growth rate	3.0-4.0 per cent
		Useful life	2–245 years
Plant, equipment and vehicles			
Metropolitan water corporations	Depreciated replacement cost	Useful life Cost per unit	2–50 years \$1–\$3 000 000

Notes:

(a) The CSO adjustment reflects the specialised nature of the asset being valued through a market approach. The CSO adjustment is a reflection of the valuer's assessment of the impact of restrictions associated with an asset to the extent that is also equally applicable to market participants. This approach takes into account the highest and best use consideration for fair value measurement and considers the use of the asset that is physically possible, legally permissible, and financially feasible.

(b) Applicable to the valuation using the income approach.

8. COMPARISON AGAINST BUDGET AND THE PUBLIC ACCOUNT

Introduction

This section presents a summary of the original published budget estimates for the Victorian general government sector and explains the material variances between the estimates and actual outcomes as presented in these financial statements.

It also provides disclosure of information in respect of the Public Account, in accordance with the requirement of the *Financial Management Act 1994* (FMA).

Structure

8.1 Explanations of material variances between budget and actual outcomes

The tables and notes that follow explain material variances between the general government sector original budget as published in Chapter 1 of 2020-21 Budget Paper No. 4 *Statement of Finances* and actual outcomes.

The tables also include the revised budget estimates as published in Appendix B of 2021-22 Budget Paper No.5 *Statement of Finances.*

The original budget data is sourced from the estimated financial statements, which were reviewed by the Auditor-General, but is not subject to an audit.

For the general government sector comprehensive operating statement, variances are considered to be material where the variance exceeds the greater of 10 per cent of the original budget estimates or $100 million. In regard to the other statements, high level explanations of major variances in the key aggregates, where material, have been provided.

8. COMPARISON AGAINST BUDGET AND THE PUBLIC ACCOUNT

Consolidated comprehensive operating statement for the financial year ending 30 June ($ million)

General government sector	*Notes*	*Published budget*	*Revised budget*	*2021 actual*	*Budget variance*	*%*	*Revised budget variance*	*%*
Revenue and income from transactions								
Taxation	(a)	20 928	23 468	23 613	2 685	13	145	1
Interest income		637	632	594	(43)	(7)	(38)	(6)
Dividends, income tax equivalent and rate equivalent income	(b)	534	595	620	86	16	26	4
Sales of goods and services	(c)	8 433	8 059	7 949	(485)	(6)	(110)	(1)
Grants	(d)	33 483	35 743	36 958	3 475	10	1 215	3
Other revenue and income	(e)	2 673	2 923	2 915	242	9	(8)	..
Total revenue and income from transactions		**66 687**	**71 419**	**72 649**	**5 962**	**9**	**1 230**	**2**
Expenses from transactions								
Employee expenses		29 971	29 205	30 044	73	..	839	3
Net superannuation interest expense		305	305	305	..	..	..	..
Other superannuation		3 329	3 323	3 426	97	3	103	3
Depreciation		4 145	4 216	4 165	20	..	(52)	(1)
Interest expense	(f)	2 813	2 832	2 614	(199)	(7)	(218)	(8)
Grant expense		22 009	21 691	22 086	77	..	395	2
Other operating expenses	(g)	27 397	27 290	24 568	(2 829)	(10)	(2 722)	(10)
Total expenses from transactions		**89 968**	**88 862**	**87 207**	**(2 761)**	**(3)**	**(1 655)**	**(2)**
Net result from transactions – net operating balance		**(23 281)**	**(17 443)**	**(14 558)**	**8 723**	**(37)**	**2 885**	**(17)**
Other economic flows included in net result								
Net gain/(loss) on disposal of non-financial assets		10	(11)	(27)	(37)	(374)	(16)	146
Net gain/(loss) on financial assets or liabilities at fair value		(13)	(157)	122	136	(1 006)	279	(178)
Share of net profit/(loss) from associates/joint venture entities, excluding dividends		(2)	..	3	5	(276)	3	
Other gains/(losses) from other economic flows		(376)	(587)	662	1 038	(276)	1 249	(213)
Total other economic flows included in net result	(h)	**(382)**	**(755)**	**761**	**1 142**	**(299)**	**1 516**	**(201)**
Net result		**(23 663)**	**(18 198)**	**(13 797)**	**9 865**	**(42)**	**4 400**	**(24)**
Other economic flows – other comprehensive income								
Items that will not be reclassified to net result								
Changes in non-financial assets revaluation surplus		1 590	1 050	6 957	5 368	338	5 907	563
Remeasurement of superannuation defined benefits plans		(676)	2 400	3 937	4 613	(683)	1 537	64
Other movements in equity		17	6	39	22	124	33	591
Items that may be reclassified subsequently to net result								
Net gain/(loss) on financial assets at fair value		3	3	229	226	8 630	226	8 630
Net gain/(loss) on equity investments in other sector entities at proportional share of the carrying amount of net assets		(3 912)	(2 964)	342	4 254	(109)	3 306	(112)
Total other economic flows – other comprehensive income		**(2 978)**	**495**	**11 504**	**14 482**	**(486)**	**11 010**	**2 225**
Comprehensive result – total change in net worth		**(26 641)**	**(17 703)**	**(2 293)**	**24 348**	**(91)**	**15 410**	**(87)**

Revenue and income from transactions

Revenue from transactions was $72.6 billion for the year to 30 June 2021. This is $6 billion (9 per cent) higher than the published budget. Movements in revenue items from the published budget are discussed below.

a) Taxation revenue was $2.7 billion higher than the published budget. This was primarily driven by higher than budgeted land transfer duty of $1.9 billion due to a stronger than anticipated recovery in the Victorian property market. Payroll tax was also $804 million higher than the published budget, driven by an earlier than expected recovery in the Victorian economy and labour market conditions.

b) Dividends, income tax equivalent and rate equivalent income was $86 million higher than the published budget. This was largely driven by increased dividends and income tax equivalent receipts from the PNFC sector, especially from metropolitan water corporations due to higher than forecast profits.

c) Revenue from the sales of goods and services was lower by $485 million. This was primarily due to lower hospital and patient fees as a result of restrictions on elective surgery as well as lower schools own-source revenue such as from camps, sports and excursions as a result of the COVID-19 public health response.

d) Grant revenue was $3.5 billion higher than the published budget, largely driven by an increase in GST revenue of $2.8 billion due to a stronger than anticipated recovery in consumption and dwelling investment. It is also due to additional grants of $315 million for various road projects from the Commonwealth.

e) Other revenue and income was $242 million higher than the budget. This was mainly due to an increase of $409 million relating to the progressive recognition of the contribution made by the Cross Yarra Partnerships consortium (assets free of charge) to the Metro Tunnel settlement. This increase was partially offset by a decrease in fines revenue of $174 million primarily driven by COVID-19 public health restrictions.

Expenses from transactions

Expenses from transactions were $87.2 billion for the year to 30 June 2021. This is $2.8 billion (3 per cent) lower than the published budget. Movements in expense items from the published budget are discussed below.

f) Interest expense was $199 million lower than the published budget primarily due to $94 million lower interest expense on borrowings and a rephasing of government infrastructure investment. In addition, there was a lower interest expense on service concession arrangements, including the High Capacity Metro Trains Project, due to the timing of this project.

g) Other operating expenses were $2.8 billion lower than the published budget. This was partially driven by less personal protective equipment being consumed than expected as part of the published budget and less consumption of supplies and consumables in schools and TAFEs resulting from the requirement for home-schooling, as part of the COVID-19 public health response. It is also due to the published budget expense allocation for COVID-19 Quarantine Victoria reflecting a higher level of other operating expenses, along with the timing of program expenditure across departments.

Other economic flows included in net result

h) Total other economic flows included in the net result have increased by $1.1 billion since the published budget. The increase primarily reflects the recognition of assets not previously recognised of $866 million which were not budgeted for; and a gain on revaluation of long service leave liabilities of $362 million due to an increase in the Commonwealth Government 10 year bond rate used to value these liabilities.

8. COMPARISON AGAINST BUDGET AND THE PUBLIC ACCOUNT

Consolidated balance sheet as at 30 June **($ million)**

	Published budget	*Revised budget*	*2021 actual*	*Budget variance*	*%*	*Revised budget variance*	*%*
Assets							
Financial assets							
Cash and deposits	12 193	13 550	14 609	2 416	20	1 059	8
Advances paid	4 826	6 181	5 473	647	13	(709)	(11)
Receivables and contract assets	7 795	8 015	8 201	406	5	187	2
Investments, loans and placements	2 578	1 470	2 960	382	15	1 490	101
Investments accounted for using the equity method	10	10	10	..	..	..	..
Investments in other sector entities	78 269	78 279	73 125	(5 144)	(7)	(5 154)	(7)
Total financial assets	**105 671**	**107 505**	**104 377**	**(1 293)**	**(1)**	**(3 128)**	**(3)**
Non-financial assets							
Inventories	258	977	908	650	252	(69)	(7)
Non-financial assets held-for-sale	203	203	182	(22)	(11)	(22)	(11)
Land, buildings, infrastructure, plant and equipment	184 698	180 415	195 592	10 894	6	15 177	8
Other non-financial assets	2 829	3 219	3 357	527	19	137	4
Total non-financial assets	**187 988**	**184 814**	**200 038**	**12 050**	**6**	**15 223**	**8**
Total assets	**293 659**	**292 319**	**304 415**	**10 756**	**4**	**12 096**	**4**
Liabilities							
Deposits held and advances received	1 822	3 168	2 791	969	53	(377)	(12)
Payables	15 298	15 456	16 404	1 107	7	948	6
Contract liabilities	68	215	239	171	250	23	11
Borrowings	104 510	95 566	92 985	(11 525)	(11)	(2 582)	(3)
Employee benefits	9 349	9 342	9 384	35	..	42	..
Superannuation	31 842	28 774	27 217	(4 624)	(15)	(1 556)	(5)
Other provisions	1 355	1 444	1 597	241	18	153	11
Total liabilities	**164 244**	**153 965**	**150 617**	**(13 627)**	**(8)**	**(3 349)**	**(2)**
Net assets	**129 415**	**138 354**	**153 799**	**24 383**	**19**	**15 445**	**11**
Accumulated surplus/(deficit)	43 812	52 355	58 642	14 830	34	6 286	12
Reserves	85 604	85 999	95 157	9 553	11	9 158	11
Net worth	**129 415**	**138 354**	**153 799**	**24 383**	**19**	**15 445**	**11**
FISCAL AGGREGATES							
Net financial worth	(58 573)	(46 460)	(46 239)	12 334	(21)	221	..
Net financial liabilities	136 842	124 740	119 364	(17 478)	(13)	(5 376)	(4)
Net debt	86 735	77 533	72 734	(14 001)	(16)	(4 799)	(6)

Net financial worth

Net financial worth is total financial assets minus total liabilities. Net financial worth was $12.3 billion higher than the published budget. This was due to a decrease in liabilities of $13.6 billion partially offset by a decrease in financial assets of $1.3 billion.

The lower than expected liabilities were primarily due to a $11.5 billion decrease in borrowings and a $4.6 billion decrease in superannuation liability as described under net financial liabilities below.

The decrease in financial assets was driven by a decrease in investment in other sector entities, primarily due to a reduction in the reported value of assets in the public non-financial corporations sector.

Net financial liabilities

Net financial liabilities are total liabilities less all financial assets (excluding investments in other sectors). Net financial liabilities were $17.5 billion lower than the published budget.

The decrease was primarily driven by lower than expected borrowing requirements of $11.5 billion following a higher than expected net cash flows from operating activities as well as a lower than originally forecast capital expenditure. It is also attributable to a decrease in the superannuation liability of $4.6 billion reflecting higher than expected investment returns on superannuation assets as well as an increase in bond yields that underlie the key superannuation valuation assumptions during 2020-21. The increase in cash and deposits as explained above under net financial worth also contributed to this decrease.

It is partially offset by increased payables of $1.1 billion driven by the timing of payments on various capital projects and additional accrued of grants including for COVID-19 business support measures.

Net debt

Net debt equals the sum of deposits held, advances received, government securities, loans and other borrowings less the sum of cash and deposits, advances paid and investments, loans and placements. Net debt was $14 billion lower compared with the published budget. This was due to decreased borrowings as explained under the net financial liabilities above, partially offset by the increase in cash and deposits as described under net financial worth.

Non-financial assets

Non-financial assets were $12.1 billion higher than the published budget. This was primarily due to the timing of construction in progress balances transfer from the general government sector to other sectors of government. The revaluation of land and building in the education, creative industries, and environment sectors also contributed to the increase.

8. COMPARISON AGAINST BUDGET AND THE PUBLIC ACCOUNT

Consolidated cash flow statement for the year ended 30 June **($ million)**

General government sector	*Published budget*	*Revised budget*	*2021 actual*	*Budget variance*	*%*	*Revised budget variance*	*%*
Cash flows from operating activities							
Receipts							
Taxes received	19 283	21 589	22 729	3 446	18	1 140	5
Grants	32 277	34 462	34 877	2 600	8	416	1
Sales of goods and services [(a)]	9 253	8 783	8 771	(482)	(5)	(12)	..
Interest received	624	618	585	(39)	(6)	(34)	(5)
Dividends, income tax equivalent and rate equivalent receipts	528	589	619	90	17	29	5
Other receipts	1 990	1 764	1 528	(462)	(23)	(236)	(13)
Total receipts	**63 955**	**67 806**	**69 109**	**5 153**	**8**	**1 303**	**2**
Payments							
Payments for employees	(29 657)	(28 898)	(29 333)	324	(1)	(435)	2
Superannuation	(3 695)	(3 681)	(3 804)	(109)	3	(123)	3
Interest paid	(2 450)	(2 473)	(2 332)	119	(5)	142	(6)
Grants and subsidies	(21 964)	(21 475)	(21 578)	386	(2)	(103)	..
Goods and services [(a)]	(26 740)	(27 515)	(24 040)	2 700	(10)	3 475	(13)
Other payments	(1 252)	(1 152)	(979)	273	(22)	173	(15)
Total payments	**(85 759)**	**(85 195)**	**(82 066)**	**3 693**	**(4)**	**3 129**	**(4)**
Net cash flows from operating activities	**(21 803)**	**(17 390)**	**(12 958)**	**8 846**	**(41)**	**4 432**	**(25)**
Cash flows from investing activities							
Cash flows from investments in non-financial assets							
Purchases of non-financial assets	(16 534)	(11 785)	(11 948)	4 587	(28)	(162)	1
Sales of non-financial assets	258	147	133	(125)	(48)	(13)	(9)
Net cash flows from investments in non-financial assets	**(16 276)**	**(11 638)**	**(11 814)**	**4 462**	**(27)**	**(176)**	**2**
Net cash flows from investments in financial assets for policy purposes	1 193	(287)	263	(930)	(78)	549	(192)
Subtotal	**(15 083)**	**(11 925)**	**(11 551)**	**3 532**	**(23)**	**373**	**(3)**
Net cash flows from investments in financial assets for liquidity management purposes	..	781	(132)	(132)	n.a.	(912)	(117)
Net cash flows from investing activities	**(15 083)**	**(11 144)**	**(11 683)**	**3 400**	**(23)**	**(539)**	**5**
Cash flows from financing activities							
Advances received (net)	(1 870)	(513)	(965)	905	(48)	(452)	88
Net borrowings	37 901	29 560	27 108	(10 793)	(28)	(2 451)	(8)
Deposits received (net)	11	..	69	58	508	69	n.a.
Net cash flows from financing activities	**36 042**	**29 047**	**26 212**	**(9 830)**	**(27)**	**(2 835)**	**(10)**
Net increase/(decrease) in cash and cash equivalents	**(844)**	**513**	**1 572**	**2 416**	**(286)**	**1 059**	**207**
Cash and cash equivalents at beginning of reporting period	13 037	13 037	13 037	..	..	..	..
Cash and cash equivalents at end of the reporting period	**12 193**	**13 550**	**14 609**	**2 416**	**20**	**1 059**	**8**

Note:
(a) These items include goods and services tax.

Net cash flows from operating activities

Total cash flows from operating activities were $8.8 billion higher than the published budget. This was primarily due to the combination of increases in taxation revenue, grant revenue, and decreases in the purchase of goods and services. This was a result of the stronger than expected economic recovery in Victoria.

A reconciliation of the net result to net cash flows from operating activities is provided at Note 5.6.

Net cash flows from investing activities

Total net cash flows from investing activities were $3.4 billion lower than the published budget. This decrease was primarily driven by the variation to the timing of expenditure on the State's capital program, which is forecast to occur in later financial years.

Net cash flows from financing activities

Total net cash inflows from financing activities were $9.8 billion lower than the published budget. This was primarily due to lower borrowings than expected in the budget as a result of increased cash flows from operating activities and lower than forecast capital expenditure.

Consolidated statement of changes in equity

The major variations between actual outcomes and the original budget for the statement of changes in equity are largely addressed in the explanations provided previously.

Consolidated statement of changes in equity **($ million)**

	Accumulated surplus/(deficit)	*Non-financial assets revaluation surplus*	*Investment in other sector entities revaluation surplus*	*Other reserves*	*Total*
2020-21 original budget					
Balance at 1 July 2020	68 131	54 379	32 639	908	156 057
Net result for the year	(23 663)	..	..	..	(23 663)
Other comprehensive income for the year	(656)	1 590	(3 912)	1	(2 978)
Balance at 30 June 2021	**43 812**	**55 968**	**28 727**	**908**	**129 415**
2020-21 revised budget					
Balance at 1 July 2020	68 131	54 379	32 639	908	156 057
Net result for the year	(18 198)	..	..	..	(18 198)
Other comprehensive income for the year	2 421	1 050	(2 964)	(13)	495
Balance at 30 June 2021	**52 355**	**55 429**	**29 675**	**895**	**138 354**
2020-21 actual					
Balance at 1 July 2020	68 166	54 379	32 639	908	156 092
Net result for the year	(13 797)	..	..	..	(13 797)
Other comprehensive income for the year	3 954	6 957	342	251	11 504
Transfer to/(from) accumulated surplus	319	(319)	..	..	..
Balance at 30 June 2021	**58 642**	**61 017**	**32 981**	**1 159**	**153 799**
Variance to original budget					
Balance at 1 July 2020	35	..	..	..	35
Net result for the year	9 865	..	..	..	9 865
Other comprehensive income for the year	4 610	5 368	4 254	250	14 482
Transfer to/(from) accumulated surplus	319	(319)	..	..	..
Balance at 30 June 2021	**14 830**	**5 049**	**4 254**	**250**	**24 383**
Variance to revised budget					
Balance at 1 July 2020	35	..	..	..	35
Net result for the year	4 400	..	..	..	4 400
Other comprehensive income for the year	1 532	5 907	3 306	264	11 010
Transfer to/(from) accumulated surplus	319	(319)	..	..	..
Balance at 30 June 2021	**6 286**	**5 588**	**3 306**	**264**	**15 445**

8.2 Public Account disclosures

The *Financial Management Act 1994* (FMA) requires certain disclosures of information in respect of the transactions and balances of the Public Account.

The Public Account is the Government's official bank account. The Public Account holds the cash balances of the Consolidated Fund and the Trust Fund.

The FMA, among other things, also provides for:

- temporary advances from the Public Account for a number of purposes related to the needs of the Government
- investment of the Public Account in trustee securities
- temporary borrowings should the balance in the Consolidated Fund be insufficient to meet commitments during a financial year.

Consolidated Fund

The Consolidated Fund established by the FMA is the Government's primary financial account and receives all consolidated revenue under the *Constitution Act 1975* from which payments, appropriated by Parliament, are made.

Trust Fund

Within the Public Account, the Trust Fund embraces a range of specific purpose accounts established for funds that are not subject to parliamentary appropriation. Examples include accounts to record specific purpose payments from the Commonwealth for on-passing by the State to third parties, suspense account balances for accounting purposes, working accounts for commercial and departmental service units, and accounts facilitating the receipt and disbursement of other funds held by the State in trust. Additional accounts may also be established within the Trust Fund by legislation to receive State revenues hypothecated to particular purposes (e.g. lotteries revenue for hospitals and charities).

Structure of Public Account disclosure

8.2.1 Summarised consolidated fund receipts and payments for the financial year ended 30 June

($ thousand)

	Notes	2021	2020
Receipts			
Taxation		23 061 182	23 642 942
Fines and regulatory fees		845 217	892 779
Grants received		21 722 845	21 248 060
Sales of goods and services		8 234 004	7 470 457
Interest received		472 544	464 251
Dividends, income tax equivalent and rate equivalent receipts		515 368	723 482
Other receipts		726 466	689 595
Total cash inflows from operating activities		**55 577 626**	**55 131 565**
Total cash inflows from investing and financing activities		**30 157 010**	**15 789 035**
Total consolidated fund receipts	8.2.2	**85 734 636**	**70 920 600**
Payments			
Special appropriations			
Special appropriations (excluding Section 33, *Financial Management Act, No. 18 of 1994)*		4 059 609	5 104 195
Section 33 *Financial Management Act, No. 18 of 1994*		130 842	266 473
Total special appropriations	8.2.7	**4 190 451**	**5 370 667**
Annual appropriations			
Provision of outputs			
Provision of outputs – net application	8.2.8	59 869 476	48 391 203
Section 29 *Financial Management Act, No. 18 of 1994* (appropriation of annotated receipts)	8.2.11	2 745 468	2 467 225
Section 32 *Financial Management Act, No. 18 of 1994* (prior year unspent appropriations brought forward)	8.2.12	304 988	269 656
Section 35 *Financial Management Act, No. 18 of 1994* (temporary advances)	8.2.15	..	40 493
Advance to Treasurer to be sanctioned	8.2.13, 8.2.14	5 794 495	4 313 174
Total provision of outputs		**68 714 427**	**55 481 752**
Additions to net asset base			
Additions to net asset base – net application	8.2.8	6 141 274	3 896 370
Section 29 *Financial Management Act, No. 18 of 1994* (appropriation of annotated receipts)	8.2.11	796 259	329 979
Section 32 *Financial Management Act, No. 18 of 1994* (prior year unspent appropriations brought forward)	8.2.12	1 067 630	660 449
Section 35 *Financial Management Act, No. 18 of 1994* (temporary advances)	8.2.15	..	246 796
Advance to Treasurer to be sanctioned	8.2.13, 8.2.14	2 262 298	585 777
Total additions to net asset base		**10 267 460**	**5 719 371**
Payments made on behalf of the State			
Payments made on behalf of the State	8.2.8	4 927 450	5 561 615
Total payments made on behalf of State		**4 927 450**	**5 561 615**
Other			
Contribution by the State under agreements pursuant to Section 25 of *the Murray-Darling Basin Act 1993*	8.2.8	21 800	21 800
Victorian Law Reform Commission – pursuant to Section 17 (b) of the *Victorian Law Reform Commission Act 2000*	8.2.8	845	670
Total other		**22 645**	**22 470**
Total annual appropriations		**83 931 982**	**66 785 207**
Applied appropriations remaining unspent relating to the 2020-21 appropriations		(2 664 937)	(1 596 042)
Total payments		**85 457 497**	**70 559 832**
Consolidated fund balance 1 July		**960 532**	**599 764**
Add total receipts for year		**85 734 636**	**70 920 600**
Less total payments for year		**(85 457 497)**	**(70 559 832)**
Consolidated fund balance 30 June		**1 237 671**	**960 532**

8.2.1 Summarised consolidated fund receipts and payments for the financial year ended 30 June *(continued)*

($ thousand)

	Notes	2021	2020
Reconciliation of unspent appropriations:			
Applied appropriations unspent at end of year		12 467 047	9 932 952
add payments made during the year under the Financial Management Act, No. 18 of 1994, *Section 33*		130 842	266 473
Subtotal		**12 597 889**	**10 199 425**
less applied appropriations unspent at beginning of year		(9 932 952)	(8 603 383)
Current year appropriations remaining unspent as at 30 June		**2 664 937**	**1 596 042**

8.2.2 Consolidated fund receipts for the financial year ended 30 June ($ thousand)

	Estimate 2021	*Actual 2021*	*Actual 2020*
Operating activities			
Taxation			
Payroll tax	4 557 984	7 110 395	7 246 607
Land tax	3 632 064	3 194 488	3 486 099
Fire Services Property Levy	709 049	728 982	708 096
Congestion levy	87 677	84 111	109 729
Financial and capital transactions			
Land transfer duty	4 562 312	5 573 485	5 699 558
Other property duties	17	161	..
Metropolitan Planning Levy	16 398	18 880	20 865
Financial accommodation levy	162 479	153 243	152 704
Growth areas infrastructure contribution	139 889	122 038	145 596
Gambling			
Public lotteries	604 137	628 595	575 841
Electronic gaming machines	416 945	538 259	688 138
Casino	77 606	57 792	215 528
Racing and other sports betting	150 288	186 451	131 631
Other	75 885	72 171	98 841
Levies on statutory corporations	172 500	173 480	156 609
Taxes on insurance	1 519 621	1 540 186	1 484 179
Motor vehicle			
Registration fees pursuant to the *Road Safety Act, No. 127 of 1986*	1 897 072	1 763 061	1 784 548
Stamp duty on vehicle transfers	850 435	932 576	895 465
Franchise fees			
Liquor	..	4 584	22 065
Other	101 666	178 242	20 841
Total taxation	**19 734 023**	**23 061 182**	**23 642 942**
Fines and regulatory fees			
Fines	401 499	297 917	318 404
Regulatory fees	678 774	547 300	574 374
Total fines and regulatory fees	**1 080 273**	**845 217**	**892 779**
Grants received			
Department of Education and Training	7 500	14 863	6 832
Department of Environment, Land, Water and Planning	211	221	453
Department of Families, Fairness and Housing [(a)] [(b)]	..	24 657	..
Department of Health [(a)]	93 448	93 108	133 150
Department of Jobs, Precincts and Regions	40	5 143	..
Department of Justice and Community Safety	582	825	382
Department of Premier and Cabinet [(b)]	..	..	11 618
Department of Transport	730	37 774	32 678
Department of Treasury and Finance	19 494 915	21 546 255	21 062 662
Parliament	..	..	285
Total grants received	**19 597 427**	**21 722 845**	**21 248 060**
Sales of goods and services			
Capital asset charge	6 898 740	6 899 054	6 455 241
Other sales of goods and services	1 353 238	1 334 951	1 015 217
Total sales of goods and services	**8 251 977**	**8 234 004**	**7 470 457**
Interest received	**477 727**	**472 544**	**464 251**
Dividends, income tax equivalent and rate equivalent revenue			
Dividends	184 345	227 442	406 220
Income tax equivalent revenue	229 758	283 360	313 177
Local government tax equivalent revenue	6 862	4 566	4 084
Total dividends, income tax equivalent and rate equivalent revenue	**420 965**	**515 368**	**723 482**

8.2.2 Consolidated fund receipts for the financial year ended 30 June *(continued)* ($ thousand)

	Estimate 2021	*Actual 2021*	*Actual 2020*
Other receipts			
Land rent received	18 473	22 350	23 341
Royalties received	137 887	137 048	111 155
Other	542 724	567 069	555 099
Total other receipts	**699 084**	**726 466**	**689 595**
Total cash inflows from operating activities	**50 261 475**	**55 577 626**	**55 131 565**
Cash inflows from investing activities			
Proceeds from sale of property, plant and equipment	..	32 016	49 366
Other loans	642	..	(71)
Return of capital – government entities	532 751	13 453	1 725
Total cash inflows from investing activities	**533 393**	**45 469**	**51 020**
Cash inflows from financing activities			
Loans to government agencies	34 862	37 452	41 035
Borrowings	42 132 981	30 074 089	15 696 979
Total cash inflows from financing activities	**42 167 843**	**30 111 541**	**15 738 015**
Total cash inflows from investing and financing activities	**42 701 236**	**30 157 010**	**15 789 035**
Total consolidated fund receipts	**92 962 711**	**85 734 636**	**70 920 600**

Notes:

(a) Effective from 1 February 2021, the Department of Health and Human Services was renamed the Department of Health and the new Department of Families, Fairness and Housing was created. As a result, portfolio responsibilities of Child Protection, Prevention of Family Violence, Housing and Disability were transferred from the Department of Health and Human Services to the Department of Families, Fairness and Housing.

(b) Effective from 1 February 2021, portfolio responsibilities for Multicultural Affairs, LGBTIQ+ Equality, Veterans, and the offices for Women and Youth were transferred from the Department of Premier and Cabinet to the Department of Families, Fairness and Housing.

8.2.3 Trust fund cash flow statement for the financial year ended 30 June ($ thousand)

	2021	*2020*
Cash flows from operating activities		
Receipts		
Taxation	428 274	434 211
Regulatory fees and fines	84 166	80 011
Grants received [(a)]	20 932 858	20 047 524
Sale of goods and services	1 296 189	639 444
Interest received	35 394	93 433
Dividend received	85 571	86 873
Net transfers from the consolidated fund	7 836 103	4 684 341
Other receipts	319 561	45 613
Payments		
Payments for employees	(620 611)	(355 994)
Superannuation	(32 669)	(27 289)
Interest paid	(82 231)	(79 448)
Grants and subsidies [(a)]	(22 197 488)	(20 999 268)
Goods and services	(4 076 605)	(3 216 553)
Net cash flows from operating activities	**4 008 513**	**1 432 896**
Cash flows from investing activities		
Purchase of non-financial assets	(6 695)	(469 475)
Sales of non-financial assets	71 413	84 064
Net proceeds from customer loans	911 293	1 704 299
Other investing activities	(3 757 576)	(2 553 482)
Net cash flows from investing activities	**(2 781 566)**	**(1 234 594)**
Cash flows from financing activities		
Net borrowings	(140 766)	48 088
Net cash flows from financing activities	**(140 766)**	**48 088**
Net increase/(decrease) in trust fund cash and deposits	**1 086 182**	**246 391**

Note:
(a) The 2019-20 comparative figures have been restated to more correctly reflect the nature of the transactions.

8.2.4 Trust fund summary for the financial year ended 30 June ($ thousand)

	Balances held 2021	*Balances held 2020*
State Government funds		
Accounts established to receive levies imposed by Parliament and record the expenditure thereof	395 933	604 564
Accounts established to receive monies provided in the annual budget and record the expenditure thereof	515 060	679 441
Specific purpose operating accounts established for various authorities	3 339 246	1 970 723
Suspense and clearing accounts to facilitate accounting procedures	402 392	609 115
Treasury Trust Fund	247 023	239 258
Agency and deposit accounts	636 062	460 290
Total State Government funds	**5 535 715**	**4 563 390**
Joint Commonwealth and State funds	**229 248**	**238 871**
Commonwealth Government funds		
Commonwealth Grants passed on to individuals and organisations	118 633	44 776
Total Commonwealth Government funds	**118 633**	**44 776**
Prizes, scholarships, research and private donations	**463 230**	**364 278**
Total trust fund	**6 346 825**	**5 211 316**

8.2.5 Reconciliation of cash flows to balances held ($ thousand)

	Balances held at 30 June 2020	*Net movement for year*	*Balances held at 30 June 2021*
Cash and deposits			
Cash balances outside the Public Account	(85)	(115)	(200)
Deposits held with the Public Account – specific trusts	14 904	2 240	17 145
Deposits held with the Public Account – general trusts	14	..	15
Other balances held in the Public Account	4 812 625	1 203 400	6 016 025
Total cash and deposits	**4 827 459**	**1 205 525**	**6 032 984**
Investments			
Investments held with the Public Account – specific trusts	1 344 388	207 124	1 551 512
Total investments	**1 344 388**	**207 124**	**1 551 512**
Total fund balances	**6 171 847**	**1 412 649**	**7 584 496**
Less funds held outside the Public Account			
Cash	(85)	(115)	(200)
Total fund balances held outside the Public Account	**(85)**	**(115)**	**(200)**
Total funds held in the Public Account (a)	**6 171 932**	**1 412 765**	**7 584 697**

Note:
(a) See Note 8.2.6 for details of securities and investments including amounts held in the Public Account on behalf of trust accounts.

8.2.6 Details of securities held and included in the balances at 30 June ($ thousand)

	2021	2020
Funds held at 30 June		
Trust accounts		
Amounts invested on behalf of specific trusts	1 568 657	1 359 293
Amounts invested on behalf of general trusts	15	14
General account balances	4 778 354	3 852 093
Total trust accounts	**6 347 026**	**5 211 400**
Consolidated fund account balance	**1 237 671**	**960 532**
Total funds held in the public account	**7 584 697**	**6 171 932**
Represented by:		
Stocks and securities held with/in –		
Managed Investments	1 551 527	1 344 202
Treasury Corporation of Victoria	17 145	15 105
	1 568 672	**1 359 307**
Cash and investments held with/in –		
Treasury Corporation of Victoria	(1 990 000)	(2 620 000)
Cash at bank balances held in Australia	7 113 432	6 271 623
	5 123 432	**3 651 623**
Total stock, securities, cash and investments	**6 692 104**	**5 010 930**
Add cash advanced pursuant to Sections 36 and 37 of the *Financial Management Act, No. 18 of 1994*	892 593	1 161 002
Total funds held in the public account	**7 584 697**	**6 171 932**

8.2.7 Consolidated Fund payments: special appropriations ($ thousand)

	2021	2020
Education and Training	5 783	225 469
Environment, Land, Water and Planning	138 145	167 601
Families, Fairness and Housing (a) (b)	62 233	..
Health (a)	1 088 195	1 374 682
Jobs, Precincts and Regions	18 888	2 692
Justice and Community Safety	135 841	51 357
Premier and Cabinet (b)	99 203	62 963
Transport	796 229	660 010
Treasury and Finance	1 546 062	2 555 150
Parliament	54 770	53 677
Courts	245 104	217 066
Total special appropriations	**4 190 451**	**5 370 667**

Notes:
(a) *Effective from 1 February 2021, the Department of Health and Human Services was renamed the Department of Health and the new Department of Families, Fairness and Housing was created. As a result, portfolio responsibilities of Child Protection, Prevention of Family Violence, Housing and Disability were transferred from the Department of Health and Human Services to the Department of Families, Fairness and Housing.*
(b) *Effective from 1 February 2021, portfolio responsibilities for Multicultural Affairs, LGBTIQ+ Equality, Veterans, and the offices for Women and Youth were transferred from the Department of Premier and Cabinet to the Department of Families, Fairness and Housing.*

8.2.8 Consolidated Fund payments: annual appropriations ($ thousand)

2021	*Provision of outputs*	*Additions to net asset base*	*Payments made on behalf of the State*	*Total*
Education and Training	15 444 774	743 368	..	16 188 142
Environment, Land, Water and Planning	2 048 924	120 881	683 122	2 852 927
Families, Fairness and Housing [(a) (b)]	2 162 471	172 722	16 693	2 351 886
Health [(a)]	16 813 031	241 811	50 078	17 104 920
Jobs, Precincts and Regions	5 843 550	149 624	82 876	6 076 050
Justice and Community Safety	8 445 264	603 730	154 500	9 203 494
Premier and Cabinet [(b)]	498 651	..	..	498 651
Transport	7 490 664	3 933 441	..	11 424 105
Treasury and Finance	460 702	117 157	3 961 982	4 539 841
Parliament	234 724	4 165	..	238 889
Courts	427 565	54 376	..	481 941
Total annual appropriations	**59 870 321**	**6 141 274**	**4 949 250**	**70 960 845**

2020				
Education and Training	13 885 544	440 715	..	14 326 259
Environment, Land, Water and Planning	1 412 637	114 830	706 283	2 233 751
Families, Fairness and Housing [(a) (b)]	..	..	..	..
Health [(a)]	15 506 793	90 088	63 851	15 660 732
Jobs, Precincts and Regions	1 626 153	178 320	70 592	1 875 066
Justice and Community Safety	7 658 365	1 365	36 000	7 695 731
Premier and Cabinet [(b)]	575 821	..	..	575 821
Transport	6 791 100	3 031 316	..	9 822 415
Treasury and Finance	390 092	..	4 706 688	5 096 780
Parliament	152 876	..	..	152 876
Courts	392 493	39 735	..	432 228
Total annual appropriations	**48 391 874**	**3 896 370**	**5 583 415**	**57 871 658**

Notes:

(a) Effective from 1 February 2021, the Department of Health and Human Services was renamed the Department of Health and the new Department of Families, Fairness and Housing was created. As a result, portfolio responsibilities of Child Protection, Prevention of Family Violence, Housing and Disability were transferred from the Department of Health and Human Services to the Department of Families, Fairness and Housing.

(b) Effective from 1 February 2021, portfolio responsibilities for Multicultural Affairs, LGBTIQ+ Equality, Veterans, and the offices for Women and Youth were transferred from the Department of Premier and Cabinet to the Department of Families, Fairness and Housing.

8.2.9 Amounts paid into working accounts pursuant to Section 23 of the *Financial Management Act 1994* for the year ended 30 June ($ thousand)

	2021	*2020*
Appropriation transfer equivalent to consolidated fund receipts	38 017	27 516
Interest received on credit balances	12	85
Total amounts paid into working accounts	**38 029**	**27 601**

8.2.10 Transfers pursuant to Sections 30 and 31 of the *Financial Management Act 1994* for the financial year ended 30 June 2021 ($ thousand)

	Decrease	*Increase*
Section 30 and 31 transfers		
(Transfers between items of departmental appropriations)		
Education and Training		
Provision of outputs	12 358	
Additions to the net asset base		12 358
Environment, Land, Water and Planning		
Provision of outputs		46 095
Additions to the net asset base	46 095	
Families, Fairness and Housing (a) (b)		
Provision of outputs	5 478	
Additions to the net asset base		5 478
Health (a)		
Provision of outputs		34 284
Additions to the net asset base	34 284	
Jobs, Precincts and Regions		
Provision of outputs		16 699
Additions to the net asset base	25 150	
Payments made on behalf of the State		8 451
Justice and Community Safety		
Provision of outputs		86 005
Additions to the net asset base	86 005	
Premier and Cabinet (b)		
Provision of outputs		7 909
Additions to the net asset base	7 909	
Transport		
Provision of outputs		63 925
Additions to the net asset base	63 925	
Parliament		
Provision of outputs	217	
Additions to the net asset base		217
Total Section 30 and 31 transfers	**281 420**	**281 420**

Notes:

(a) *Effective from 1 February 2021, the Department of Health and Human Services was renamed the Department of Health and the new Department of Families, Fairness and Housing was created. As a result, portfolio responsibilities of Child Protection, Prevention of Family Violence, Housing and Disability were transferred from the Department of Health and Human Services to the Department of Families, Fairness and Housing.*

(b) *Effective from 1 February 2021, portfolio responsibilities for Multicultural Affairs, LGBTIQ+ Equality, Veterans, and the offices for Women and Youth were transferred from the Department of Premier and Cabinet to the Department of Families, Fairness and Housing.*

8.2.11 Appropriation of revenue and asset sale proceeds pursuant to Section 29 of the *Financial Management Act 1994* for the financial year ended 30 June 2021 ($ thousand)

Department	*Outputs*	*Source Commonwealth*	*Other*	*Total*
Education and Training	81 431	550 274	14 863	646 568
Environment, Land, Water and Planning	127 984	88 117	..	216 101
Families, Fairness and Housing [(a)] [(b)]	7 874	205 584	..	213 458
Health [(a)]	370 845	374 110	1 550	746 504
Jobs, Precincts and Regions	90 298	20 205	..	110 503
Justice and Community Safety	209 781	87 676	87	297 545
Premier and Cabinet [(b)]	720	10	..	730
Transport	295 908	915 991	..	1 211 900
Treasury and Finance	..	..	11 599	11 599
Parliament	28 013	..	..	28 013
Courts	58 806	..	..	58 806
Total appropriation	**1 271 661**	**2 241 966**	**28 099**	**3 541 726**

Notes:

(a) Effective from 1 February 2021, the Department of Health and Human Services was renamed the Department of Health and the new Department of Families, Fairness and Housing was created. As a result, portfolio responsibilities of Child Protection, Prevention of Family Violence, Housing and Disability were transferred from the Department of Health and Human Services to the Department of Families, Fairness and Housing.

(b) Effective from 1 February 2021, portfolio responsibilities for Multicultural Affairs, LGBTIQ+ Equality, Veterans, and the offices for Women and Youth were transferred from the Department of Premier and Cabinet to the Department of Families, Fairness and Housing.

8.2.12 Section 32 carryovers – *Financial Management Act 1994* for the financial year ended 30 June

Amounts approved for carryover to 2020-21 pursuant to Section 32 of the *Financial Management Act 1994* **($ thousand)**

Department	*Provision of outputs*	*Additions to net assets*	*Payments made on behalf of State*	*Total carryover*
Education and Training	57 452	157 498	..	214 950
Environment, Land, Water and Planning	15 971	2 334	..	18 305
Families, Fairness and Housing [(a)] [(b)]	..	..	..	..
Health [(a)]	44 905	..	..	44 905
Jobs, Precincts and Regions	3 875	13 666	..	17 541
Justice and Community Safety	35 605	79 417	..	115 023
Premier and Cabinet [(b)]	2 140	102	..	2 242
Transport	117 566	1 159 315	..	1 276 882
Treasury and Finance	15 277	..	..	15 277
Parliament	7 305	..	..	7 305
Courts	2 909	7 340	..	10 249
Total carryovers by department	**303 006**	**1 419 673**	**..**	**1 722 679**

Notes:

(a) Effective from 1 February 2021, the Department of Health and Human Services was renamed the Department of Health and the new Department of Families, Fairness and Housing was created. As a result, portfolio responsibilities of Child Protection, Prevention of Family Violence, Housing and Disability were transferred from the Department of Health and Human Services to the Department of Families, Fairness and Housing.

(b) Effective from 1 February 2021, portfolio responsibilities for Multicultural Affairs, LGBTIQ+ Equality, Veterans, and the offices for Women and Youth were transferred from the Department of Premier and Cabinet to the Department of Families, Fairness and Housing.

Amounts applied against carryover of appropriations in 2020-21 pursuant to Section 32 of the *Financial Management Act 1994* **($ thousand)**

Department	*Provision of outputs*	*Additions to net assets*	*Payments made on behalf of State*	*Total carryover*
Education and Training	57 452	157 498	..	214 950
Environment, Land, Water and Planning (c)	16 305	..	..	16 305
Families, Fairness and Housing (a) (b)	..	..	..	..
Health (a)	43 517	..	..	43 517
Jobs, Precincts and Regions (c)	4 752	12 710	..	17 462
Justice and Community Safety	35 576	79 418	..	114 994
Premier and Cabinet (b)	2 140	..	..	2 140
Transport (c)	119 754	810 664	..	930 418
Treasury and Finance	15 277	..	..	15 277
Parliament	7 305	..	..	7 305
Courts	2 909	7 340	..	10 249
Total carryovers by department	**304 988**	**1 067 630**	**..**	**1 372 617**

Notes:

(a) Effective from 1 February 2021, the Department of Health and Human Services was renamed the Department of Health and the new Department of Families, Fairness and Housing was created. As a result, portfolio responsibilities of Child Protection, Prevention of Family Violence, Housing and Disability were transferred from the Department of Health and Human Services to the Department of Families, Fairness and Housing.

(b) Effective from 1 February 2021, portfolio responsibilities for Multicultural Affairs, LGBTIQ+ Equality, Veterans, and the offices for Women and Youth were transferred from the Department of Premier and Cabinet to the Department of Families, Fairness and Housing.

(c) Certain departments' section 32 amounts applied for the provision of outputs are greater than the original approved section 32 carryover amounts due to the transfer of funding from Additions to net asset base to outputs under Section 30 of the Financial Management Act 1994.

Amounts approved for carryover to 2021-22 pursuant to Section 32 of the *Financial Management Act 1994* **($ thousand)**

Department	*Provision of outputs*	*Additions to net assets*	*Payments made on behalf of State*	*Total carryover*
Education and Training	69 200	21 256	..	90 456
Environment, Land, Water and Planning	50 676	2 446	..	53 122
Families, Fairness and Housing (a) (b)	27 759	13 420	..	41 179
Health (a)	65 848	..	..	65 848
Jobs, Precincts and Regions	22 567	..	..	22 567
Justice and Community Safety	29 395	90 824	..	120 219
Premier and Cabinet (b)	8 580	..	..	8 580
Transport	231 927	274 591	..	506 518
Treasury and Finance	14 411	..	1 356	15 767
Parliament	5 192	109	..	5 301
Courts	4 693	20 557	..	25 250
Total carryovers by department	**530 247**	**423 203**	**1 356**	**954 806**

Notes:

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(b) Effective from 1 February 2021, portfolio responsibilities for Multicultural Affairs, LGBTIQ+ Equality, Veterans, and the offices for Women and Youth were transferred from the Department of Premier and Cabinet to the Department of Families, Fairness and Housing.

8.2.13 Payments from advance to the Treasurer exclusive of those attributable to COVID-19 for the financial year ended 30 June

($ thousand)

Department	*Purpose*	*2020-21*
Environment, Land, Water and Planning	Bushfire preparedness 2020-21	18 200
	Prolonged Power Outage Payment	14 982
	Aviation resources	14 535
	Bushfire biodiversity recovery: Supporting economic growth and biodiversity	7 000
	Big Housing Build: Improving the planning system for urban and regional development and state infrastructure	6 516
	Victorian Renewable Energy Auction Scheme – Support Agreement	3 530
	Royal Commission into National Natural Disaster Arrangements	3 222
	2020-21 Flood and Storm Events	2 620
	Community Power Hubs Program	2 556
	Bushfire response	1 906
	Energy Innovation Fund	1 700
	Victorian Renewable Hydrogen Industry Development Plan	855
		77 622
Families, Fairness and Housing [(a)] [(b)]	Supported Independent Living and Short-Term Accommodation and Assistance services to the non-government sector	64 570
	Utility Relief Grant Scheme	14 000
	Ashburton and Ascot Vale Fast Start projects	2 000
	Victorian Pride Centre	900
	Victorian Interpreting and Translating Service	800
	Veteran community support mobile app project	70
		82 340
Health [(a)]	Additional resources for health services	182 810
	Scheduled asset replacement in the health sector	47 340
	Additional funding for elective surgery blitz	41 250
	Allied Health	3 515
	Mental Health – New legal foundations and supporting consumers to exercise their rights	1 202
	Mental Health – Safe and compassionate models of care for bed-based services	1 186
	Healthshare	719
		278 022
Jobs, Precincts and Regions	Victoria's Digital Future Now	70 000
	Implementation of the Victorian Forestry Plan	12 000
	Bendigo GovHub fit-out costs	9 500
	Suburban revitalisation and growth	7 100
	Screen Industry Crisis Recovery Plan	4 000
	National Biosecurity Control Agreements and biosecurity responses	3 970
	Alice Anderson Angel Sidecar Fund	2 000
	Organisational Investment Program	1 891
	Melbourne Convention Centre Development operations contribution	1 521
	Rural Financial Counselling Service	1 501
	Emergency management sector reform	1 469
	Community Sports Infrastructure Loans Scheme	332
		115 284
Justice and Community Safety	WorkCover Scheme Premium Order	550 000
	Support to Victoria Police's operations and resources	174 678
	Victoria State Emergency Service facilities	66 613
	Natural Disaster Financial Relief	50 600
	Local Economic recovery program	34 300
	Technology and resources to support Victoria's fines system	30 361
	Recapitalisation and reinstatement of the Hopkins Correctional Centre funding supplementation	15 117
	Additional funding for Victorian Commission for Gambling and Liquor Regulation	7 942
	Emergency management sector reform	8 464
	Restorative Engagement and Redress Scheme for Victoria Police employees	7 155

8.2.13 Payments from advance to the Treasurer exclusive of those attributable to COVID-19 for the financial year ended 30 June *(continued)*

($ thousand)

Department	*Purpose*	*2020-21*
	Fiskville remediation	6 750
	Royal Commission into the Management of Police Informants	6 421
	Working with Children Check and National Disability Insurance Scheme worker screening	4 000
	Making our buildings safer	3 433
	Royal Commission into the Casino Operator and Licence	2 672
	Supporting the State's forensic capability	2 640
	Water safety and flood awareness campaigns	2 000
	Rental reforms funding supplementation	1 858
	Emergency response funding supplementation	1 620
	Ensure a secure youth justice system	1 399
	Maintaining justice system continuity – Specialist Family Violence Court	377
	Decriminalising public drunkenness	316
	Supporting vulnerable Victorians	87
	Community based diversionary services and opening Cherry Creek	39
		978 842
Premier and Cabinet [(b)]	Digital Victoria – Common Corporate Platforms	5 052
	Strengthening the Centre	3 636
	Costs associated with administration changes	2 012
	Hybrid cloud and Data centre discovery	724
	Support to Past Premiers and the Opposition	617
	Support to parties in a legal action	569
	Public Records Office of Victoria asset maintenance and renewal program	503
	Delivering a Victorian Truth and Justice process	489
		13 603
Transport	Level Crossing Removal program	1 144 665
	Metro Tunnel	546 059
	Suburban Rail Loop Initial and Early Works	146 635
	Outer Metropolitan Ring Road / E6 corridor preservation	130 377
	Ballarat Line Upgrade – Stage 1	43 988
	Western Roads Upgrade	40 000
	West Gate Tunnel	30 439
	Waurn Ponds Duplication – Stage 2	22 269
	North East Link	20 000
	Road Safety Action Plan	16 357
	City Loop fire and safety upgrade – Stage 2	11 494
	Drysdale Bypass	5 330
	Yan Yean Road Duplication – Stage 1	5 000
	O'Herns Road upgrade	4 500
	Great Ocean Road Renewal	4 194
	Emergency management sector reform	3 905
	Thompsons Road Duplication – Grade Separation	3 100
	Additional Train Services	2 560
	Shepparton Corridor Upgrade – Stage 2	2 312
	Warrnambool Line Upgrade – Stage 2	2 073
	Princes Highway East Duplication – Stage 3	2 007
	Rolling stock maintenance and disposal programs	1 676
	Transport and Amenity Program	1 549
	Shepparton Corridor Upgrade – Stage 3	873
	Metropolitan Road and Intersection Upgrades	809
	Traffic Camera Trials	414
	Hurstbridge Line Upgrade – Stage 2	387
	St Kilda Road works	363
	Caulfield rationalisation works	269
	VicRoads Modernisation	178
		2 193 782

8.2.13 Payments from advance to the Treasurer exclusive of those attributable to COVID-19 for the financial year ended 30 June *(continued)*

($ thousand)

Department	*Purpose*	*2020-21*
Treasury and Finance	Big Housing Build: Expanded Social Housing Growth Fund	845 949
	Business unit reform advisory services and scoping study	6 504
	Demolition works at the former Energy Brix Australia Corporation site, Morwell	3 897
	Implementation of the Big Housing Build: Victorian Homebuyer Fund	2 335
	Operational funding for the independent review of social housing regulation	2 000
	Demolition works at 80-90 Champion Road, Newport	971
	Recovery Tracking and Analytics – Establishment	761
	Suburban Rail Loop	650
	Support for the expansion of the Victorian Energy Upgrades program	237
	Centralised Accommodation Management	164
	Implementation costs for the zero emission vehicle initiative	125
		863 593
Parliament	Additional funding for Victorian Ombudsman	715
	Ombudsman's Parliamentary Referral Investigation	281
	Implementation of IBAC Information Technology Strategy	107
		1 103
Courts	Additional depreciation equivalent funding following an asset revaluation	8 000
	Transport of deceased persons	1 100
	Judicial Commission of Victoria resourcing	971
	Specialist Children's Court Clinic	800
	Royal Commission into the Management of Police Informants	700
		11 571
Total Payments from Advance to the Treasurer exclusive of those attributable to COVID-19		**4 615 763**

Notes:

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8.2.14 Payments from advance to the Treasurer attributable to COVID-19 for the financial year ended 30 June

($ thousand)

Department	*Purpose*	*2020-21*
Environment, Land, Water and Planning	Financial support for portfolio entities impacted by COVID-19	31 278
	DELWP COVID-19 support	7 960
	Public safety on public land and waterways COVIDSafe Summer Plan	1 401
	Rent relief supplementation	405
		41 044
Families, Fairness and Housing [(a)(b)]	Human Services Readiness and Response Centre	19 510
	Critical additional responses for people experiencing homelessness placed in hotels during the COVID-19 pandemic	19 467
	Enhanced engagement approach with culturally and linguistically diverse (CALD) communities and complex families	19 892
	Service delivery fund for Aboriginal Community Controlled Organisations and Aboriginal Community Controlled Health Organisations	10 000
	Further Family Violence measures to respond to COVID-19	8 480
	Continue and boost key pandemic-related supports for Victorian communities	3 000
	LGBTIQ+ sector economic recovery grants	2 014
	Improved communications and engagement of multicultural communities during COVID-19	1 500
	Building a Sense of Belonging in Victoria	102
		83 965
Health [(a)]	COVID-19 Response – Support for the health system	938 911
	COVID-19 vaccination program	133 143
	COVID-19 Mandatory Quarantine	64 704
	Enhanced engagement approach with culturally and linguistically diverse communities and complex families	1 600
		1 138 358
Jobs, Precincts and Regions	Circuit Breaker Business Support Package – May 2021	342 209
	Financial Assistance for sport due to the impact of COVID-19	125 730
	Test Isolation Payments and reimbursement to the Commonwealth Government for the Pandemic Leave Disaster Payments	109 157
	DJPR portfolio entity COVID support	84 345
	Jobs for Victoria: Our plan to maximise jobs and help Victorians into work	68 440
	Circuit Breaker Support Package – February 2021	39 215
	Business Support Fund	37 250
	Working for Victoria	17 300
	Business Victoria Hotline	13 296
	Regional Tourism Support Package – Business Costs Assistance Program Round Two Tourism Supplement	11 842
	Support for seasonal agriculture workforce	9 191
	Supporting industries – COVID Coordination and Recovery	7 485
	High-Risk Industries: Engagement and Enforcement Operation	7 365
	Supporting National Performing Arts Partnership Companies	5 400
	Supporting medical research to protect Victorians and grow jobs for the future	5 000
	Visitor Economy: Victorian Regional Travel Voucher Scheme	4 542
	Visitor Economy – Recovery and Reform package	3 506
	Seasonal Workforce Accommodation Program	2 777
	Cultural Agencies: Solvency, Recovery and Adaptation	1 626
	Supporting Creative Industries Non-government organisations	617
	Abbotsford Convent Support	300
		896 594

8.2.14 Payments from advance to the Treasurer attributable to COVID 19 for the financial year ended 30 June *(continued)*

($ thousand)

Department	*Purpose*	*2020-21*
Justice and Community Safety	COVID-19 Mandatory Quarantine	635 822
	Victoria Police's COVID-19 response	111 192
	High-Risk Industries: Engagement and Enforcement Operation	28 364
	Corrections and youth justice COVID-19 response	19 725
	Justice recovery	8 398
	Residential Tenancies Dispute Resolution Scheme	4 691
	Youth Justice COVID-19 response	1 399
		809 591
Premier and Cabinet (b)	Insights Victoria platform	5 210
	Alternative Quarantine Accommodation Hub	3 009
	Donation to the Good Friday Appeal 2021	2 500
	Establishment of the Recovery Tracking and Analytics Branch	2 000
	VPS Workforce Hubs	1 857
	Breakthrough Victoria Fund	1 356
	Commercial Passenger Vehicles QR Code Scanning	882
		16 815
Transport	Support for the transport network and public transport services due to the impacts of COVID-19	374 277
	Rent relief supplementation	1 870
		376 147
Treasury and Finance	Hotel quarantine costs – interstate reimbursement	53 168
	Additional facilities management and accommodation costs due to COVID-19	6 000
		59 168
Courts	Physical Distancing Infrastructure	12 235
	Justice Recovery Plan	7 114
		19 349
Total Payments from advance to the Treasurer attributable to COVID-19		**3 441 031**

Notes:

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(b) Effective from 1 February 2021, portfolio responsibilities for Multicultural Affairs, LGBTIQ+ Equality, Veterans, and the offices for Women and Youth were transferred from the Department of Premier and Cabinet to the Department of Families, Fairness and Housing.

8.2.15 Payments from advances and unused advances carried forward to 2020-21 pursuant to Section 35 and 35(4) of the *Financial Management Act 1994*

There have been no payments from advances or amounts being carried forward to 2020-21 from prior financial year under Section 35 and 35(4) of the *Financial Management Act 1994*.

8.2.16 Government guarantees

Money received or recovered in respect of any guarantee payments

There has been no money received or recovered during 2020-21 in respect of any guarantee payments.

8.2.17 Allocations pursuant to Section 28 of the *Financial Management Act 1994* for the financial year ended 30 June

There have been no amounts allocated during 2020-21 under Section 28 of the *Financial Management Act 1994*.

9. OTHER DISCLOSURES

Introduction to this section

This section includes several additional disclosures that assist the understanding of this financial report.

Structure

9. OTHER DISCLOSURES

9.1 Disaggregated information

Disaggregated operating statement for the financial year ended 30 June **($ million)**

	General government sector		*Public non-financial corporations*	
	2021	*2020*	*2021*	*2020*
Revenue and income from transactions				
Taxation	23 613	23 167	..	..
Interest income	594	619	10	44
Dividends, income tax equivalent and rate equivalent income	620	810	53	32
Sales of goods and services	7 949	7 902	6 459	6 657
Grants	36 958	32 789	5 306	4 170
Other revenue and income	2 915	2 662	775	766
Total revenue and income from transactions	**72 649**	**67 948**	**12 603**	**11 668**
Expenses from transactions				
Employee expenses	30 044	27 214	1 472	1 451
Net superannuation interest expense	305	407	..	1
Other superannuation	3 426	3 073	140	139
Depreciation	4 165	3 894	1 832	1 824
Interest expense	2 614	2 328	842	916
Grant expense	22 086	15 331	341	270
Other operating expenses	24 568	22 241	6 968	6 310
Other property expenses	..	..	286	293
Total expenses from transactions	**87 207**	**74 487**	**11 882**	**11 204**
Net result from transactions – net operating balance	**(14 558)**	**(6 539)**	**721**	**465**
Other economic flows included in net result				
Net gain/(loss) on disposal of non-financial assets	(27)	(92)	(23)	(98)
Net gain/(loss) on financial assets or liabilities at fair value	122	80	60	9
Share of net profit/(loss) from associates/joint venture entities	3	3	..	..
Other gains/(losses) from other economic flows	662	(1 351)	(9 118)	(198)
Total other economic flows included in net result	**761**	**(1 360)**	**(9 081)**	**(287)**
Net result	**(13 797)**	**(7 899)**	**(8 360)**	**178**
Other economic flows – other comprehensive income				
Items that will not be reclassified to net result				
Changes in non-financial assets revaluation surplus	6 957	12 519	8 836	154
Remeasurement of superannuation defined benefits plans	3 937	(2 721)	23	(14)
Other movements in equity	39	(107)	(1)	10
Items that may be reclassified subsequently to net result				
Net gain/(loss) on financial assets at fair value	229	(173)	(15)	(8)
Net gain/(loss) on equity investments in other sector entities at proportional share of the carrying amount of net assets	342	(2 583)	..	..
Total other economic flows – other comprehensive income	**11 504**	**6 935**	**8 843**	**141**
Comprehensive result – total change in net worth	**(2 293)**	**(964)**	**484**	**319**
FISCAL AGGREGATES				
Net operating balance	**(14 558)**	**(6 539)**	**721**	**465**
Purchases of non-financial assets (including change in inventories)	12 200	10 182	3 394	2 684
Less: Sales of non-financial assets	(133)	(170)	(142)	(205)
Less: Depreciation and amortisation	(4 165)	(3 894)	(1 832)	(1 824)
Plus: Other movements in non-financial assets	6 307	(1 633)	(2 493)	4 347
Less: Net acquisition of non-financial assets from transactions	**14 208**	**4 485**	**(1 072)**	**5 002**
Net lending/(borrowing)	**(28 766)**	**(11 024)**	**1 793**	**(4 537)**

Public financial corporations		*Inter-sector eliminations*		*State of Victoria*	
2021	*2020*	*2021*	*2020*	*2021*	*2020*
..	..	(447)	(437)	23 167	22 730
2 241	1 851	(2 187)	(2 029)	659	484
1 549	2 218	(517)	(708)	1 705	2 352
5 497	4 996	(4 117)	(3 745)	15 787	15 810
551	..	(6 077)	(4 455)	36 739	32 505
33	19	..	..	3 723	3 447
9 871	**9 084**	**(13 345)**	**(11 374)**	**81 778**	**77 327**
420	381	(599)	(543)	31 338	28 503
..	..	..	..	305	408
36	32	..	..	3 602	3 245
70	73	875	676	6 941	6 467
2 169	1 789	(2 188)	(2 031)	3 437	3 002
263	283	(6 248)	(4 607)	16 442	11 276
9 157	8 383	(2 709)	(3 486)	37 985	33 447
1 056	58	(1 343)	(351)	..	..
13 172	**10 998**	**(12 212)**	**(10 341)**	**100 049**	**86 348**
(3 301)	**(1 914)**	**(1 133)**	**(1 033)**	**(18 271)**	**(9 021)**
..	..	..	..	(50)	(190)
6 761	(2 566)	..	..	6 943	(2 476)
..	..	..	..	3	3
1 293	560	7 216	(3 025)	53	(4 014)
8 054	**(2 005)**	**7 216**	**(3 025)**	**6 950**	**(6 677)**
4 753	**(3 920)**	**6 083**	**(4 058)**	**(11 321)**	**(15 699)**
4	1	(50)	3 831	15 747	16 504
..	..	..	..	3 960	(2 735)
..	(1)	..	..	38	(98)
..	..	..	..	214	(182)
..	..	(342)	2 583	..	..
4	**..**	**(392)**	**6 414**	**19 960**	**13 490**
4 757	**(3 919)**	**5 692**	**2 356**	**8 639**	**(2 208)**
(3 301)	**(1 914)**	**(1 133)**	**(1 033)**	**(18 271)**	**(9 021)**
52	133	41	(4)	15 687	12 995
(1)	(1)	1	5	(275)	(370)
(70)	(73)	(875)	(676)	(6 941)	(6 467)
..	..	..	..	3 814	2 714
(19)	**59**	**(832)**	**(675)**	**12 285**	**8 871**
(3 282)	**(1 974)**	**(300)**	**(358)**	**(30 556)**	**(17 893)**

9. OTHER DISCLOSURES

Disaggregated balance sheet as at 30 June ($ million)

	General government sector		Public non-financial corporations	
	2021	2020	2021	2020
Assets				
Financial assets				
Cash and deposits	14 609	13 037	1 857	1 532
Advances paid	5 473	6 550	1 299	2 226
Receivables and contract assets	8 201	6 108	1 482	1 773
Investments, loans and placements	2 960	2 589	754	638
Loans receivable from non-financial public sector [(a)]	..	..	..	..
Investments accounted for using equity method	10	10	..	..
Investments in other sector entities	73 125	75 043	..	..
Total financial assets	**104 377**	**103 337**	**5 393**	**6 169**
Non-financial assets				
Inventories	908	666	1 102	1 044
Non-financial assets held for sale	182	192	61	34
Land, buildings, infrastructure, plant and equipment	195 592	173 743	105 274	105 027
Other non-financial assets	3 357	3 103	1 521	2 985
Total non-financial assets	**200 038**	**177 703**	**107 958**	**109 092**
Total assets	**304 415**	**281 040**	**113 351**	**115 261**
Liabilities				
Deposits held and advances received	2 791	3 681	1 731	2 669
Payables	16 404	16 802	9 945	9 955
Contract liabilities	239	68	202	73
Borrowings	92 985	62 807	18 037	17 395
Employee benefits	9 384	9 028	532	517
Superannuation	27 217	31 228	28	65
Other provisions	1 597	1 335	9 923	9 702
Total liabilities	**150 617**	**124 949**	**40 398**	**40 377**
Net assets [(b)]	**153 799**	**156 092**	**72 953**	**74 884**
Accumulated surplus/(deficit)	58 642	68 166	(23 776)	(15 963)
Reserves	95 157	87 925	96 729	90 847
Net worth [(b)]	**153 799**	**156 092**	**72 953**	**74 884**
FISCAL AGGREGATES				
Net financial worth	(46 239)	(21 612)	(35 005)	(34 208)
Net financial liabilities	119 364	96 654	35 005	34 208
Net debt	72 734	44 312	15 857	15 668

Notes:

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

(b) The net assets and net worth of the public financial corporations sector incorporates the impact of Treasury Corporation of Victoria's external loan liabilities being reported at market value while the corresponding assets, that is lending to the non-financial public sector, are reported at amortised cost. This mismatch has contributed to the negative net asset position of the sector.

Public financial corporations		*Inter-sector eliminations*		*State of Victoria*	
2021	*2020*	*2021*	*2020*	*2021*	*2020*
7 875	8 069	(2 409)	(3 453)	21 933	19 185
14	12	(6 247)	(8 305)	538	483
2 158	1 758	(647)	(571)	11 194	9 069
42 629	37 448	(249)	(294)	46 094	40 381
79 487	48 921	(79 487)	(48 921)	..	..
..	..	..	..	10	10
..	..	(73 125)	(75 043)	..	..
132 163	**96 208**	**(162 164)**	**(136 586)**	**79 770**	**69 128**
..	..	..	..	2 010	1 710
..	..	..	..	243	226
383	412	33 684	29 883	334 932	309 065
3 563	4 120	(3 683)	(5 807)	4 757	4 401
3 946	**4 532**	**30 001**	**24 076**	**341 943**	**315 402**
136 109	**100 739**	**(132 163)**	**(112 510)**	**421 712**	**384 530**
306	259	(3 044)	(4 916)	1 784	1 693
2 636	2 379	(613)	(522)	28 372	28 614
..	..	(3)	(2)	438	140
90 812	63 682	(85 535)	(56 106)	116 298	87 778
121	117	..	..	10 036	9 662
..	..	..	..	27 245	31 293
47 673	44 424	(9 783)	(9 602)	49 409	45 859
141 547	**110 862**	**(98 979)**	**(71 148)**	**233 583**	**205 039**
(5 438)	**(10 122)**	**(33 184)**	**(41 362)**	**188 130**	**179 491**
(5 505)	(10 196)	46 896	34 654	76 257	76 661
67	74	(80 080)	(76 016)	111 873	102 830
(5 438)	**(10 122)**	**(33 184)**	**(41 362)**	**188 130**	**179 491**
(9 384)	(14 654)	(63 185)	(65 438)	(153 813)	(135 912)
9 384	14 654	(9 940)	(9 605)	153 813	135 912
(38 888)	(30 509)	(187)	(49)	49 516	29 422

9. OTHER DISCLOSURES

Disaggregated cash flow statement for the financial year ended 30 June ($ million)

	General government sector		*Public non-financial corporations*	
	2021	*2020*	*2021*	*2020*
Cash flows from operating activities				
Receipts				
Taxes received	22 729	23 257	..	..
Grants	34 877	34 302	5 289	4 164
Sales of goods and services [(a)]	8 771	8 515	6 972	7 190
Interest received	585	636	3	49
Dividends, income tax equivalent and rate equivalent receipts	619	818	53	32
Other receipts	1 528	2 066	469	197
Total receipts	**69 109**	**69 593**	**12 787**	**11 631**
Payments				
Payments for employees	(29 333)	(26 362)	(1 453)	(1 413)
Superannuation	(3 804)	(3 605)	(155)	(140)
Interest paid	(2 332)	(2 086)	(851)	(932)
Grants and subsidies	(21 578)	(15 676)	(127)	(79)
Goods and services [(a)]	(24 040)	(23 232)	(4 804)	(4 503)
Other payments	(979)	(1 543)	(2 837)	(2 864)
Total payments	**(82 066)**	**(72 506)**	**(10 226)**	**(9 931)**
Net cash flows from operating activities	**(12 958)**	**(2 913)**	**2 561**	**1 700**
Cash flows from investing activities				
Cash flows from investments in non-financial assets				
Purchases of non-financial assets	(11 948)	(9 734)	(3 390)	(2 684)
Sales of non-financial assets	133	170	142	205
Net cash flows from investments in non-financial assets	**(11 814)**	**(9 565)**	**(3 248)**	**(2 480)**
Cash flows from investments in financial assets for policy purposes				
Cash inflows	1 378	2 545	957	1 787
Cash outflows	(1 116)	(1 187)	(37)	(16)
Net cash flows from investments in financial assets for policy purposes	**263**	**1 358**	**921**	**1 771**
Sub-total	**(11 551)**	**(8 207)**	**(2 328)**	**(709)**
Cash flows from investments in financial assets for liquidity management purposes [(b)]				
Cash inflows	827	587	84	191
Cash outflows	(959)	(1 077)	(160)	(56)
Net cash flows from investments in financial assets for liquidity management purposes	**(132)**	**(491)**	**(77)**	**135**
Net cash flows from investing activities	**(11 683)**	**(8 698)**	**(2 404)**	**(574)**
Cash flows from financing activities				
Advances received	14	140	3	25
Advances repaid	(979)	(1 792)	(955)	(1 763)
Advances received (net) [(b)]	(965)	(1 651)	(952)	(1 738)
Borrowings received	32 294	20 588	2 898	2 310
Borrowings repaid	(5 186)	(4 146)	(2 287)	(1 723)
Net borrowings [(b)]	27 108	16 442	611	587
Deposits received	4 202	4 710	97	74
Deposits repaid	(4 133)	(4 628)	(82)	(127)
Deposits received (net) [(b)]	69	82	15	(53)
Other financing inflows	..	..	666	402
Other financing outflows	..	..	(171)	(391)
Other financing (net) [(b)]	..	..	495	11
Net cash flows from financing activities	**26 212**	**14 873**	**169**	**(1 193)**
Net increase/(decrease) in cash and cash equivalents	**1 572**	**3 262**	**326**	**(67)**
Cash and cash equivalents at beginning of reporting period	13 037	9 775	1 532	1 598
Cash and cash equivalents at end of the reporting period	**14 609**	**13 037**	**1 857**	**1 532**
FISCAL AGGREGATES				
Net cash flows from operating activities	(12 958)	(2 913)	2 561	1 700
Dividends paid	..	..	(169)	(347)
Net cash flows from investments in non-financial assets	(11 814)	(9 565)	(3 248)	(2 480)
Cash surplus/(deficit)	**(24 772)**	**(12 478)**	**(856)**	**(1 127)**

Notes:

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

(b) *In accordance with AASB 107* Statement of Cash Flows, *Treasury Corporation of Victoria (TCV) is not required to gross up its cash flow information for whole of government consolidation purposes. The net cash movements for TCV have been added to cash inflows or outflows for both financial years ended 30 June 2021 and 30 June 2020.*

Public financial corporations		*Inter-sector eliminations*		*State of Victoria*	
2021	*2020*	*2021*	*2020*	*2021*	*2020*
..	..	(447)	(437)	22 282	22 820
550	..	(6 096)	(4 452)	34 621	34 013
5 903	5 648	(4 010)	(3 809)	17 637	17 544
1 824	1 734	(2 184)	(2 051)	228	368
1 549	2 218	(515)	(716)	1 705	2 352
47	57	256	62	2 300	2 381
9 873	**9 656**	**(12 995)**	**(11 402)**	**78 773**	**79 479**
(415)	(372)	599	543	(30 602)	(27 605)
(36)	(32)	..	..	(3 995)	(3 777)
(2 082)	(1 745)	2 185	2 052	(3 079)	(2 712)
(300)	(283)	6 096	4 452	(15 908)	(11 586)
(5 728)	(5 235)	1 165	1 067	(33 408)	(31 903)
(4)	(4)	2 762	2 892	(1 058)	(1 520)
(8 564)	**(7 671)**	**12 806**	**11 005**	**(88 050)**	**(79 103)**
1 309	**1 985**	**(189)**	**(397)**	**(9 277)**	**375**
(52)	(133)	(41)	4	(15 430)	(12 548)
1	1	(1)	(5)	275	370
(51)	**(132)**	**(42)**	**(1)**	**(15 156)**	**(12 178)**
..	17	(1 936)	(3 650)	400	698
(3)	(2)	671	420	(484)	(785)
(2)	**15**	**(1 265)**	**(3 231)**	**(84)**	**(87)**
(53)	**(117)**	**(1 307)**	**(3 232)**	**(15 240)**	**(12 265)**
1 909	10 517	(3)	(3 230)	2 817	8 065
(33 660)	(21 249)	30 582	18 213	(4 197)	(4 170)
(31 751)	**(10 732)**	**30 579**	**14 984**	**(1 380)**	**3 896**
(31 804)	**(10 849)**	**29 272**	**11 752**	**(16 620)**	**(8 369)**
49	29	(50)	(54)	16	140
(45)	(61)	1 930	3 565	(49)	(51)
4	(32)	1 880	3 511	(33)	90
30 696	15 258	(33 348)	(19 304)	32 541	18 852
(370)	(301)	3 861	1 800	(3 981)	(4 369)
30 326	14 958	(29 486)	(17 505)	28 559	14 483
42	..	(9)	(1)	4 333	4 784
..	(1 999)	1	1 882	(4 215)	(4 872)
42	(1 999)	(8)	1 881	118	(88)
..	3	(666)	(405)	..	..
(72)	(63)	243	454	..	..
(72)	(60)	(423)	49	..	..
30 301	**12 867**	**(28 038)**	**(12 063)**	**28 644**	**14 484**
(194)	**4 003**	**1 045**	**(708)**	**2 748**	**6 490**
8 069	4 067	(3 453)	(2 745)	19 185	12 695
7 875	**8 069**	**(2 409)**	**(3 453)**	**21 933**	**19 185**
1 309	1 985	(189)	(397)	(9 277)	375
(59)	(60)	227	407	..	..
(51)	(132)	(42)	(1)	(15 156)	(12 178)
1 199	**1 793**	**(4)**	**9**	**(24 433)**	**(11 803)**

Disaggregated statement of changes in equity for the financial year ended 30 June **($ million)**

	Accumulated surplus/(deficit)	*Contributions by owners*	*Non-financial assets revaluation surplus*	*Investment in other sector entities revaluation surplus*	*Other reserves*	*Total*
General government sector						
Balance at 1 July 2020	68 166	..	54 379	32 639	908	156 092
Net result for the year	(13 797)	..	..	..	..	(13 797)
Other comprehensive income for the year	3 954	..	6 957	342	251	11 504
Transfer to/(from) accumulated surplus	319	..	(319)	..	..	..
Balance at 30 June 2021	**58 642**	**..**	**61 017**	**32 981**	**1 159**	**153 799**
PNFC sector						
Balance at 1 July 2020	(15 963)	67 225	23 046	..	575	74 884
Net result for the year	(8 360)	..	..	..	..	(8 360)
Other comprehensive income for the year	(21)	..	8 836	..	29	8 843
Transfer to/(from) accumulated surplus	737	5 932	(6 668)	..	..	..
Dividends paid	(169)	..	..	..	..	(169)
Transactions with owners in their capacity as owners	..	(2 246)	..	..	..	(2 246)
Balance at 30 June 2021	**(23 776)**	**70 911**	**25 214**	**..**	**604**	**72 953**
PFC sector						
Balance at 1 July 2020	(10 196)	29	4	..	41	(10 122)
Net result for the year	4 753	..	..	..	..	4 753
Other comprehensive income for the year	(3)	..	4	..	3	4
Dividends paid	(59)	..	..	..	..	(59)
Transactions with owners in their capacity as owners	..	(14)	..	..	..	(14)
Balance at 30 June 2021	**(5 505)**	**15**	**7**	**..**	**45**	**(5 438)**
Eliminations	46 896	(70 925)	23 827	(32 981)	..	(33 184)
Total State of Victoria	**76 257**	**..**	**110 065**	**..**	**1 808**	**188 130**

Disaggregated statement of changes in equity for the financial year ended 30 June *(continued)* **($ million)**

	Accumulated surplus/(deficit)	*Contributions by owners*	*Non-financial assets revaluation surplus*	*Investment in other sector entities revaluation surplus*	*Other reserves*	*Total*
General government sector						
Balance at 1 July 2019	54 752	..	66 062	35 222	1 020	157 056
Net result for the year	(7 899)	..	..	..	..	(7 899)
Other comprehensive income for the year	(2 889)	..	12 519	(2 583)	(112)	6 935
Transfer to/(from) accumulated surplus	24 201	..	(24 201)	..	..	..
Total equity as at 30 June 2020	**68 166**	**..**	**54 379**	**32 639**	**908**	**156 092**
PNFC sector						
Balance at 1 July 2019	(15 792)	62 949	22 893	..	586	70 636
Net result for the year	178	..	..	..	..	178
Other comprehensive income for the year	(1)	..	154	..	(11)	141
Dividends paid	(347)	..	..	..	..	(347)
Transactions with owners in their capacity as owners	..	4 276	..	..	..	4 276
Total equity as at 30 June 2020	**(15 963)**	**67 225**	**23 046**	..	**575**	**74 884**
PFC sector						
Balance at 1 July 2019	(6 211)	29	2	..	37	(6 143)
Net result for the year	(3 920)	..	..	..	..	(3 920)
Other comprehensive income for the year	(5)	..	1	..	4	..
Transfer to/(from) accumulated surplus	..	..	..	..	..	..
Dividends paid	(60)	..	..	..	..	(60)
Total equity as at 30 June 2020	**(10 196)**	**29**	**4**	..	**41**	**(10 122)**
Eliminations	34 654	(67 254)	23 877	(32 639)	..	(41 362)
Total State of Victoria	**76 661**	**..**	**101 305**	**..**	**1 524**	**179 491**

9.2 Funds under management

The State has responsibility for transactions and balances relating to trust funds held on behalf of third parties external to the State. The funds managed on behalf of third parties are not recognised in these financial statements as they are managed on a fiduciary and custodial basis, and therefore are not controlled by the State. Funds under management are reported in the table below.

($ million)

	State of Victoria		*General Government Sector*	
	2021	*2020*	*2021*	*2020*
Cash and investments in common and premium funds	1 295	1 151	113	95
Funds under management by Legal Services Board [(a)]	2 675	1 777	2 675	1 777
Funds under management by the Senior Master of the Supreme Court	2 131	1 963	2 131	1 963
Investments, real estate, personal and other assets	5 000	4 408	33	30
Other funds held	22	15	22	13
Residential tenancies bonds money	1 244	1 267	1 244	1 267
Total funds under management	**12 367**	**10 582**	**6 218**	**5 145**

Notes:

(a) *The* 2019-20 Financial Report *figures have been restated to reflect deposit items not previously included in items held as Funds Under Management by the Legal Services Board.*

9.3 Other gains/(losses) from other economic flows

Other economic flows are changes in the volume or value of an asset or liability that do not result from transactions. This includes remeasurements of certain liabilities for variables such as movements in discount rates used to value these liabilities.

Total other gains/(losses) from other economic flows **($ million)**

	State of Victoria		*General government sector*	
	2021	*2020*	*2021*	*2020*
Net (increase)/decrease in allowances for credit losses	7	281	14	285
Amortisation of intangible non-produced assets	(41)	(46)	(5)	(5)
Net swap interest revenue/(expense)	23	..	..	..
Bad debts written off	(377)	(767)	(509)	(755)
Other gains/(losses)	440	(3 482)	1 162	(876)
Total other gains/(losses) from other economic flows	**53**	**(4 014)**	**662**	**(1 351)**

9.4 Reconciliation between Government Finance Statistics and Australian Accounting Standards

This note identifies the unconverged differences between the Australian Accounting Standards reporting (upon which this report is based) and the Government Finance Statistics (GFS) reporting.

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

In December 2019, AASB 2019-7 *Amendments to Australian Accounting Standards – Disclosure of GFS Measures of Key Fiscal Aggregates and GAAP/GFS Reconciliations* was issued to modify AASB 1049 *Whole of Government and General Government Sector Financial Reporting* requirements by providing optional relief from the disclosure of key fiscal aggregates measured in accordance with the GFS where they differ from the key fiscal aggregates provided pursuant this Accounting Standard.

If the optional relief is adopted, AASB 2019-7 requires an explanation of how each of the key fiscal aggregates required per AASB 1049 is calculated and how it differs from the corresponding key fiscal aggregate measured in accordance with the ABS GFS. The State has elected to apply this optional relief.

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

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

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

9. OTHER DISCLOSURES

Convergence difference	*AASB 1049 Treatment*	*ABS GFS Treatment*	*Fiscal aggregate impact*
AASB 16 *Leases*			
	Operating leases are recognised on the balance sheet under AASB 16 *Leases* unless the lease is shorter than 12 months or where the underlying assets are worth less than $10 000.	Operating leases are not recognised on the balance sheet.	· Cash surplus/ deficit · Comprehensive result – total change in net worth · Net lending/ borrowing · Net result from transactions – net operating balance · Net worth
AASB 1059 *Service concession arrangements*			
	Economic service concession arrangements, such as toll roads, are recognised on the State's balance sheet under AASB 1059 *Service Concession Arrangements: Grantors*.	Economic service concession arrangements, such as toll roads, are not recognised on the balance sheet.	· Cash surplus/ deficit · Comprehensive result – total change in net worth · Net lending/ borrowing · Net result from transactions – net operating balance · Net worth
AASB 15 *Revenue from Contracts with Customers* and AASB 1058 *Income of Not-for-Profit Entities*			
	Deferral of revenue recognition, such as where performance obligations have not been met, or for capital grants from the Commonwealth Government, is a requirement under AASB 15 *Revenue from Contracts with Customers* and AASB 1058 *Income of Not-for-Profit Entities*.	Deferral of revenue recognition, such as where performance obligations have not been satisfied, or for capital grants from the Commonwealth Government, is not recognised. This timing difference is expected to impact all the key fiscal aggregates. While it is expected that there will not be a net change to the fiscal aggregates over time, there will be convergence differences in any given year.	· Cash surplus/ deficit · Comprehensive result – total change in net worth · Net lending/ borrowing · Net result from transactions – net operating balance · Net worth
Port of Melbourne lease transaction			
Port Licence Fee	The 15-year prepaid Port Licence Fee from the medium-term lease of the Port of Melbourne is recognised upfront upon receipt.	The 15-year prepaid Port Licence Fee from the medium-term lease of the Port of Melbourne is recognised as revenue over the 15-year period.	· Comprehensive result – total change in net worth · Net lending/ borrowing · Net result from transactions – net operating balance · Net worth
Port of Melbourne lease transaction	The Port of Melbourne lease transaction is treated as an operating lease with the leased assets remaining with the PNFC sector.	The Port of Melbourne lease transaction is recognised as a sale of equity from the general government sector.	· Cash surplus/ deficit · Comprehensive result – total change in net worth · Net lending/ borrowing · Net result from transactions – net operating balance · Net worth

Convergence difference	*AASB 1049 Treatment*	*ABS GFS Treatment*	*Fiscal aggregate impact*
PNFC/PFC dividends			
	Under AAS, dividends are classified as after-profit distributions to owners.	Under GFS, dividends paid/payable are recognised as an expense from transactions on the operating statement.	· Comprehensive result – total change in net worth · Net lending/ borrowing · Net result from transactions – net operating balance · Net worth
Doubtful receivables			
	Provisions for doubtful receivables are included on the balance sheet as a reduction to assets.	The act of creating provisions is not considered an economic event and is therefore not included on the balance sheet.	· Comprehensive result – total change in net worth · Net worth
Future tax benefits / deferred tax liabilities			
	Under AAS, tax effect accounting is adopted, whereby differences between tax and accounting bases are deferred as either future income tax benefit assets or provisions for deferred liabilities.	Under GFS, deferred tax is not recognised.	· Comprehensive result – total change in net worth · Net worth
Investment in other sector entities			
	The net worth of investments in other sector entities for the general government sector includes doubtful receivables, future tax benefits and deferred tax liabilities of the PNFC and PFC sectors.	The determination of net worth is exclusive of this.	· Comprehensive result – total change in net worth · Net worth
PNFC/PFC net worth			
	Under AAS, the PNFC/PFC sectors report net worth as assets less liabilities.	Under GFS, the PNFC/PFC sectors report zero net worth, as the ownership interest is recognised as a liability.	· Comprehensive result – total change in net worth · Net worth

9.5 Related party transactions

The State of Victoria reporting entity includes government departments, PNFC, PFC and other government-controlled entities.

Key management personnel

All cabinet ministers are considered members of the key management personnel of the State of Victoria reporting entity for 2020-21. They are listed below.

Position title	*Key management personnel*
Premier	Hon Daniel Andrews
Deputy Premier	Hon James Merlino
Ministers of the Crown	Hon Jacinta Allan
	Hon Lily D'Ambrosio
	Hon Ben Carroll
	Hon Luke Donnellan
	Hon Martin Foley
	Hon Jill Hennessy [(a)]
	Hon Melissa Horne
	Hon Natalie Hutchins
	Hon Shaun Leane
	Ms Jenny Mikakos [(b)]
	Hon Lisa Neville
	Hon Martin Pakula
	Mr Tim Pallas
	Mr Danny Pearson
	Hon Jaala Pulford
	Hon Ros Spence
	Ms Ingrid Stitt [(c)]
	Hon Jaclyn Symes
	Hon Gayle Tierney
	Hon Mary-Anne Thomas [(d)]
	Hon Gabrielle Williams
	Hon Richard Wynne

Notes:
(a) Held Ministry until 16 December 2020.
(b) Held Ministry until 26 September 2020.
(c) Appointed to Ministry on 29 September 2020.
(d) Appointed to Ministry on 22 December 2020.

Related parties of the State of Victoria reporting entity include:

- all cabinet ministers and their close family members
- other arrangements or entities jointly controlled by the ministers or their close family members, or entities that they have significant influence over.

Transactions and balances with key management personnel and other related parties

Given the breadth and depth of State government activities, related parties transact with the Victorian public sector as normal citizens in a manner consistent with other members of the public, involving the receipt of services and benefits, and payment of taxes and other government fees and charges. No transactions have occurred with related parties on terms and conditions more or less favourable than those conducted under standard government policies, procedures and practices.

Outside of normal citizen type transactions, transactions are disclosed only when they are considered necessary to draw attention to the possibility that the State's financial position and profit or loss may have been affected by the existence of related parties, and by transactions and outstanding balances, including commitments, with such parties.

There were no material related party transactions that involved key management personnel, their close family members and their personal business interests. No provision has been required, nor any expense recognised, for impairment of receivables from related parties.

Remuneration of key management personnel

The remuneration and allowances of ministers are set by the *Parliamentary Salaries and Superannuation Act 1968* and the aggregated remuneration for ministers is $10 million in 2021 ($9 million in 2020).

($ thousand)

State of Victoria	*2021*	*2020*
Salaries and short-term employee benefits	9 230	8 752
Post-employment benefits	735	570
Total	**9 965**	**9 322**

9.6 Subsequent events

Assets, liabilities, revenues or expenses arise from past transactions or other past events. Adjustments are made to amounts recognised in the financial statements for events, which occur after the reporting period and before the date the statements are authorised for issue, where those events provide information about conditions which existed at the reporting date. If required, note disclosure is made about events that occur between the end of the reporting period and the date the statements are authorised for issue where the events relate to conditions which arose after the reporting period that are considered to be of material interest.

This report includes several disclosures about the impact and ongoing risks on the State's finances of the COVID-19 pandemic, which commenced in early 2020 and continues post 30 June 2021. There are no new further events that have arisen since 30 June which establish conditions materially impacting the financial results and position of the State as presented in this report.

9.7 Other accounting policies

9.7.1 Accounting for the goods and services tax

Revenues, expenses and assets are recognised net of the amount of associated GST, except where the GST incurred is not recoverable from the taxation authority. In this case the GST payable is recognised as part of the cost of acquisition of an asset or part of an item of expense.

Receivables and payables are stated inclusive of GST receivable or payable. Cash flows are presented on a gross basis. The GST components of cash flows from investing or financing activities are presented as an operating cash flow. Commitments and contingent assets and liabilities are also stated inclusive of GST.

9.7.2 Prospective accounting and reporting changes

Certain new and revised accounting standards have been issued but are not effective for the 2020-21 reporting period. These accounting standards have not been applied to the Annual Financial Report.

The State is reviewing its existing policies and assessing the potential implications of these accounting standards which includes the following:

AASB 17 Insurance Contracts

The operative date of this standard has been deferred by AASB 2020-5 *Amendments to Australian Accounting Standards – Insurance Contracts* to reporting periods beginning on or after 1 January 2023 and will supersede AASB 4 *Insurance Contracts*. AASB 17 seeks to eliminate inconsistencies and weaknesses in existing practices by providing a single principle-based framework to account for all types of insurance contracts, including reissuance contracts that an insurer holds. The standard also provides requirements for presentation and disclosure to enhance comparability between entities. The standard currently does not apply to the not-for-profit public sector entities.

AASB 2020-1 Amendments to Australian Accounting Standards – Classification of Liabilities as Current or Non-Current

This Standard amends AASB 101 to clarify requirements for the presentation of liabilities in the statement of financial position as current or non-current. The operative date of this standard has been deferred by AASB 2020-6 Amendments to Australian Accounting Standards – Classification of Liabilities as Current or Non-current – Deferral of Effective date to annual reporting periods beginning on or after 1 January 2023 instead of 1 January 2022, with earlier application permitted. The State will not early adopt the Standard.

The State is in the process of analysing the impacts of this Standard. However, it is not anticipated to have a material impact.

9. OTHER DISCLOSURES

AASB 2021-3 Amendments to Australian Accounting Standards – COVID-19-Related Rent Concessions beyond 30 June 2021

This Standard amends AASB 16 to extend by one year the application period of the practical expedient added to AASB 16 by AASB 2020-4 *Amendments to Australian Accounting Standards – COVID-19-Related Rent Concessions.* The practical expedient permits lessees not to assess whether rent concessions that occur as a direct consequence of the COVID-19 pandemic and meet specified conditions are lease modifications and, instead, to account for those rent concessions as if they were not lease modifications (e.g. account for as variable lease payment instead). This standard extends the practical expedient to rent concessions that reduce only lease payments originally due on or before 30 June 2022, provided the other conditions for applying the practical expedient are met.

This standard applies to annual periods beginning on or after 1 April 2021.

The standard is not anticipated to have a material impact.

Several other amending standards and AASB interpretations have been issued that apply to future reporting periods but are considered to have limited impact on the State's reporting.

9.8 Controlled entities

The table below contains a list of the significant controlled entities which have been consolidated for the purposes of the financial report. Unless otherwise noted below, all such entities are wholly-owned. The entities below may include additional consolidated entities, for which only the parent entity has been listed.

The principal activities of the controlled entities reflect the three sectors of government they are within as set out in the reporting structure under public sector terms explained earlier in this chapter. Further, Note 3.6 reflects the broad objectives of these controlled entities.

General government

Department of Education and Training

Adult Community and Further Education Board
Adult Multicultural Education Services
TAFEs including:
- Bendigo Kangan Institute
- Box Hill Institute
- Chisholm Institute
- Federation Training
- Gordon Institute of TAFE
- Goulburn Ovens Institute of TAFE
- Holmesglen Institute
- Melbourne Polytechnic
- South West Institute of TAFE
- Sunraysia Institute of TAFE
- William Angliss Institute of TAFE
- Wodonga Institute of TAFE

Victorian Curriculum and Assessment Authority
Victorian Institute of Teaching
Victorian Registration and Qualifications Authority

Department of Environment, Land, Water and Planning

Architects Registration Board of Victoria
Catchment Management Authorities including:
- Corangamite Catchment Management Authority
- East Gippsland Catchment Management Authority
- Glenelg Hopkins Catchment Management Authority
- Goulburn Broken Catchment Management Authority
- Mallee Catchment Management Authority
- North Central Catchment Management Authority
- North East Catchment Management Authority
- Port Phillip and Westernport Catchment Management Authority
- West Gippsland Catchment Management Authority
- Wimmera Catchment Management Authority

Caulfield Racecourse Reserve Trust
Cladding Safety Victoria [(a)]
Dhelkunya Dja Land Management Board
Environment Protection Authority
Gunaikurnai Traditional Owner Land Management
Heritage Council of Victoria
Office of the Commissioner for Environmental Sustainability
Parks Victoria
Royal Botanic Gardens Board Victoria
Surveyors Registration Board of Victoria
Sustainability Victoria
Trust for Nature (Victoria)
Victorian Building Authority
Victorian Energy Safety Commission [(b)]
Victorian Environmental Water Holder
Victorian Planning Authority
Yorta Yorta Traditional Owner Land Management Board

Department of Families, Fairness and Housing [(c)]

Commission for Children and Young People [(d)]
Family Violence Prevention Agency [(e)]
Shrine of Remembrance Trustees [(e)]
Victorian Disability Workers Commission [(f)]
Victorian Multicultural Commission [(e)]
Victorian Veterans Council [(e)]

Department of Health [(c)]

Health Purchasing Victoria
Hospitals, Health and Ambulance Services including:
- Albury Wodonga Health
- Alexandra District Health
- Alfred Health
- Alpine Health
- Ambulance Victoria
- Austin Health
- Bairnsdale Regional Health Service
- Ballarat Health Services
- Barwon Health
- Bass Coast Health
- Beaufort and Skipton Health Service
- Beechworth Health Service
- Benalla Health
- Bendigo Health
- Boort District Health
- Casterton Memorial Hospital
- Castlemaine Health
- Central Gippsland Health Service
- Central Highlands Rural Health
- Cohuna District Hospital
- Colac Area Health
- Corryong Health
- Dental Health Services Victoria
- Djerriwarrh Health Services [(g)]
- East Grampians Health Service
- East Wimmera Health Service
- Eastern Health
- Echuca Regional Health
- Edenhope and District Memorial Hospital
- Great Ocean Road Health
- Gippsland Southern Health Service
- Goulburn Valley Health
- Heathcote Health
- Hesse Rural Health Service
- Heywood Rural Health
- Inglewood and Districts Health Service
- Kerang District Health
- Kooweerup Regional Health Service
- Kyabram District Health Service
- Latrobe Regional Hospital
- Maldon Hospital
- Mallee Track Health and Community Service
- Mansfield District Hospital
- Maryborough District Health Service
- Melbourne Health
- Mildura Base Public Hospital
- Monash Health
- Moyne Health Services
- NCN Health
- Northeast Health Wangaratta
- Northern Health
- Omeo District Health
- Orbost Regional Health
- Peninsula Health
- Peter MacCallum Cancer Institute
- Portland District Health
- Robinvale District Health Services
- Rochester and Elmore District Health Service
- Rural Northwest Health
- Seymour Health
- South Gippsland Hospital
- South West Healthcare
- Stawell Regional Health
- Swan Hill District Health
- Tallangatta Health Service
- Terang and Mortlake Health Service

General government (continued)

- The Kilmore and District Hospital
- The Royal Children's Hospital
- The Royal Victorian Eye and Ear Hospital
- The Royal Women's Hospital
- Timboon and District Healthcare Service
- Victorian Assisted Reproductive Treatment Authority
- Victorian Institute of Forensic Mental Health
- West Gippsland Healthcare Group
- West Wimmera Health Service
- Western District Health Service
- Western Health [g]
- Wimmera Health Care Group
- Yarram and District Health Service
- Yarrawonga Health
- Yea and District Memorial Hospital

The Queen Elizabeth Centre
Tweddle Child and Family Health Service
Victorian Health Promotion Foundation
Victorian Pharmacy Authority

Department of Jobs, Precincts and Regions

Australian Centre for the Moving Image
Dockland Studios Melbourne Pty Ltd
Film Victoria
Game Management Authority
Library Board of Victoria
Melbourne Cricket Ground Trust
Melbourne Recital Centre Limited
Mine Land Rehabilitation Authority [h]
Museums Board of Victoria
National Gallery of Victoria, Council of Trustees
Secretary, Project Development [i]
Rural Assistance Commissioner
Veterinary Practitioners Registration Board of Victoria
Victorian Institute of Sport Limited
Victorian Institute of Sport Trust
Victorian Racing Integrity Board
Victorian Racing Commissioner
Victorian Racing Tribunal
Visit Victoria

Department of Justice and Community Safety

Country Fire Authority
Emergency Services Telecommunications Authority
Fire Rescue Victoria [j]
Office of Public Prosecutions
Professional Standards Council of Victoria
Residential Tenancies Bond Authority
Sentencing Advisory Council
Victoria Legal Aid
Victoria Police (Office of the Chief Commissioner of Police)
Victoria State Emergency Service Authority
Victorian Commission for Gambling and Liquor Regulation
Victorian Equal Opportunity and Human Rights Commission
Victorian Information Commissioner
Victorian Institute of Forensic Medicine
Victorian Law Reform Commission
Victorian Legal Services Board and Commissioner
Victorian Responsible Gambling Foundation

Department of Premier and Cabinet

Cenitex [k]
Labour Hire Licensing Authority
Portable Long Service Authority
Victorian Aboriginal Heritage Council
Victorian Electoral Commission
Victorian Public Sector Commission
Victorian Independent Remuneration Tribunal

Department of Transport

Commercial Passenger Vehicles Victoria
Head, Transport for Victoria
Roads Corporation
Victorian Fisheries Authority

Department of Treasury and Finance

Essential Services Commission
Infrastructure Victoria

Courts

Judicial College of Victoria
Judicial Commission of Victoria

Parliament of Victoria

Independent Broad-based Anti-corruption Commission (IBAC) [l]
Ombudsman Victoria [l]
Parliamentary Budget Office (PBO) [m]
Victorian Inspectorate [l]

Victorian Auditor-General's Office

Public non-financial corporation

Department of Environment, Land, Water and Planning

Alpine Resorts Management Board including:

- Alpine Resorts Co-ordinating Council
- Falls Creek Alpine Resort Management Board
- Mount Buller and Mount Stirling Alpine Resort Management Board
- Mount Hotham Alpine Resort Management Board
- Southern Alpine Resort Management Board

Phillip Island Nature Parks Waste and Resource Recovery Groups including:

- Barwon South West Waste and Resource Recovery Group
- Gippsland Waste and Resource Recovery Group
- Goulburn Valley Waste and Resource Recovery Group
- Grampians Central Waste and Resource Recovery Group
- Metropolitan Waste and Resource Recovery Group
- Loddon Mallee Waste and Resource Recovery Group
- North East Waste and Resource Recovery Group

Great Ocean Road Coast and Parks Authority [n]
Water authorities including:

- Barwon Region Water Corporation
- Central Gippsland Region Water Corporation
- Central Highlands Region Water Corporation
- City West Water Corporation [o]
- Coliban Region Water Corporation
- East Gippsland Region Water Corporation
- Gippsland and Southern Rural Water Corporation
- Goulburn Murray Rural Water Corporation
- Goulburn Valley Region Water Corporation
- Lower Murray Urban and Rural Water Corporation
- Melbourne Water Corporation
- Grampians Wimmera Mallee Water Corporation
- North East Region Water Corporation
- South East Water Corporation
- South Gippsland Region Water Corporation
- Wannon Region Water Corporation
- Western Region Water Corporation [o]
- Westernport Region Water Corporation
- Yarra Valley Water Corporation

Zoological Parks and Gardens Board

Department of Families, Fairness and Housing [c]

Director of Housing [d]
Queen Victoria Women's Centre Trust [e]
VITS Language Loop [e]

Public non-financial corporation (continued)

Department of Health [c]

Cemeteries including:

- Ballarat General Cemeteries Trust
- Geelong Cemeteries Trust
- The Greater Metropolitan Cemeteries Trust
- Southern Metropolitan Cemeteries Trust
- The Mildura Cemetery Trust
- Remembrance Parks Central Victoria [p]

Department of Jobs, Precincts and Regions

Agriculture Victoria Services Pty Ltd
Australian Grand Prix Corporation
Dairy Food Safety Victoria
Emerald Tourist Railway Board
Fed Square Pty Ltd
Geelong Performing Arts Centre Trust
Greyhound Racing Victoria
Harness Racing Victoria
Kardinia Park Stadium Trust
Launch Victoria Ltd
Melbourne and Olympic Parks Trust
Melbourne Convention and Exhibition Trust
Melbourne Market Authority
Murray Valley Wine Grape Industry Development Committee
Primesafe
State Sport Centres Trust
VicForests
Victorian Arts Centre Trust
Victorian Strawberry Industry Development Committee

Department of Justice and Community Safety

Accident Compensation Conciliation Service

Department of Transport

Development Victoria [q]
North East Link State Tolling Corporation [r]
Melbourne Port Lessor Pty Ltd
Port of Hastings Development Authority
V/Line Corporation
Victorian Ports Corporation (Melbourne) [s]
Victorian Rail Track
Victorian Regional Channels Authority [s]

Department of Treasury and Finance

State Electricity Commission of Victoria
Victorian Plantations Corporation (shell)

Public financial corporation

Department of Justice and Community Safety

Victorian WorkCover Authority

Department of Premier and Cabinet

Breakthrough Victoria Pty Ltd [t]

Department of Transport

Transport Accident Commission

Department of Treasury and Finance

State Trustees Limited
Treasury Corporation of Victoria
Victorian Funds Management Corporation
Victorian Managed Insurance Authority

Notes:

(a) *Cladding Safety Victoria (CSV) was established under the* Cladding Safety Victoria Act 2020*. CSV commenced as an agency on 1 December 2020.*
(b) *Effective from 1 January 2021, Energy Safe Victoria became the Victorian Energy Safety Commission and can be referred to under either name.*
(c) *Effective from 1 February 2021, the Department of Health and Human Services was renamed the Department of Health and the new Department of Families, Fairness and Housing was created.*
(d) *Effective from 1 February 2021, portfolio responsibility for these Victorian government entities was transferred from the Department of Health and Human Services to the Department of Families, Fairness and Housing.*
(e) *Effective from 1 February 2021, portfolio responsibility for these Victorian government entities was transferred from the Department of Premier and Cabinet to the Department of Families, Fairness and Housing.*
(f) *The Victorian Disability Workers Commission was created on 1 July 2020, to implement the Government's election commitment to deliver the independent Disability Worker Regulation Scheme and to meet the legislative requirements of the* Disability Service Safeguards Act 2018*. The entity was set up to provide safeguards for people with disability and to regulate all disability workers in Victoria.*
(g) *On 1 July 2021, by order of the Governor-in-Council, Djerriwarrh Health Services and Western Health were amalgamated to form a new registered funded agency named Western Health.*
(h) *Effective 30 June 2020, the Mine Land Rehabilitation Authority, was established as an independent statutory authority to oversee the rehabilitation and post-closure management of declared mine land to ensure transition to safe, stable and sustainable post-mining landforms in Victoria.*
(i) *Effective from 22 December 2020, the Secretary, Project Development was established as a body corporate under Section 41A of the* Project Development and Construction Management Act 1994 *to facilitate and manage public construction for nominated projects under that Act.*
(j) *Effective from 1 July 2020, Fire Rescue Victoria has replaced the Metropolitan Fire and Emergency Services Board.*
(k) *Effective from 1 August 2020, Cenitex transferred from the Department of Treasury and Finance to the Department of Premier and Cabinet.*
(l) *Effective from 1 July 2020, the Independent Broad-based Anti-corruption Commission (IBAC), Ombudsman Victoria and Victorian Inspectorate transferred from the Department of Justice and Community Safety to become independent offices of Parliament.*
(m) *Effective from 1 July 2020, the Parliamentary Budget Office's financial management services were transferred from the Department of Parliamentary Services to the Parliamentary Budget Office.*
(n) *The Great Ocean Road Coast and Parks Authority (GORCAPA) was established under the* Great Ocean Road and Environs Protection Act 2020*. Effective from 1 December 2020, GORCAPA protects and manages Crown land and coastal assets within the Great Ocean Road coast and park.*
(o) *Effective 1 July 2021, City West Water Corporation and Western Region Water Corporation integrated to form a new water corporation called Greater Western Water.*
(p) *Effective from 6 August 2020, Bendigo Cemeteries Trust changed its name to Remembrance Parks Central Victoria.*
(q) *Effective from 1 July 2020, portfolio responsibility for Development Victoria was transferred from the Department of Jobs, Precincts and Regions to the Department of Transport.*
(r) *The North East Link State Tolling Corporation (STC) was established under the* North East Link Act 2020*. STC is responsible for managing, operating and maintaining the North East Link road, and will fix and collect tolls for North East Link in accordance with the Act. STC commenced operations on 1 March 2021.*
(s) *Effective from 1 July 2021, Victorian Ports Corporation (Melbourne) and Victorian Regional Channels Authority merged and created a new entity called Ports Victoria. Ports Victoria will lead the strategic management and operation of Victorian commercial ports and waterways.*
(t) *Effective from 16 March 2021, Breakthrough Victoria Pty Ltd was incorporated under the* Corporations Act 2001 *to oversee the Breakthrough Victoria Fund initiative.*

9.9 Glossary of technical terms

The following is a summary of the major technical terms used in this report as sourced from the *Uniform Presentation Framework (2019)*. Technical terms that have been discussed elsewhere in this chapter are excluded from the list below.

ABS GFS manual represents the ABS publication *Australian System of Government Finance Statistics: Concepts, Sources and Methods 2015* as updated from time to time.

Capital grants are transactions in which the ownership of an asset (other than cash and inventories) is transferred from one institutional unit to another, to enable the recipient to acquire another asset or in which the funds realised by the disposal of another asset are transferred, for which no economic benefits of equal value are receivable or payable in return.

Cash surplus/deficit represents the net cash flows from operating activities plus net cash flows from investments in non-financial assets (less dividends paid for the PNFC and PFC sectors).

Cash surplus/deficit – ABS GFS version is equal to the cash surplus deficit (above) less the value of assets acquired under agreements meeting the definition of material finance leases prior to the application of AASB 16 *Leases* and similar arrangements.

Change in net worth (comprehensive result) is revenue from transactions less expenses from transactions plus other economic flows and measures the variation in a government's accumulated assets and liabilities.

Comprehensive result is the amount included in the operating statement representing total change in net worth other than transactions with owners as owners.

Current grants are amounts payable or paid for current purposes for which no economic benefits of equal value are receivable or payable in return.

Effective interest method is the method used to calculate the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset or, where appropriate, a shorter period.

Fiscal aggregates: Analytical balances that are useful for macroeconomic analysis purposes, including assessing the impact of a government and its sectors on the economy.

Key fiscal aggregates defined under ABS GFS manual are required to be disclosed under AASB 1049. They are: opening net worth, net operating balance, net lending/(borrowing), change in net worth due to revaluations, change in net worth due to other changes in the volume of assets, total change in net worth, closing net worth, and cash surplus/(deficit). AASB 1049 also allows additional fiscal aggregates to be included such as net financial worth, net financial liabilities and net debt.

Government Finance Statistics (GFS) enables policymakers and analysts to study developments in the financial operations, financial position and liquidity situation of the Government. More details about the GFS can be found in the Australian Bureau of Statistics GFS manual *Australian System of Government Finance Statistics: Concepts, Sources and Methods 2015*.

Infrastructure systems provide essential services used in delivering final services or products. They are generally a complex interconnected network of individual assets and mainly include sewerage systems, water storage and supply systems, and public transport assets owned by the State.

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

Leases are rights conveyed in a contract, or part of a contract, to use an asset (the underlying asset) for a period of time in exchange for consideration.

Net acquisition of non-financial assets (from transactions) are purchases (and other acquisitions) of non-financial assets less sales (or disposals) of non-financial assets less depreciation plus changes in inventories and other movements in non-financial assets. Includes only those increases or decreases in non-financial assets resulting from transactions and therefore excludes write offs, impairment write downs and revaluations.

Net cash flows from investments in financial assets (liquidity management purposes) are cash receipts from liquidation or repayment of investments in financial assets for liquidity management purposes less cash payments for such investments. Investment for liquidity management purposes means making funds available to others with no policy intent and with the aim of earning a commercial rate of return.

Net cash flows from investments in financial assets (policy purposes) represents cash payments made for acquiring financial assets for policy purposes, less cash receipts from the repayment and liquidation of such investments in financial assets.

Acquisition of financial assets for policy purposes is distinguished from investments in financial assets (liquidity management purposes) by the underlying government motivation for acquiring the assets. Acquisition of financial assets for policy purposes includes loans made by government that are motivated by Government policies, such as encouraging the development of certain industries or assisting people affected by natural disaster.

For the general government sector, this item also includes cash flows arising from the acquisition and disposal by government of its investments (contributed capital) in entities in the PNFC and PFC sectors.

Net debt equals sum of deposits held, advances received, government securities, loans and other borrowing less the sum of cash and deposits, advances paid and investments, loans and placements. For the PFC sector, this also includes loans receivable from other sector entities.

Net financial liabilities is calculated as liabilities less financial assets, other than equity in PNFCs and PFCs. This measure is broader than net debt as it includes significant liabilities, other than borrowings (e.g. accrued employee liabilities such as superannuation and long service leave entitlements). For the PNFC and PFC sectors, it is equal to negative net financial worth.

Net financial worth is equal to financial assets minus liabilities. It is a broader measure than net debt as it incorporates provisions made (such as superannuation, but excluding depreciation and bad debts) as well as holdings of equity. Net financial worth includes all classes of financial assets and liabilities, only some of which are included in net debt.

Net lending / borrowing is the financing requirement of government, calculated as the net operating balance less the net acquisition of non-financial assets. It also equals transactions in financial assets less transactions in liabilities. A positive result reflects a net lending position and a negative result reflects a net borrowing position.

Net operating balance – net result from transactions: Net result from transactions or net operating balance is a key fiscal aggregate and is revenue from transactions minus expenses from transactions. It is a summary measure of the ongoing sustainability of operations. It excludes gains and losses resulting from changes in price levels and other changes in the volume of assets. It is the component of the change in net worth that is due to transactions and can be attributed directly to government policies.

Net result is a measure of financial performance of the operations for the period. It is the net result of items of revenue, gains and expenses (including losses) recognised for the period, excluding those that are classified as other non-owner movements in equity.

Net worth is calculated as assets less liabilities, which is an economic measure of wealth.

Non-financial assets are all assets that are not financial assets. It includes inventories, land, buildings, infrastructure, road networks, land under roads, plant and equipment, cultural and heritage assets, intangibles and biological assets such as commercial forests.

Non-financial public sector represents the consolidated transactions and assets and liabilities of the general government and PNFC sectors. In compiling statistics for the non-financial public sector, transactions and debtor creditor relationships between sub sectors are eliminated to avoid double counting.

Non-produced assets are assets needed for production that have not themselves been produced. They include land, subsoil assets, and certain intangible assets. Non-produced intangibles are intangible assets needed for production that have not themselves been produced. They include constructs of society such as patents.

Operating result is a measure of financial performance of the operations for the period. It is the net result of items of revenue, gains and expenses (including losses) recognised for the period, excluding those that are classified as other non-owner movements in equity. Refer also to net result.

9. OTHER DISCLOSURES

Other economic flows are changes in the volume or value of an asset or liability that do not result from transactions. In simple terms, other economic flows are changes arising from market remeasurements. They include gains and losses from disposals, revaluations and impairments of non-current physical and intangible assets; actuarial gains and losses arising from defined benefit superannuation plans; fair value changes of financial instruments and agricultural assets; and depletion of natural assets (non-produced) from their use or removal.

Produced assets include buildings, plant and equipment, inventories, cultivated assets and certain intangible assets. Intangible produced assets may include computer software, motion picture films and research and development costs (which does not include the start-up costs associated with capital projects).

Roads include road pavement and road works in progress. All land under roads is included under the category of 'land'.

Road infrastructure mainly includes sound barriers, bridges and traffic signal control systems.

Service concession arrangement is a contract effective during the reporting period between a grantor and an operator in which:

a) the operator has the right of access to the service concession asset (or assets) to provide public services on behalf of the grantor for a specified period of time
b) the operator is responsible for at least some of the management of the public services provided through the asset and does not act merely as an agent on behalf of the grantor
c) the operator is compensated for its services over the period of the service concession arrangement.

Taxation revenue represents revenue received from the State's taxpayers and includes: payroll tax, land tax, duties levied principally on conveyances and land transfers, gambling taxes levied mainly on private lotteries, electronic gaming machines, casino operations and racing, insurance duty relating to compulsory third party, life and non-life policies, insurance company contributions to fire brigades, Fire Services Property Levy, motor vehicle taxes, including registration fees and duty on registrations and transfers, levies (including the environmental levy) on statutory corporations in other sectors of government, and other taxes, including landfill levies, licence and concession fees.

Transactions are those economic flows that are considered to arise as a result of policy decisions, usually interactions between two entities by mutual agreement, and also flows within an entity, such as depreciation where the owner is simultaneously acting as the owner of the depreciating asset and as the consumer of the service provided by the asset. Taxation is regarded as mutually agreed interactions between the Government and taxpayers. Transactions can be cash or in kind (e.g. assets provided/given free of charge or for nominal consideration). In simple terms, transactions arise from the policy decisions of the Government.

CHAPTER 5 – SUPPLEMENTARY UNIFORM PRESENTATION FRAMEWORK TABLES

THE ACCRUAL GOVERNMENT FINANCE STATISTICS PRESENTATION

The Government Finance Statistics (GFS) system employed by the Australian Bureau of Statistics is designed to provide statistics relating to the finances of the Australian public sector. The statistics show the consolidated transactions and balances of the various institutional sectors of government from an economic viewpoint, providing details of the revenue, expenses, payments, receipts, assets and liabilities. It includes only those transactions and balances over which a government exercises control under its legislative or policy framework and excludes from the calculation of net operating balance both revaluations (realised and unrealised gains or losses) arising from a change in market prices, and other changes in the volume of assets that result from discoveries, depletion and destruction of assets. These gains and losses are classified as other economic flows.

GENERALLY ACCEPTED ACCOUNTING PRINCIPLES/GOVERNMENT FINANCE STATISTICS HARMONISATION

In October 2007, the Australian Accounting Standards Board issued a new standard AASB 1049 *Whole of Government and General Government Sector Financial Reporting*, applicable from 1 July 2008. The objective as set out by the Financial Reporting Council in December 2002 is 'to achieve an Australian accounting standard for a single set of government reports which are auditable, are comparable between jurisdictions, and in which the outcome statements as directly comparable with the relevant budget statements'. This standard incorporates the major elements of the GFS framework, including the presentation formats and key fiscal aggregates, into a standard based on generally accepted accounting principles.

The current Uniform Presentation Framework (UPF) was agreed by the Council of Federal Financial Relations in February 2019, based on the 2015 update to the Australian System of Government Finance Statistics (GFS) Framework AASB 1049, and is applicable from the reporting period commencing 1 July 2018. In addition to the audited Annual Financial Report presented in Chapter 4, the following statements are also required to be presented under the UPF.

FINANCIAL STATEMENTS FOR THE NON-FINANCIAL PUBLIC SECTOR

Table 5.1: Non-financial public sector operating statement for the financial year ended 30 June ($ million)

	2021	*2020*
Revenue and income from transactions		
Taxation	23 184	22 745
Interest income	184	181
Dividends and income tax equivalent and rate equivalent income	222	200
Sales of goods and services	11 477	11 769
Grants	36 977	32 772
Other revenue and income	3 690	3 427
Total revenue and income from transactions	**75 733**	**71 095**
Expenses from transactions		
Employee expenses	31 449	28 597
Net superannuation interest expense	305	408
Other superannuation	3 566	3 213
Depreciation	6 872	6 395
Interest expense	3 034	2 761
Grant expense	16 968	11 260
Other operating expenses	29 500	25 560
Total expenses from transactions	**91 695**	**78 194**
Net result from transactions – net operating balance	**(15 961)**	**(7 099)**
Other economic flows included in net result		
Net gain/(loss) on disposal of non-financial assets	(50)	(190)
Net gain/(loss) on financial assets or liabilities at fair value	182	89
Share of net profit/(loss) from associates/joint venture entities	3	3
Other gains/(losses) from other economic flows	(759)	(3 259)
Total other economic flows included in net result	**(623)**	**(3 357)**
Net result	**(16 585)**	**(10 456)**
Other economic flows – other comprehensive income		
Items that will not be reclassified to net result		
Changes in non-financial assets revaluation surplus	15 743	16 503
Remeasurement of superannuation defined benefits plans	3 960	(2 735)
Other movements in equity	38	(97)
Items that may be reclassified subsequently to net result		
Net gain/(loss) on financial assets at fair value	214	(182)
Net gain/(loss) on equity investments in other sector entities at proportional share of the carrying amount of net assets	28	(2 555)
Total other economic flows – other comprehensive income	**19 983**	**10 935**
Comprehensive result – total change in net worth	**3 399**	**479**
FISCAL AGGREGRATES		
Net operating balance	**(15 961)**	**(7 099)**
Net acquisition of non-financial assets from transactions		
Purchases of non-financial assets (including change in inventories)	15 635	12 863
Less: Sales of non-financial assets	(274)	(369)
Less: Depreciation and amortisation	(6 872)	(6 395)
Plus/(less): Other movements in non-financial assets	3 814	2 714
Less: Net acquisition of non-financial assets from transactions	**12 304**	**8 813**
Net lending/(borrowing)	**(28 265)**	**(15 912)**

Table 5.2: Non-financial public sector balance sheet for the financial year ended 30 June ($ million)

	2021	2020
Assets		
Financial assets		
Cash and deposits	16 466	14 569
Advances paid	538	483
Receivables and contract assets	9 296	7 581
Investments, loans and placements	3 714	3 227
Investments accounted for using the equity method	10	10
Investments in other sector entities	176	162
Total financial assets	**30 201**	**26 032**
Non-financial assets		
Inventories	2 010	1 710
Non-financial assets held for sale	243	226
Land, buildings, infrastructure, plant and equipment	334 551	308 655
Other non-financial assets	4 551	4 197
Total non-financial assets	**341 355**	**314 789**
Total assets	**371 556**	**340 820**
Liabilities		
Deposits held and advances received	1 712	1 660
Payables	25 999	26 497
Contract liabilities	438	140
Borrowings	107 446	76 584
Employee benefits	9 916	9 545
Superannuation	27 245	31 293
Other provisions	1 736	1 435
Total liabilities	**174 490**	**147 154**
Net assets	**197 065**	**193 667**
Accumulated surplus/(deficit)	84 716	90 381
Reserves	112 349	103 285
Net worth	**197 065**	**193 667**
FISCAL AGGREGATES		
Net financial worth	(144 290)	(121 122)
Net financial liabilities	144 465	121 284
Net debt	88 439	59 965

Table 5.3: Non-financial public sector cash flow statement for the financial year ended 30 June ($ million)

	2021	*2020*
Cash flows from operating activities		
Receipts		
Taxes received	22 300	22 836
Grants	34 897	34 279
Sales of goods and services [(a)]	12 868	12 911
Interest received	167	199
Dividends, income tax equivalent and rate equivalent receipts	219	198
Other receipts	2 297	2 289
Total receipts	**72 747**	**72 712**
Payments		
Payments for employees	(30 719)	(27 708)
Superannuation	(3 959)	(3 745)
Interest paid	(2 761)	(2 532)
Grants and subsidies	(16 435)	(11 569)
Goods and services [(a)]	(28 343)	(27 188)
Other payments	(1 058)	(1 520)
Total payments	**(83 274)**	**(74 262)**
Net cash flows from operating activities	**(10 527)**	**(1 550)**
Cash flows from investing activities		
Cash flows from investments in non-financial assets		
Purchases of non-financial assets	(15 379)	(12 416)
Sales of non-financial assets	274	369
Net cash flows from investments in non-financial assets	**(15 105)**	**(12 047)**
Net cash flows from investments in financial assets for policy purposes	(70)	(86)
Sub-total	**(15 175)**	**(12 133)**
Net cash flows from investments in financial assets for liquidity management purposes	(208)	(356)
Net cash flows from investing activities	**(15 383)**	**(12 489)**
Cash flows from financing activities		
Advances received (net)	(35)	106
Net borrowings	27 762	17 099
Deposits received (net)	81	30
Net cash flows from financing activities	**27 808**	**17 235**
Net increase/(decrease) in cash and cash equivalents	**1 897**	**3 196**
Cash and cash equivalents at beginning of the reporting period	14 569	11 373
Cash and cash equivalents at end of the reporting period	**16 466**	**14 569**
FISCAL AGGREGATES		
Net cash flows from operating activities	(10 527)	(1 550)
Net cash flows from investments in non-financial assets	(15 105)	(12 047)
Cash surplus/(deficit)	**(25 632)**	**(13 597)**

Note:
(a) These items include goods and services tax.

Table 5.4: Non-financial public sector statement of changes in equity ($ million)

	Accumulated surplus/(deficit)	*Non-financial assets revaluation surplus*	*Investment in other sector entities revaluation surplus*	*Other reserves*	*Total*
2021					
Balance at 1 July 2020	90 381	101 302	501	1 483	193 667
Net result for the year	(16 585)	..	..	..	(16 585)
Other comprehensive income for the year	3 933	15 743	28	280	19 983
Transfer to/(from) accumulated surplus	6 987	(6 987)	..	..	..
Total equity as at 30 June 2021	**84 716**	**110 058**	**528**	**1 763**	**197 065**
2020					
Balance at 1 July 2019	79 526	109 000	3 056	1 606	193 188
Net result for the year	(10 456)	..	..	..	(10 456)
Other comprehensive income for the year	(2 890)	16 503	(2 555)	(123)	10 935
Transfer to/(from) accumulated surplus	24 201	(24 201)	..	..	..
Total equity as at 30 June 2020	**90 381**	**101 302**	**501**	**1 483**	**193 667**

Table 5.5: General government sector detailed expenses by function [(a)] ($ million)

	2021	2020
General public services	**4 770**	**4 494**
Executive and legislative organs, financial and fiscal affairs, external affairs	1 927	1 902
General Services	688	616
Public debt transactions	1 753	1 529
General public services NEC [(b)]	401	447
Public order and safety	**11 291**	**9 357**
Police services	3 859	3 556
Civil and fire protection services	3 007	2 390
Law courts	1 134	1 340
Prisons	1 970	1 805
Public order and safety NEC [(b)]	1 321	266
Economic affairs	**6 523**	**3 100**
General economic, commercial and labour affairs	4 202	1 581
Economic affairs NEC [(b)]	469	262
Agriculture, forestry, fishing and hunting	593	576
Fuel and energy	759	371
Other industries	500	310
Environmental protection	**1 025**	**964**
Protection of biodiversity and landscape	541	477
Environmental protection NEC [(b)]	484	487
Housing and community amenities	**2 360**	**2 015**
Housing development	..	..
Community development	2 243	1 896
Water supply	118	119
Housing and Communities amenities NEC [(b)]	..	..
Health	**24 770**	**22 115**
Medical products, appliances and equipment	..	..
Outpatient Services	2 372	2 158
Hospital Services	18 507	17 144
Mental health institutions	..	..
Community health services	2 270	2 299
Public health services	1 451	390
Health NEC [(b)]	170	123
Recreation, culture and religion	**1 333**	**864**
Recreational and sporting services	769	363
Cultural Services	563	502
Education	**17 793**	**16 891**
Pre-primary and primary education	7 912	7 476
Secondary education	6 459	6 007
Tertiary education	2 173	2 184
Education not definable by level	77	104
Subsidiary services to education	122	129
Education NEC [(b)]	1 051	991
Social protection	**8 181**	**6 171**
Sickness and disability	2 945	2 316
Old age	450	418
Family and children	2 136	1 881
Housing	2 012	871
Social protection NEC [(b)]	637	685
Transport	**10 109**	**9 274**
Road transport	2 924	2 359
Bus transport	833	1 199
Water transport	49	111
Railway transport	5 453	5 004
Multi-mode urban transport	850	600
Transport NEC [(b)]	..	..
Not allocated by purpose [(c)]	**(948)**	**(757)**
Total expenses	**87 207**	**74 487**

Notes:
(a) Chapter 4, Note 3.6 provides definitions and descriptions of the classification of the functions of government.
(b) NEC: Not elsewhere classified.
(c) Not allocated by purpose represents eliminations and adjustments.

APPENDIX A – GENERAL GOVERNMENT SECTOR QUARTERLY FINANCIAL REPORT

Table A.1: Operating statement for the past five quarters **($ million)**

	2019-20		*2020-21*		
	Jun	*Sep*	*Dec*	*Mar*	*Jun*
Revenue and income from transactions					
Taxation	4 216	5 090	4 638	8 009	5 876
Interest income	160	143	137	127	188
Dividends, income tax equivalent and rate equivalent income	235	83	281	79	177
Sales of goods and services	1 970	1 704	2 011	1 946	2 287
Grants	8 178	7 539	8 272	9 583	11 564
Other revenue and income	507	491	552	791	1 081
Total revenue and income from transactions	**15 266**	**15 049**	**15 891**	**20 536**	**21 173**
Expenses from transactions					
Employee expenses	7 232	7 224	7 413	7 396	8 011
Net superannuation interest expense	102	83	71	75	76
Other superannuation	792	804	903	858	860
Depreciation	1 110	1 022	1 029	996	1 117
Interest expense	589	624	630	685	675
Grant expense	4 544	4 820	5 313	5 492	6 460
Other operating expenses	6 663	5 536	5 588	5 577	7 867
Total expenses from transactions	**21 032**	**20 113**	**20 948**	**21 079**	**25 067**
Net result from transactions – net operating balance	**(5 766)**	**(5 064)**	**(5 056)**	**(544)**	**(3 894)**
Other economic flows included in net result					
Net gain/(loss) on disposal of non-financial assets	(57)	..	5	16	(48)
Net gain/(loss) on financial assets or liabilities at fair value	(138)	1	80	31	11
Share of net profit/(loss) from associates/joint venture entities	3	(2)	..	..	5
Other gains/(losses) from other economic flows	(764)	(17)	(103)	313	468
Total other economic flows included in net result	**(957)**	**(17)**	**(18)**	**360**	**436**
Net result	**(6 723)**	**(5 081)**	**(5 075)**	**(184)**	**(3 457)**
Other economic flows – other comprehensive income					
Items that will not be reclassified to net result					
Changes in non-financial assets revaluation surplus	12 151	145	82	62	6 668
Remeasurement of superannuation defined benefits plans	(1 958)	(1 649)	(541)	4 258	1 869
Other movements in equity	..	(22)	35	24	2
Items that may be reclassified subsequently to net result					
Net gain/(loss) on financial assets at fair value	(94)	19	(7)	138	79
Net gain/(loss) on equity investments in other sector entities at proportional share of the carrying amount of net assets	(1 740)	..	(158)	..	501
Total other economic flows – other comprehensive income	**8 359**	**(1 508)**	**(589)**	**4 481**	**9 120**
Comprehensive result – total change in net worth	**1 636**	**(6 589)**	**(5 664)**	**4 298**	**5 662**
KEY FISCAL AGGREGATES					
Net operating balance	**(5 766)**	**(5 064)**	**(5 056)**	**(544)**	**(3 894)**
Less: Net acquisition of non-financial assets from transactions	1 400	1 907	3 849	2 123	6 329
Net lending/(borrowing)	**(7 166)**	**(6 971)**	**(8 906)**	**(2 667)**	**(10 223)**

Table A.2: Balance sheet as at the end of the past five quarters **($ million)**

	2019-20		*2020-21*		
	Jun	*Sep*	*Dec*	*Mar*	*Jun*
Assets					
Financial assets					
Cash and deposits	13 037	15 880	14 461	14 823	14 609
Advances paid	6 550	5 943	5 912	5 977	5 473
Receivables and contract assets	6 108	6 182	6 391	8 920	8 201
Investments, loans and placements	2 589	2 517	2 680	2 759	2 960
Investments accounted for using the equity method	10	10	10	10	10
Investments in other sector entities	75 043	76 432	75 186	75 317	73 125
Total financial assets	**103 337**	**106 965**	**104 640**	**107 806**	**104 377**
Non-financial assets					
Inventories	666	700	905	901	908
Non-financial assets held for sale	192	188	174	189	182
Land, buildings, infrastructure, plant and equipment	173 743	175 669	179 353	181 864	195 592
Other non-financial assets	3 103	3 844	3 496	3 293	3 357
Total non-financial assets	**177 703**	**180 402**	**183 928**	**186 247**	**200 038**
Total assets	**281 040**	**287 367**	**288 568**	**294 053**	**304 415**
Liabilities					
Deposits held and advances received	3 681	3 056	3 048	3 100	2 791
Payables	16 802	16 448	15 604	15 668	16 404
Contract liabilities	68	62	379	401	239
Borrowings	62 807	74 948	81 751	87 113	92 985
Employee benefits	9 028	8 971	9 003	9 022	9 384
Superannuation	31 228	33 101	33 660	29 388	27 217
Other provisions	1 335	1 278	1 284	1 223	1 597
Total liabilities	**124 949**	**137 864**	**144 729**	**145 916**	**150 617**
Net assets	**156 092**	**149 503**	**143 839**	**148 137**	**153 799**
Accumulated surplus/(deficit)	68 166	61 361	55 823	60 264	58 642
Reserves	87 925	88 142	88 016	87 872	95 157
Net worth	**156 092**	**149 503**	**143 839**	**148 137**	**153 799**
FISCAL AGGREGATES					
Net financial worth	(21 612)	(30 899)	(40 089)	(38 110)	(46 239)
Net financial liabilities	96 654	107 331	115 275	113 427	119 364
Net debt	44 312	53 663	61 746	66 654	72 734

Table A.3: Statement of cash flows for the past five quarters **($ million)**

	2019-20	*2020-21*			
	Jun	*Sep*	*Dec*	*Mar*	*Jun*
Cash flows from operating activities					
Receipts					
Taxes received	5 694	4 976	4 849	5 905	6 999
Grants	9 660	7 451	7 836	9 356	10 234
Sales of goods and services (a)	1 893	2 147	2 244	1 823	2 558
Interest received	164	140	139	125	181
Dividends, income tax equivalent and rate equivalent receipts	203	83	281	79	175
Other receipts	637	253	29	350	895
Total receipts	**18 250**	**15 049**	**15 378**	**17 639**	**21 043**
Payments					
Payments for employees	(6 421)	(7 280)	(7 352)	(7 083)	(7 618)
Superannuation	(1 189)	(663)	(956)	(947)	(1 238)
Interest paid	(549)	(546)	(543)	(587)	(656)
Grants and subsidies	(4 483)	(4 909)	(5 331)	(5 511)	(5 826)
Goods and services (a)	(6 661)	(6 354)	(5 492)	(5 116)	(7 079)
Other payments	(820)	(411)	(274)	(452)	158
Total payments	**(20 122)**	**(20 162)**	**(19 950)**	**(19 696)**	**(22 259)**
Net cash flows from operating activities	**(1 872)**	**(5 113)**	**(4 572)**	**(2 057)**	**(1 216)**
Cash flows from investing activities					
Cash flows from investments in non-financial assets					
Purchases of non-financial assets	(3 019)	(2 576)	(2 996)	(2 564)	(3 811)
Sales of non-financial assets	62	32	24	39	39
Net cash flows from investments in non-financial assets	**(2 958)**	**(2 544)**	**(2 972)**	**(2 526)**	**(3 772)**
Net cash flows from investments in financial assets for policy purposes	740	441	(76)	(203)	100
Sub-total	**(2 218)**	**(2 103)**	**(3 048)**	**(2 728)**	**(3 672)**
Net cash flows from investments in financial assets for liquidity management purposes	(198)	92	(89)	70	(204)
Net cash flows from investing activities	**(2 415)**	**(2 011)**	**(3 137)**	**(2 659)**	**(3 876)**
Cash flows from financing activities					
Advances received (net)	(1 017)	(614)	(6)	(10)	(335)
Net borrowings	8 976	10 592	6 298	5 026	5 193
Deposits received (net)	130	(11)	(2)	63	20
Net cash flows from financing activities	**8 089**	**9 967**	**6 290**	**5 078**	**4 877**
Net increase/(decrease) in cash and cash equivalents	**3 801**	**2 843**	**(1 419)**	**363**	**(215)**
Cash and cash equivalents at beginning of the reporting period	9 236	13 037	15 880	14 461	14 823
Cash and cash equivalents at end of the reporting period	**13 037**	**15 880**	**14 461**	**14 823**	**14 609**
FISCAL AGGREGATES					
Net cash flows from operating activities	(1 872)	(5 113)	(4 572)	(2 057)	(1 216)
Net cash flows from investments in non-financial assets	(2 958)	(2 544)	(2 972)	(2 526)	(3 772)
Cash surplus/(deficit)	**(4 830)**	**(7 657)**	**(7 544)**	**(4 582)**	**(4 988)**

Note:
(a) These items are inclusive of goods and services tax.

APPENDIX B – *FINANCIAL MANAGEMENT ACT 1994* – COMPLIANCE INDEX

The *Financial Management Act 1994* (the Act) requires the Minister to prepare an audited annual financial report for tabling in Parliament. This report has been prepared in accordance with applicable Australian Accounting Standards and the Act.

The Act also requires the annual financial report to meet certain requirements. The following compliance index explains how these requirements are met, together with appropriate references in this document.

Financial Management Act 1994 *reference*	*Requirement*	*Comments/reference*
Section 24(1)	The Minister must prepare an annual financial report for each financial year.	Refer to Chapter 4
Section 24(2)	The annual financial report:	
	(a) must be prepared in the manner and form determined by the Minister, having regard to appropriate financial reporting frameworks;	Manner is in accordance with Australian Accounting Standards and Ministerial Directions. Form is consolidated comprehensive operating statement, consolidated balance sheet, consolidated cash flow statement, consolidated statement of changes in equity and accompanying notes. Refer to Chapter 4
	(b) must present fairly the financial position of the State and the Victorian general government sector at the end of the financial year; and	Refer to Chapter 4, consolidated balance sheet
	(i) the transactions on the Public Account;	Refer Chapter 4 Note 8.2 Public Account disclosures
	(ii) the transactions of the Victorian general government sector; and	Refer Chapter 4, consolidated comprehensive operating statement, consolidated cash flow statement and selected notes
	(iii) other financial transactions of the State;	Refer Chapter 4, consolidated comprehensive operating statement, consolidated cash flow statement and selected notes

Financial Management Act 1994 *reference*	*Requirement*	*Comments/reference*
	in respect of the financial year;	
	(c) must include details of amounts paid into working accounts under section 23;	Refer Chapter 4, Note 8.2.9 Amounts paid into working accounts pursuant to Section 23 of the *Financial Management Act 1994* for the year ended 30 June
	(d) must include details of amounts allocated to departments during the financial year under section 28;	Refer Chapter 4, Note 8.2.17 Allocations pursuant to Section 28 of the *Financial Management Act 1994* for the financial year ended 30 June
	(e) must include details of money credited under section 29 to an item in a schedule to an appropriation Act for that financial year;	Refer Chapter 4, Note 8.2.11 Appropriation of revenue and asset sale proceeds pursuant to Section 29 of the *Financial Management Act 1994* for the financial year ended 30 June 2021
	(f) must include particulars of amounts transferred in accordance with determinations under section 30 or 31;	Refer Chapter 4, Note 8.2.10 Transfers pursuant to Sections 30 and 31 of the *Financial Management Act 1994* for the financial year ended 30 June 2021
	(g) must include details of;	
	(i) amounts appropriated in respect of the financial year as a result of a determination under section 32 in respect of unused appropriation for the preceding financial year;	Refer Chapter 4, Note 8.2.12 Section 32 carryovers – *Financial Management Act 1994* for the financial year ended 30 June
	(ii) the application during the financial year of amounts referred to in subparagraph (i); and	Refer Chapter 4, Note 8.2.12 Section 32 carryovers – *Financial Management Act 1994* for the financial year ended 30 June
	(iii) amounts appropriated in respect of the next financial year as a result of a determination under section 32 in respect of unused appropriation for the financial year;	Refer Chapter 4, Note 8.2.12 Section 32 carryovers – *Financial Management Act 1994* for the financial year ended 30 June
	(h) must include;	
	(i) details of expenses and obligations met from money advanced to the Minister under section 35(1) during the financial year; and	Refer Chapter 4, Note 8.2.15 Payments from advances and unused advances carried forward to 2020-21 pursuant to Section 35 and 35(4) of the *Financial Management Act 1994*
	(ii) a statement of the reasons for carrying forward any part of an unused advance to the next financial year under section 35(4);	Refer Chapter 4, Note 8.2.15 Payments from advances and unused advances carried forward to 2020-21 pursuant to Section 35 and 35(4) of the *Financial Management Act 1994*

Financial Management Act 1994 *reference*	*Requirement*	*Comments/reference*
	(i) must include details of payments made during the financial year out of money advanced to the Treasurer in an annual appropriation Act for that year to meet urgent claims;	Refer Chapter 4, Note 8.2.13 Payments from advance to the Treasurer exclusive of those attributable to COVID-19 for the financial year ended 30 June, and Note 8.2.14 Payments from advance to the Treasurer attributable to COVID-19 for the financial year ended 30 June
	(j) must include details of;	
	(i) payments made during the financial year in fulfilment of any guarantee by the Government under any Act; and	Refer Chapter 4, Note 8.2.16 Government guarantees
	(ii) money received or recovered by the Minister or Treasurer during the financial year in respect of any guarantee payments;	Refer Chapter 4, Note 8.2.16 Government guarantees
	(k) must include details, as at the end of the financial year, of;	
	(i) the liabilities (including contingent liabilities under guarantees and indemnities or in respect of superannuation payments and all other contingent liabilities) and assets of the State; and	Refer Chapter 4, consolidated balance sheet Refer Chapter 4, Note 7.2 Contingent assets and contingent liabilities (State of Victoria) Refer Chapter 4, Note 3.2 Superannuation interest expense and other superannuation expenses
	(ii) prescribed assets and prescribed liabilities of prescribed bodies;	Refer Chapter 4, Note 9.1 Disaggregated information, and Chapter 5, Table 5.2 Non-financial public sector balance sheet for the financial year ended 30 June
	(l) must be audited by the Auditor-General.	Refer Chapter 4, *Report of the Auditor-General*
Section 26(1)	The Minister must prepare a quarterly financial report for each quarter of each financial year.	Refer Appendix A
Section 26(2)	A quarterly financial report comprises:	
	(a) a statement of financial performance of the Victorian general government sector for the quarter;	Refer Appendix A
	(b) a statement of financial position of the Victorian general government sector at the end of the quarter;	Refer Appendix A
	(c) a statement of cash flows of the Victorian general government sector for the quarter; and	Refer Appendix A

Financial Management Act 1994 *reference*	*Requirement*	*Comments/reference*
	(d) a statement of the accounting policies on which the statements required by paragraphs (a), (b) and (c) are based.	Refer Chapter 4
Section 26(2A)	A quarterly financial report must be prepared in the manner and form determined by the Minister, having regard to appropriate financial reporting frameworks.	Refer to Appendix A for agreed form
Section 26(3A)	The quarterly financial report for the quarter ending on 30 June in a financial year must include, in addition to the statements referred to in sub-section (2)(a) to (d) for that quarter, those statements for the period of 12 months ending on that 30 June.	Refer to Chapter 4, consolidated comprehensive operating statement, consolidated balance sheet, consolidated cash flow statement and selected notes

STYLE CONVENTIONS

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

The notation used in the tables is as follows:

n.a.	not available or not applicable
1 billion	1 000 million
1 basis point	0.01 per cent
..	zero, or rounded to zero
(x xxx.x)	negative amount
x xxx.0	rounded amount
201x	financial year

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

The Annual Financial Report is based on the style set in the example of a general purpose financial report for a government in illustrative example A of AASB 1049 *Whole of Government and General Government Sector Financial Reporting*. The styles used in other chapters of this document are generally consistent with those used in other publications relating to the annual budget papers.

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Victorian Budget 2020/21
2020–21 FINANCIAL REPORT

(incorporating Quarterly Financial Report No. 4)

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