2022 Victorian Economic and Fiscal Update

Presented by Tim Pallas MP
Treasurer of the State of Victoria

VICTORIA
State Government

The Secretary
Department of Treasury and Finance
1 Treasury Place
Melbourne, Victoria, 3002
Australia

Tel: (03) 9651 5111
dtf.vic.gov.au

Authorised by the Victorian Government
1 Treasury Place, Melbourne, 3002

Printed by Doculink, Port Melbourne

ISBN 978-1-925551-80-8 (Print)
ISBN 978-1-925551-81-5 (PDF/online/Microsoft Word)

Published October 2022

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OVERVIEW

Against the backdrop of the unprecedented COVID-19 pandemic and uncertain global conditions, the Government has continued to deliver for all Victorians: record investment in hospitals, healthcare and healthcare workers; building a world-class education system; building new trains, trams, tunnels and roads; and creating more jobs for Victorians through the Government's *Jobs Plan*.

Following recent flood events across the State, Victorians, government agencies, and emergency services have worked together to keep families safe.

The Government has acted quickly to ensure flood affected Victorians can access crisis accommodation and financial support to help them through this challenging time, along with immediate funding to repair damaged roads and for clean-up efforts.

Victoria's economy has recovered strongly from the COVID-19 pandemic, aided by the Government's strong economic responses. Real gross state product (GSP) is estimated to have grown by 5.00 per cent in 2021-22 and is forecast to grow by 3.00 per cent in 2022-23. Elevated business investment intentions, strong demand for workers and a high level of household savings are expected to support growth. Growth will be tempered, though, by rising interest rates as the Reserve Bank of Australia seeks to contain a sharp rise in inflation in Australia, and by a weaker global economic outlook.

Victoria's labour market is strong. Employment grew by 3.9 per cent in 2021-22, with the increase driven by full-time employment, and the unemployment rate is around its lowest levels since the 1970s. Since its trough in September 2020, employment has risen by 313 000 persons, far exceeding the Government's interim jobs target of 200 000 jobs created by 2022, and the economy is well on track to meet the overall target of 400 000 jobs by 2025.

While the outlook for Victoria is positive, risks remain greater than normal. The risks to Victoria's outlook include uncertainty around the outlook for domestic and global inflation, interest rates, geopolitical conditions, recent flood events, and ongoing impacts of the COVID-19 pandemic.

STRONG FINANCIAL MANAGEMENT

As first outlined in the *2020-21 Budget*, the Government developed a fiscal strategy to manage the extreme circumstances the State was facing and to provide the foundations for recovery. It involves a four-step plan to support Victorians through the COVID-19 pandemic and to restore the budget position over the medium term. The four-step plan provided a clear framework:

Step 1: creating jobs, reducing unemployment and restoring economic growth

Step 2: returning to an operating cash surplus

Step 3: returning to operating surpluses

Step 4: stabilising debt levels.

Progress towards achieving the Government's fiscal strategy

Recent economic indicators have shown that this strategy is working, with the economy rebounding strongly. The *2022-23 Budget* forecast significant improvement in the State's key fiscal aggregates.

The first step – creating jobs, reducing unemployment and restoring economic growth – has progressed well, with strong employment growth and the unemployment rate near a 50-year low.

The second step in the Government's fiscal strategy, returning to an operating cash surplus, means the State is generating sufficient cash inflows to exceed its cash outflows on operating activities, a key pillar of fiscal sustainability. The Government continues to forecast an operating cash surplus from 2022-23 onwards, in line with the *2022-23 Budget*.

The third step, returning to an operating surplus, is important as this is where the Government generates sufficient revenues to not just cover its cash expenditure, but also support the ongoing replacement of existing assets. The Government is forecasting an operating surplus of $0.9 billion in 2025-26, a slight improvement from the *2022-23 Budget*.

The fourth and final step in the Government's fiscal strategy, stabilising net debt as a percentage of GSP, remains an important medium-term objective.

Net debt is expected to be $115.6 billion at June 2023 and $165.4 billion by June 2026, lower in each year of the forward estimates than was forecast in the *2022-23 Budget*. As a proportion of GSP, net debt is projected to be 20.4 per cent at June 2023 and 24.8 per cent by June 2026, 1.7 percentage points lower than forecast in the *2022-23 Budget*.

Table 1: General government fiscal aggregates

	Unit of measure	*2022-23 revised*	*2023-24 estimate*	*2024-25 estimate*	*2025-26 estimate*
Net result from transactions	$ billion	(9.7)	(3.6)	(0.7)	0.9
Net cash flows from operating activities	$ billion	2.4	0.8	3.9	5.3
Government infrastructure investment [(a)(b)]	$ billion	21.2	22.3	22.1	20.6
Net debt	$ billion	115.6	134.0	151.4	165.4
Net debt to GSP [(c)]	per cent	20.4	22.4	23.9	24.8

Notes:
(a) Includes general government net infrastructure investment and the estimated construction costs of public private partnership projects.
(b) Includes the estimated private sector construction related expenditure associated with the North East Link held in the public non-financial corporations (PNFC) sector.
(c) The ratios to gross state product (GSP) may vary from publications year to year due to revisions to the Australian Bureau of Statistics GSP data.

Government infrastructure investment (GII) is expected to average $21.6 billion a year over the budget and forward estimates, reflecting new infrastructure investment and the continuation of Victoria’s Big Build.

Interest expense as a share of total revenue is expected to average 6.4 per cent a year over the budget and forward estimates. The Government's debt management strategy aims to reduce the State’s exposure to interest rate movements by ensuring that a large proportion of existing debt is raised in long term fixed rate bonds.

Long-term objectives and targets

The long-term financial management objectives remain unchanged from the *2022-23 Budget*.

Table 2: Long-term financial management objectives

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

Progress towards these financial management objectives is supported by the measures and targets in Table 3. These measures and targets are also unchanged from the *2022-23 Budget*.

Table 3: Financial measures and targets

Financial measures	*Target*
Net debt to GSP	General government net debt as a percentage of GSP to stabilise in the medium term.
Interest expense to revenue	General government interest expense as a percentage of revenue to stabilise in the medium term.
Superannuation liabilities	Fully fund the unfunded superannuation liability by 2035.
Operating cash surplus	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.

Key new initiatives since the *2022-23 Budget*

Appendix A *Specific policy initiatives affecting the budget position* details specific initiatives announced since the *2022-23 Budget* with $5.0 billion in new output initiatives over four years and $12.2 billion total estimated investment (TEI) in new asset initiatives.

CHAPTER 1 – ECONOMIC CONDITIONS AND OUTLOOK

- Victoria's economy has recovered strongly from the COVID-19 pandemic. State final demand is well above pre-pandemic levels, with recent economic growth outpacing the national average.
- The Government's strong economic responses, along with those from the Commonwealth Government and Reserve Bank of Australia (RBA), supported the economy's rapid recovery. So too did the resilience and flexibility of Victorian households and businesses.
- The labour market is strong, with employment well above the *Jobs Plan* interim target of creating 200 000 jobs by 2022 and well advanced in meeting the overall target of 400 000 jobs by 2025. The unemployment rate is around its lowest level since the mid-1970s. Labour market conditions are expected to remain strong in 2022-23, with further solid growth in employment and the unemployment rate remaining very low in the near term, before gradually rising from 2023-24.
- The outlook remains positive, with real economic growth forecast to be 3.00 per cent in 2022-23. Growth will be tempered, though, by rising interest rates as the RBA seeks to contain a sharp rise in inflation, and by a weaker global economic outlook. Inflation has risen domestically and globally, driven by ongoing pandemic-related supply-chain disruptions, Russia's invasion of Ukraine, and strong consumer demand. It is expected to peak in late 2022 and then decline progressively.
- The risks to Victoria's outlook are elevated and include uncertainty around the outlook for domestic and global inflation, interest rates, geopolitical conditions, recent flood events, and ongoing impacts of the COVID-19 pandemic.

VICTORIAN ECONOMIC CONDITIONS AND OUTLOOK

Victoria's economy rebounded strongly in 2021-22 and is estimated to have grown by 5.00 per cent in real terms as it recovered from the effects of the COVID-19 pandemic that began in early 2020. The strength of economic growth over the past year has meant that aggregate demand is high, business conditions are positive and capacity utilisation is around a record high. Labour market conditions have been particularly robust, with the share of working-age Victorians in employment near a record high and the unemployment rate recently falling to a near 50-year low.

The economic outlook for 2022-23 remains positive, although growth will be tempered by the effect of rising interest rates and a weaker global economic outlook. The RBA began raising interest rates in May 2022 to contain a sharp rise in inflation. Inflation has risen domestically and globally, driven by ongoing pandemic-related supply chain disruptions, Russia's invasion of Ukraine and strong consumer demand.

Overall, Victoria's economy is expected to record solid real growth of 3.00 per cent in 2022-23. Business investment intentions are positive and forward indicators of labour demand, such as job advertisements and job vacancies, are strong. Activity will also be supported by a very high level of household savings, which is expected to help consumers remain resilient during a period of higher inflation and interest rates.

The October 2022 floods are significantly affecting communities in some regions of Victoria. It is too early to determine the likely impact on the state's overall economy, but once this is assessed there may be some downward pressure on growth in the near-term (see Box 1.1). Over the medium term, recovery and reconstruction activity may offset these negative impacts on growth. Floods may also temporarily add to inflation pressures, particularly for fresh food.

Gross state product

Table 1.1 sets out the economic forecasts, with the *2022-23 Budget* forecasts in italics where different.

Table 1.1: Victorian economic forecasts [(a)] **(per cent)**

	2021-22 actual	*2022-23 forecast*	*2023-24 forecast*	*2024-25 projection*	*2025-26 projection*
Real gross state product	5.00 [(b)]	3.00	1.75	2.75	2.75
	5.50	*3.25*	*2.25*		
Employment	3.90	1.75	1.00	1.25	1.75
	3.00				
Unemployment rate [(c)]	4.30	3.75	4.00	4.25	4.50
	4.25	*4.00*	*4.25*	*4.50*	*4.75*
Consumer price index [(d)]	4.00	6.50	3.50	2.75	2.50
	3.00	*2.50*	*2.25*	*2.50*	
Wage price index [(e)]	2.40	3.25	3.50	3.25	3.25
	2.50	*2.75*	*3.00*	*3.00*	*3.00*
Population [(f)]	0.90 [(b)]	1.40	1.70	1.70	1.70
	0.10	*1.20*			

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

Notes:

(a) Percentage change in year average terms compared with the previous year, except for the unemployment rate (see note (c)) and population (see note (f)). Forecasts are rounded to the nearest 0.25 percentage points, except for population (see note (f)).
The key assumptions underlying the economic forecasts include interest rates that broadly follow market economists' expectations; an Australian dollar trade-weighted index of 62.6; and oil prices that follow the path suggested by oil futures.

(b) Estimate, actual not yet available.

(c) Year average.

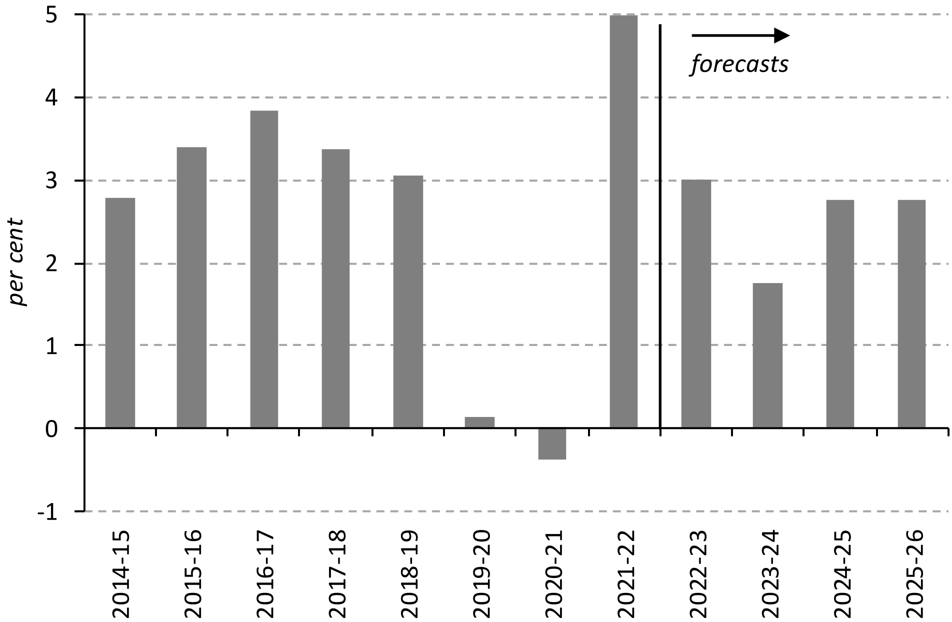
(d) Melbourne consumer price index. Forecasts predate data for the September quarter which were released on 26 October, after these forecasts were finalised.

(e) Wage price index, Victoria (based on total hourly rates of pay, excluding bonuses).

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

In 2021-22, Victorian state final demand grew by 7.4 per cent, above the national increase of 5.1 per cent. The strength was broad-based, with growth in all major components of demand, with consumer spending particularly strong. Public spending associated with the Government's ongoing COVID-19 response, as well as continued investment in infrastructure projects, also contributed to growth. Economic output, as measured by real gross state product (GSP), is estimated to have grown by 5.00 per cent in 2021-22 and is forecast to grow by 3.00 per cent in 2022-23 (see Chart 1.1).

Chart 1.1: Victorian GSP annual real growth rates, actual and forecast [(a)]



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

Note:
(a) GSP growth for 2021-22 is an estimate.

Consumer spending was the major contributor to economic growth in 2021-22, supported by an easing of necessary COVID-19 public health restrictions, a strong labour market and high levels of household savings. The rebound in household spending is expected to continue into 2022-23, as spending – notably on consumer services – continues to recover from pandemic-related disruptions. The labour market remains strong and will support household incomes. Elevated levels of household savings, which have been accumulated during the pandemic, are also expected to support ongoing household consumption.

Nevertheless, growth in consumer spending is expected to be moderated by several headwinds, which have led to consumer confidence falling to low levels in recent months. High inflation is weighing on real incomes, while rising interest rates are also putting downward pressure on disposable incomes. Declining asset prices may also cause consumers to become more risk-averse and reduce discretionary spending.

Dwelling investment made a solid contribution to economic growth in 2021-22, as low interest rates and government incentives drove demand. Activity became somewhat constrained over the year due to labour shortages and as pandemic-induced supply chain disruptions led to materials shortages. These also led to rising input costs for the construction sector. In 2022-23, dwelling investment is expected to grow modestly. Capacity constraints are expected to gradually ease, which, alongside a large pipeline of construction work, should continue to support activity in the near term. However, rising interest rates are expected to dampen demand for new housing and construction activity, particularly from the second half of 2022-23.

Business investment grew strongly in 2021-22 and is forecast to continue growing at a high rate in 2022-23. A large pipeline of engineering and non-residential building construction projects support the positive outlook, as do elevated investment intentions as reported by surveyed businesses.

Public demand has been a key driver of Victoria's GSP growth since the onset of the pandemic, making another strong contribution in 2021-22. It is forecast to be broadly unchanged in 2022-23, with overall spending levels constrained as temporary COVID-19 support measures unwind. The Government's pipeline of transport and social infrastructure projects will continue to underpin high levels of public investment.

Exports of goods and services rose modestly in 2021-22, with continued strength in goods exports and a rise in services exports from March 2022 after border restrictions eased. Imports of goods and services, by contrast, rose strongly in 2021-22. Imports of goods were particularly strong, driven by the pickup in consumer spending and business investment. Services imports began to rise after Australia's national border restrictions began to ease in late 2021.

Looking ahead, the net trade in services is forecast to detract moderately from growth in 2022-23. International travel flows are expected to gradually increase following the COVID-19-related restrictions on national borders, including a sustained recovery in international student arrivals to Victoria. Meanwhile, the net trade in goods is forecast to make a positive contribution to GSP growth. Demand for goods imports is expected to ease in 2022-23, with businesses having significantly replenished inventories in 2021-22 and exports of goods are forecast to grow strongly.

Box 1.1: The economic impacts of the October 2022 floods

In October 2022, high-intensity rainfall caused widespread flooding across the state. Many households have been displaced, businesses disrupted, and properties, community assets and infrastructure damaged. The Government has acted quickly to ensure flood affected Victorians can access crisis accommodation and financial support to help them through this challenging time, along with immediate funding to repair damaged roads and for clean-up efforts. Appendix A *Specific Policy Initiatives Affecting the Budget Position* details initial funding provided to help flood-affected communities begin their recovery.

The full extent of the damage to physical assets, or the impact on the state's overall economy, is not yet known. As the extent of damage becomes clearer, there may be some downward pressure on forecast economic growth in the December quarter, and then some upward pressure in the March quarter during the recovery phase. At this stage, it is too early to determine the impacts on the year-average economic growth forecasts.

Primary producers are particularly affected by the floods. The impacted regions produce a significant share of Victoria's dairy, meat, and horticulture output. Road closures due to flooding may affect the ability of produce to be transported from farms, while electricity supply disruptions could also affect milk collection. Crop yields may also be affected. In addition, the construction sector may be temporarily disrupted by poor weather. The extent of losses to economic output will depend on the extent and the persistence of the flooding, which cannot yet be determined.

Flooding may also add to consumer price pressures in the near term. Retail prices for affected fresh food products may increase where supply is limited by crop losses and disruptions to production and distribution. The October floods will add to existing pressures on fresh food prices, which have risen over the past year due to previous flooding on the east coast of Australia, supply chain disruptions and higher input costs for transport and fertiliser.

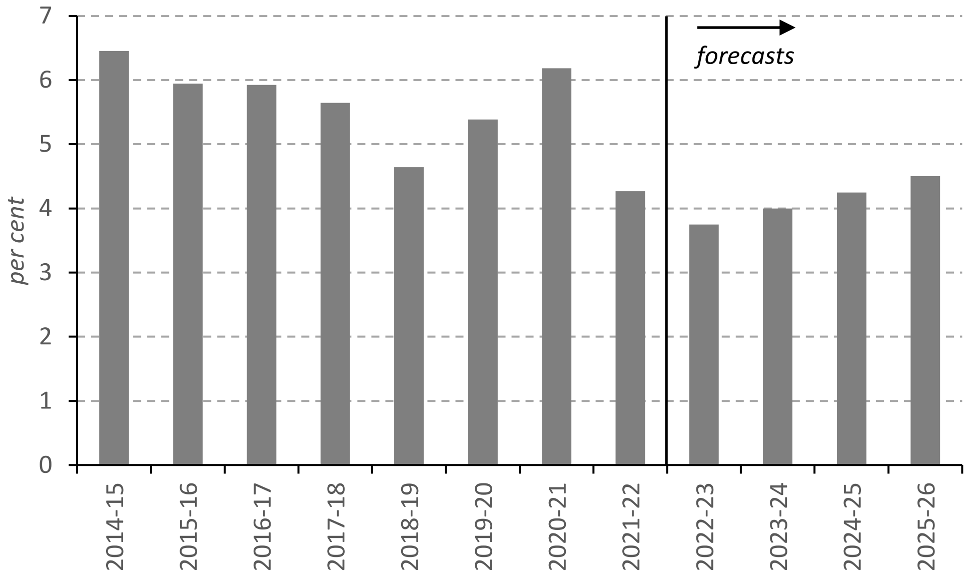
Labour market

Victoria's labour market has recovered well from the earlier effects of the COVID-19 pandemic and necessary public health restrictions. Employment grew by a very strong 3.9 per cent in 2021-22, with the increase driven by full-time employment. Since its trough in September 2020, employment has risen by 313 000 persons, and the share of working-age Victorians in employment is near a record high.

The labour market recovery has been inclusive. While women, young people and single parents were disproportionately affected during 2020 and 2021 amid the pandemic, the proportions of these cohorts of workers in employment have recovered to be above pre-pandemic levels. The unemployment rate has declined sharply over the past year. It averaged 4.3 per cent in 2021-22, and at 3.5 per cent is now near a 50-year low.

Labour market conditions are expected to remain strong in 2022-23, consistent with leading indicators of labour demand, such as job advertisements and job vacancies, which remain very high. Softening economic conditions are expected to weigh on employment growth somewhat in the medium term. Employment is forecast to grow by 1.75 per cent in 2022-23, and by a further 1.0 per cent in 2023-24. The unemployment rate is forecast to average 3.75 per cent in 2022-23, before gradually rising in line with slower economic growth and approaching the rate consistent with stable inflation within the RBA's target band (see Chart 1.2).

Chart 1.2: Victorian unemployment rate[(a)], actual and forecast



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

Note:
(a) Year average.

Prices

Inflation, which was very low in 2020-21, has risen to an elevated level in Victoria – as it has nationally and globally. The Melbourne consumer price index rose by 4.0 per cent in year-average terms in 2021-22 and is forecast to rise to 6.5 per cent in year-average terms in 2022-23. (In year-ended terms, inflation is forecast to peak at 7.75 per cent in December 2022, before easing in 2023.)

Global inflation has been driven higher by global supply-chain disruptions and strong demand for goods – both of which were caused by the pandemic. Russia's invasion of Ukraine in February 2022 led to a sharp rise in global energy prices and the price of some commodities, which added to these inflationary pressures. In Victoria and Australia, these global factors have driven the prices of imported consumer goods higher, especially automotive fuel. They have also contributed to higher input costs for a range of domestic goods and services, leading to broad-based inflation. Higher prices for new dwellings have made a large contribution to overall consumer inflation, amid shortages of construction-related materials and labour coupled with strong demand for new housing.

The RBA began raising interest rates in May 2022 to contain growing price pressures across the Australian economy. Recent and expected rate rises, along with a stabilisation or decline in oil and other global commodity prices, are expected to progressively lower inflation over the forecast period.

Wages

Wages growth increased to 2.4 per cent in 2021-22 as the labour market recovered, up from 1.4 per cent in 2020-21. Wage growth had slowed in 2020 as many firms introduced wage freezes or temporary wage cuts due to the COVID-19 pandemic. Some weakness persisted into 2021 amid the resumption of public health restrictions due to the Delta outbreak.

More recently, the strength in the labour market has contributed to higher wages growth. Business surveys indicate that wage costs have increased in 2022, notably in industries where there have also been reports of labour shortages, such as professional services and construction. The RBA's business liaison program also suggests that labour costs have picked up, with firms expecting wages growth to continue rising in the year ahead. Furthermore, the Fair Work Commission lifted the national minimum wage by 5.2 per cent and award minimum wages by 4.6 per cent, effective from 1 July 2022.

With unemployment expected to remain at very low levels, wages growth is forecast to rise to 3.25 per cent on average in 2022-23, and rise further to 3.50 per cent in the following year.

Population

Victoria's population growth had been strong leading up to the COVID-19 pandemic. Annual population growth had been higher than in any other state since 2013. However, the COVID-19 pandemic has had a significant negative impact on population growth, with Victoria's population declining in 2020-21 as both net overseas and net interstate migration detracted from growth.

Victoria's population is estimated to have grown by 0.9 per cent in 2021-22, with population growth forecast to rise to 1.4 per cent in 2022-23 as net overseas and net interstate migration recover further. Population growth is expected to return to the long-term trend of 1.7 per cent later in the forecast period.

AUSTRALIAN ECONOMIC CONDITIONS AND OUTLOOK

The Australian economy has performed strongly over the past year, growing by 3.9 per cent in 2021-22, with the economy 5.5 per cent larger by the end of the year than it was prior to the COVID-19 pandemic. Employment growth has been strong, and the unemployment rate has fallen to a very low 3.5 per cent.

Global supply-chain disruptions, Russia's invasion of Ukraine and domestic capacity constraints have driven Australian inflation to its highest level since 1990. In response, the RBA has increased official interest rates by 2.50 percentage points since May 2022 to slow aggregate spending and contain these rising inflation pressures. Private-sector economists and financial market participants expect the RBA to raise interest rates further over coming months.

As outlined in the latest Commonwealth Budget released on 25 October 2022, the Commonwealth Treasury expects the Australian economy to grow by 3.25 per cent in 2022-23 and by 1.5 per cent in 2023-24. The forecast for 2022-23 represents a downward revision of 25 basis points since the Commonwealth's March 2022 budget, while the forecast for 2023-24 is 100 basis points lower. These downgrades are driven by a weaker global economic outlook, persistent inflation and rising interest rates. Employment growth is forecast to moderate to 1.75 per cent in 2022-23, slowing to 0.75 per cent in the following year. The unemployment rate is expected to remain low at 3.75 per cent in 2022-23 before rising to 4.50 per cent in 2023-24. The Commonwealth's forecast for wages growth in 2022-23 has been revised higher, from 3.25 per cent in its March budget to 3.75 per cent. Meanwhile, inflation is expected to end 2022-23 at 5.75 per cent, a significant upward revision from 3.0 per cent in its March 2022 budget, before declining gradually over the following two years.

International economic conditions and outlook

The global economy rebounded strongly in 2021, with the International Monetary Fund (IMF) estimating output growing by 6.0 per cent. However, the global economy is estimated to have contracted modestly in the second quarter of 2022 and the outlook has deteriorated, with the IMF downgrading its global growth forecasts for 2022 and 2023 since the *2022-23 Budget*. The IMF cited several factors behind its forecast downgrades, including high inflation and tighter monetary policy in the United States and many European economies, spill-over effects from Russia's invasion of Ukraine, ongoing COVID-19 health restrictions, and the deepening real estate downturn in China.

The IMF revised up its forecast for global inflation, which is now expected to reach 7.2 per cent in advanced economies in 2022, driven by higher food and energy prices and ongoing supply-demand imbalances. The IMF expects some easing in price pressures over 2023, due in part to the disinflationary effect of higher interest rates, but does not expect global inflation to return to near pre-pandemic levels until 2025.

RISKS TO THE OUTLOOK

The risks to Victoria's economic outlook remain greater than normal. Domestically, there is significant uncertainty about the inflation outlook and hence the outlook for interest rates. Global supply chain pressures and high energy prices could persist for longer than expected. Current elevated inflation could raise expectations of future inflation, which may become self-sustaining as workers and firms build higher expectations into price-setting and wage-bargaining behaviour. Such scenarios could lead the RBA to increase interest rates by more than expected, weighing on economic activity and employment growth. A related uncertainty is how quickly and to what extent wage-setting behaviour responds to the current tight labour market.

Another key domestic risk is the outlook for consumer spending. The labour market is expected to remain tight; robust employment growth and a stronger than expected increase in wages growth would further boost household income. Combined with high levels of household savings and pent-up demand, this could lead to stronger growth in consumer spending than currently forecast. Yet consumers are also facing significant headwinds. The material rises in interest rates and high inflation could weigh on consumer spending more than expected. Meanwhile, with asset prices declining, consumers could become more risk-averse and reduce discretionary expenditure. How these opposing dynamics play out is key to the outlook for consumption and is subject to a high degree of uncertainty.

The IMF considers that global risks are considerably tilted to the downside. High inflation and rising interest rates in the United States and Europe, Russia's invasion of Ukraine, as well as some ongoing COVID-19 restrictions and the property sector downturn in China will impede global growth in 2023. There is considerable uncertainty, however, around the scale and duration of these impacts. Weaker global growth would slow demand for Victoria's exports of goods and services.

The October 2022 floods significantly affecting communities in some regions of Victoria represent an additional risk to the outlook for both growth and inflation.

COVID-19 also remains a significant source of uncertainty for the Victorian economy, particularly the risk of new variants emerging that are resistant to current vaccines. Appendix B *Sensitivity Analysis* considers this possibility. In this scenario, new COVID-19 variants lead to renewed public health measures in major economies outside Australia as well as the reimposition of Australia's national border restrictions, disrupting both the global and domestic economic recovery. Heightened uncertainty would weigh heavily on Victorian consumer sentiment, reducing consumer spending and slowing economic growth.

CHAPTER 2 – BUDGET POSITION AND OUTLOOK

- As first outlined in the *2020-21 Budget,* the Government continues to deliver on the four-step fiscal strategy to restore the State's finances following the COVID-19 pandemic.
- Progression on the four-step fiscal strategy is well underway. Employment is well above its pre-pandemic levels, and the workforce participation rate is near a record high.
- The net cash flows from operating activities for the general government sector is forecast to be in surplus by $2.4 billion in 2022-23, an improvement compared with the position in the *2022-23 Budget,* increasing to $5.3 billion in 2025-26.
- The net result from transactions for the general government sector is forecast to return to a $0.9 billion surplus by 2025-26, demonstrating the Government's commitment to strong financial management despite the challenges over the past two years.
- Net debt is projected to be $165.4 billion by June 2026, lower in each year of the forward estimates than was forecast in the *2022-23 Budget.*
- Government infrastructure investment (GII) is expected to average $21.6 billion a year over the budget and forward estimates, reflecting new infrastructure investment and the continuation of Victoria's Big Build.
- Interest expense as a share of total revenue is expected to average 6.4 per cent a year over the budget and forward estimates.
- The Government is on track to fully fund the State's unfunded superannuation liability by 2035.

This chapter presents the revised budget position of the general government sector for the budget year and forward estimates. It takes into account all policy decisions made by the Victorian Government as at 11 October 2022. It also includes preliminary estimates for Commonwealth Government funding revisions, where known, updates to GST revenue to reflect Commonwealth revisions to national population forecasts, as well as a preliminary provision for costs associated with the State's flood recovery efforts. This chapter also reconciles and explains any movements since the *2022-23 Budget* that affects the estimated net result from transactions.

GENERAL GOVERNMENT SECTOR

Overview

As outlined in the previous three budgets, the Government developed a fiscal strategy to manage the extreme circumstances the State was facing and to provide the foundations for economic recovery. It involved a four-step plan to support Victorians through the COVID-19 pandemic and to restore the budget position over the medium term.

Recent economic indicators have showed that this strategy is working, with the economy rebounding strongly. The *2022-23 Budget* forecast significant improvement in the State's key fiscal aggregates.

The net cash flows from operating activities for the general government sector is forecast to be in surplus by $2.4 billion in 2022-23, an improvement compared with the position in the *2022-23 Budget*, increasing to $5.3 billion in 2025-26.

The net result from transactions for the general government sector is forecast to return to a $0.9 billion surplus by 2025-26, demonstrating the Government's commitment to strong financial management despite the challenges over the past two years.

Total revenue for the general government sector is expected to be $81.4 billion in 2022-23 and increase to $93.4 billion by 2025-26. Total general government sector expenditure is expected to be $91.1 billion in 2022-23 and increase to $92.5 billion by 2025-26.

Net debt is expected to be $115.6 billion at June 2023 and $165.4 billion by June 2026, lower in each year of the forward estimates than was forecast in the *2022-23 Budget*. As a proportion of GSP, net debt is projected to be 20.4 per cent at June 2023 and 24.8 per cent by June 2026, 1.7 percentage points lower than forecast in the *2022-23 Budget*.

Government infrastructure investment (GII) is expected to average $21.6 billion a year over the budget and forward estimates, reflecting new infrastructure investment and the continuation of Victoria's Big Build.

Table 2.1: General government fiscal aggregates

	Unit of measure	*2022-23 revised*	*2023-24 estimate*	*2024-25 estimate*	*2025-26 estimate*
Net result from transactions	$ billion	(9.7)	(3.6)	(0.7)	0.9
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Government infrastructure investment [(a)(b)]	$ billion	21.2	22.3	22.1	20.6
Net debt	$ billion	115.6	134.0	151.4	165.4
Net debt to GSP [(c)]	per cent	20.4	22.4	23.9	24.8

Notes:

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

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

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

Interest expense as a share of total revenue is expected to average 6.4 per cent a year over the budget and forward estimates. The Government's debt management strategy aims to reduce the State's exposure to interest rate movements by ensuring that a large proportion of existing debt is raised in long term fixed rate bonds.

BUDGET AND FORWARD ESTIMATES OUTLOOK

Table 2.2 summarises the operating statement for the general government sector. A comprehensive operating statement is presented in Chapter 3 *Estimated Financial Statements and Notes*.

Table 2.2: Summary operating statement for the general government sector [(a)] ($ million)

	2022-23 revised	*2023-24 estimate*	*2024-25 estimate*	*2025-26 estimate*
Revenue and income from transactions				
Taxation	31 166	32 686	33 802	35 554
Dividends, TER and interest [(b)]	1 390	1 715	1 820	2 035
Sales of goods and services	6 067	6 238	6 535	6 500
Grants	39 204	40 335	43 024	45 893
Other revenue and income	3 547	3 639	3 210	3 432
Total revenue and income from transactions	**81 373**	**84 615**	**88 390**	**93 415**
% change	*(2.0)*	*4.0*	*4.5*	*5.7*
Expenses from transactions				
Employee expenses	33 485	34 170	34 727	35 762
Superannuation [(c)]	4 132	4 243	4 308	4 320
Depreciation	4 712	4 712	4 826	5 090
Interest expense	3 857	5 120	6 254	7 318
Grant expense	18 185	15 744	15 219	15 678
Other operating expenses	26 690	24 237	23 758	24 353
Total expenses from transactions	**91 061**	**88 227**	**89 091**	**92 521**
% change	*(5.9)*	*(3.1)*	*1.0*	*3.8*
Net result from transactions – net operating balance	**(9 688)**	**(3 612)**	**(701)**	**894**
Total other economic flows included in net result [(d)]	**(339)**	**(339)**	**(265)**	**(147)**
Net result	**(10 027)**	**(3 952)**	**(966)**	**747**

Notes:

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

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

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

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

Revenue outlook

Total revenue for the general government sector is expected to be $81.4 billion in 2022-23, with revenue growth projected to average 4.7 per cent a year over the forward estimates.

Taxation

Taxation revenue is forecast to be $31.2 billion in 2022-23 with a forecast decline in land transfer duty weighing on the short-term revenue outlook. Taxation revenue is expected to grow by an average 4.5 per cent per year over the forward estimates.

- Land transfer duty revenue is expected to decrease to $8.1 billion in 2022-23, then increase by an average of 3.0 per cent per year over the forward estimates. The residential property market outlook has weakened in the near term compared with the *2022-23 Budget* as the Reserve Bank of Australia has rapidly lifted the official cash rate, flowing through to increased borrowing costs, moderating property prices, and lower auction clearance rates.
- Land tax revenue is forecast to increase to $5.2 billion in 2022-23, reflecting strong growth across residential, commercial, and industrial property values between 1 January 2021 and 31 December 2021. Land tax revenue is projected to grow by an average of 4.4 per cent per year over the forward estimates, with the weakness in current property market conditions flowing through to land tax revenue in 2023-24.

The strong recovery of the Victorian economy from the effects of the COVID-19 pandemic by the end of 2021-22 – aided by the strong labour market outlook and accumulated household savings – is supporting the outlook for other taxation revenues.

- Payroll tax revenue is forecast to grow to $7.1 billion in 2022-23, reflecting a strengthening outlook for full-time employment and nominal wage growth in the near term. Payroll tax revenue is expected to grow by an average of 6.1 per cent per year over the forward estimates.
- Motor vehicle tax revenue is forecast to grow to $3.2 billion in 2022-23, reflecting the continued growth in vehicle prices and sales. Motor vehicle tax revenue is expected to increase by an average of 5.0 per cent per year over the forward estimates.
- Gambling tax revenue is forecast to grow to $2.5 billion in 2022-23, reflecting elevated electronic gaming machine (EGM) activity and recovering casino revenue. Over the forward estimates, growth is expected to average 4.4 per cent per year.
- Insurance tax revenue is forecast to grow to $1.8 billion in 2022-23. Strong premium growth across most insurance products supports the forward outlook, with growth expected to average 7.0 per cent per year over the forward estimates.

Dividends, income tax equivalent and interest

Dividend and income tax equivalent revenue is projected to be $0.6 billion in 2022-23 and increase to $1.1 billion in 2025-26. The growth across the forward estimates largely reflects the increase in investment returns from the establishment of the Victorian Future Fund.

Interest revenue is received on the cash and deposits held by the Government. Total interest is expected to be $0.8 billion in 2022-23 and is forecast to increase by an average of 5.6 per cent a year over the forward estimates.

Sales of goods and services

Revenue generated by the sales of goods and services is expected to increase to $6.1 billion in 2022-23, largely reflecting the expected recovery in various service fees after the easing of public health restrictions. Growth is forecast to increase by an average of 2.3 per cent a year over the forward estimates.

Grants

Total grants revenue is expected to decline to $39.2 billion in 2022-23, largely driven by a decrease in Commonwealth grants reflecting the jointly funded business support packages provided in 2021-22.

GST revenue is forecast to grow to $18.3 billion in 2022-23. Victoria's share of the GST pool has decreased from 23.7 per cent in 2021-22 to 23.5 per cent in 2022-23. This largely reflects a reduction in the rate of Victoria's population growth due to the COVID-19 pandemic. However, strong commodity prices (in prior years) and growth in the national GST pool are forecast to more than offset this decline.

Over the forward estimates, Victorian GST revenue is expected to increase on average by 5.7 per cent a year, buoyed by the continued growth in the GST pool. Victoria's GST relativity is forecast to decline in 2023-24 before rising due to strength in commodities revenue in commodity-rich states.

Other current revenue

Other current revenue and income includes fines, royalties, donations and gifts, assets received free-of-charge and other miscellaneous revenues. Other revenue is projected to be $3.5 billion in 2022-23, followed by an average decline of 1.1 per cent a year over the forward estimates. This revenue profile is primarily driven by the progressive recognition of the Cross Yarra Partnership Consortium's contributions to additional costs borne by the operator as part of the Metro Tunnel settlement.

Expenses outlook

The Government is expected to spend $91.1 billion in 2022-23. This is a 5.9 per cent decrease relative to total expenditure of $96.8 billion in 2021-22, reflecting the tapering of targeted, short-term economic support. Total expenditure is then projected to increase by an average of 0.5 per cent a year over the forward estimates.

Moderation of expenditure growth over the forward estimates supports the Government's fiscal strategy to achieve an operating surplus by the end of the forward estimates.

- Employee expenses (including superannuation) is forecast to grow to $37.6 billion in 2022-23, primarily reflecting the Government's significant response to the COVID-19 pandemic and investment in the health workforce in 2021-22. Average growth over the forward estimates of 2.1 per cent a year is forecast, consistent with service delivery requirements and enterprise bargaining agreements.
- Depreciation expense is forecast to grow to $4.7 billion in 2022-23, and by an average of 2.6 per cent a year over the forward estimates to $5.1 billion by 2025-26. Growth in depreciation is broadly in line with continuing high levels of investment in infrastructure.
- Interest expense is forecast to grow to $3.9 billion in 2022-23, and to $7.3 billion by 2025-26 as the Government increases borrowings to fund its response to the COVID-19 pandemic and continue the significant levels of infrastructure investment under Victoria's Big Build. Interest expense as a share of total revenue is expected to average 6.4 per cent a year over the budget and forward estimates, well below the levels seen during the 1990s.
- Grant expenses are forecast to fall to $18.2 billion in 2022-23, largely reflecting the additional business support grants provided to Victorian businesses in 2021-22. Grants expenses are then expected to continue to decrease by an average of 4.8 per cent a year over the forward estimates, largely reflecting the tapering of COVID-19 pandemic support initiatives.
- Other operating expenses are forecast to fall to $26.7 billion in 2022-23, reflecting the additional support provided for the Government's health response to the COVID-19 pandemic in 2021-22. Other operating expenses are then expected to decline by 9.2 per cent in 2023-24 as expenditure commitments attributable to the COVID-19 response continue to reduce.

Reconciliation of estimates to the *2022-23 Budget*

Relative to the *2022-23 Budget*, the net result from transactions has been revised down by $1.8 billion in 2022-23, down by $0.3 billion in 2023-24, up by $0.4 billion in 2024-25 and up by $0.2 billion in 2025-26 (Table 2.3).

Table 2.3: Reconciliation of estimates to the *2022-23 Budget* [(a)] **($ million)**

	2022-23 revised	*2023-24 estimate*	*2024-25 estimate*	*2025-26 estimate*
Net result from transactions: *2022-23 Budget*	**(7 864)**	**(3 263)**	**(1 126)**	**652**
Policy variations				
Revenue policy initiatives	..	..	..	..
Output policy initiatives [(b)]	(1 904)	(423)	(652)	(919)
	(1 904)	**(423)**	**(652)**	**(919)**
Economic/demographic variations				
Taxation	678	470	482	536
Investment income [(c)]	(43)	128	84	249
	635	**598**	**566**	**785**
Commonwealth grant variations				
General purpose grants	(378)	(561)	85	289
Specific purpose grants [(d)]	(399)	(239)	53	819
	(777)	**(800)**	**139**	**1 108**
Administrative variations				
Contingency offset for new policy initiatives [(e)]	..	..	..	..
Other administrative variations	222	276	372	(730)
	222	**276**	**372**	**(730)**
Total variation since the *2022-23 Budget*	**(1 824)**	**(349)**	**425**	**243**
Net result from transactions	**(9 688)**	**(3 612)**	**(701)**	**894**

Notes:

(a) Figures in this table are subject to rounding to the nearest million and may not add up to totals.
(b) This is represented in Table 2.4 as the 2022 Victorian Economic and Fiscal Update (VEFU) output policy initiatives.
(c) Comprises dividends and income tax and rate equivalent revenue.
(d) Reflects the change in grant revenue as per Note 3.2.4, Chapter 3 Estimated Financial Statements and Notes *less associated expense movements.*
(e) Represents releases from the funding not allocated to specific purposes contingency associated with 2022 VEFU new output initiatives. Further information on total output contingencies can be found at Note 3.3.5, Chapter 3 Estimated Financial Statements and Notes.

Policy variations

Policy variations reflect specific initiatives by the Government that have a fiscal impact and are related to a new policy or represent a change in the Government's existing policy position since the *2022-23 Budget*.

Appendix A *Specific policy initiatives affecting the budget position* details the specific new output and revenue policy initiatives.

Table 2.4: Net impact of new output initiatives since the *2022-23 Budget* [(a)] ($ million)

	2022-23 revised	2023-24 estimate	2024-25 estimate	2025-26 estimate
New output initiatives	**2 401**	**854**	**775**	**949**
Less:				
Reprioritisations and revenue offsets [(b)]	99	92	140	66
Adjustments [(c)]	399	339	(16)	(37)
Savings	..	..	..	..
***2022 VEFU* output policy initiatives**	**1 904**	**423**	**652**	**919**
Less: Contingency offset for new policy [(d)]	..	..	..	..
Net impact	**1 904**	**423**	**652**	**919**

Notes:
(a) *Figures in this table are subject to rounding to the nearest million and may not add up to totals.*
(b) *This includes the reprioritisation of resources previously allocated to departments and revenue offsets.*
(c) *Primarily incorporates the net impact of the specific creation and release of contingencies held for decisions made but not yet allocated.*
(d) *Represents releases from the funding not allocated to specific purposes contingency associated with 2022 VEFU new output initiatives. Further information on total output contingencies can be found at Note 3.3.5,* Chapter 3 Estimated Financial Statements and Notes.

Economic and demographic variations

Since the *2022-23 Budget*, taxation revenue has been revised upwards by $678 million in 2022-23, $470 million in 2023-24, $482 million in 2024-25 and $536 million in 2025-26. This includes upgrades to payroll tax and motor vehicle taxes.

Commonwealth grants variations

Commonwealth general purpose grants (or GST grants) have been revised down by $378 million in 2022-23, $561 million in 2023-24, and upwards by $85 million in 2024-25, and $289 million in 2025-26, compared with the *2022-23 Budget*. These changes largely reflect a reduction in Victoria's population share. A near-term reduction in relativities is offset over the forward estimates by strength in commodity revenue in commodity-rich states.

Net changes to specific purpose grants have decreased the operating result by $399 million in 2022-23 and $239 million in 2023-24, and upwards by $53 million in 2024-25 and $819 million in 2025-26, compared with the *2022-23 Budget*. The movements primarily reflect new infrastructure grants expected from the Commonwealth and a rephase of some existing infrastructure grants.

Administrative variations

Other administrative variations are expected to increase the operating result by $222 million in 2022-23, $276 million in 2023-24 and $372 million in 2024-25, and decrease by $730 million in 2025-26, compared with the *2022-23 Budget*.

Major variations include:

- updates to the timing of some expenditure programs across departments
- an increase in interest expense in line with increased global bond rates and volatile market conditions since the *2022-23 Budget*; offset by
- a reduction in the defined benefit superannuation expense from 2022-23 that primarily relates to the impact of increases in the bond yields that underlie the key superannuation valuation assumptions.

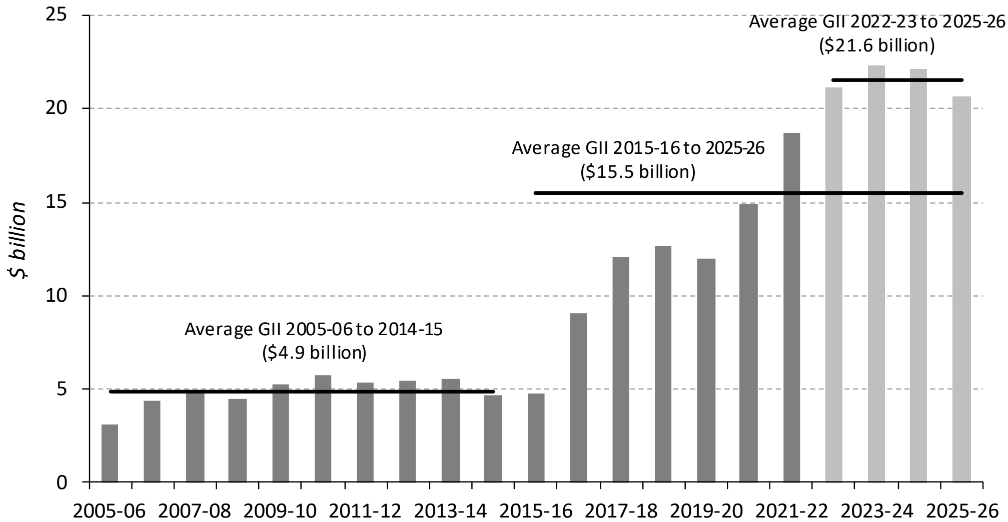
Capital expenditure

Government infrastructure investment (GII), which measures investment funded by the Government and estimated private sector construction related expenditure on public private partnership projects, is expected to average $21.6 billion a year over the budget and forward estimates.

This includes investments in health, housing, education, transport and cultural precincts, as well as major productivity-enhancing projects such as North East Link, Metro Tunnel, West Gate Tunnel, Melbourne Airport Rail, Geelong Fast Rail, Suburban Rail Loop and Level Crossing Removal Program.

Appendix A *Specific policy initiatives affecting the budget position* provides details of new individual asset initiatives committed since the *2022-23 Budget*.

Chart 2.1: Government infrastructure investment [(a)(b)]



Notes:

(a) Includes general government net infrastructure investment and the estimated cash flows for public private partnership projects.

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

(c) Excludes the impact of the medium-term lease over the operations of the Port of Melbourne and the divestment of Victoria's share of Snowy Hydro Limited.

Net debt

Net debt is projected to be $115.6 billion at June 2023 and is forecast to increase to $165.4 billion by June 2026. This is a decrease of $2.9 billion by June 2023 and of $2.1 billion by June 2026 compared with the *2022-23 Budget*.

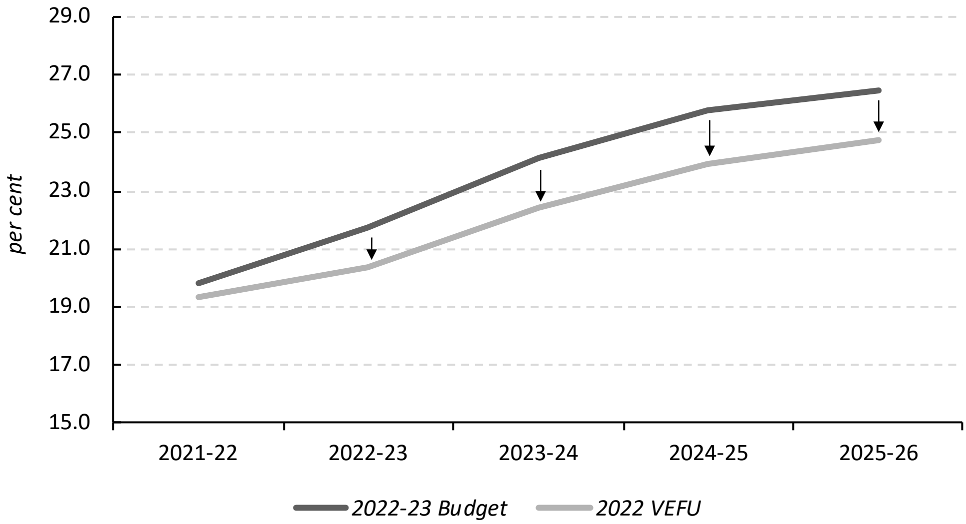
As a proportion of gross state product (GSP), net debt is projected to increase from 20.4 per cent in June 2023 to 24.8 per cent by June 2026.

Expenditure in response to the COVID-19 pandemic over the last two years has been targeted to allow required services and economic support to assist recovery while maintaining steps two and three of the fiscal strategy.

Stabilising net debt as a percentage of GSP – the last step in the Government's fiscal strategy – is an important medium-term objective for the Government. Chart 2.2 shows the net debt to GSP ratio is lower in each year of the forward estimates than was forecast in the *2022-23 Budget*, and 1.7 percentage points lower than forecast in 2025-26.

While net debt to GSP is still projected to rise over the forward estimates, the rate of growth has slowed and will continue to slow over the medium term.

Chart 2.2: General government net debt to GSP



Box 2.1: The Victorian Future Fund

The Government increased public spending to cushion the impact of COVID-19 on the Victorian economy, households and community, and the use of the Government's balance sheet to support the Victorian community has led to a necessary increase in debt.

The Victorian Future Fund (the Fund) has been established by the Government to manage the fiscal impact of COVID-19 and deliver positive outcomes for Victorians by reducing the debt burden on future generations. The Fund will support the State's debt stabilisation strategy.

The Fund has been established using proceeds from the VicRoads Modernisation Joint Venture. The investment returns from the Fund will be quarantined and returned to the Fund so that its balance will grow over time to offset borrowings. Both the investments into the Fund and future returns will be used to repay COVID-19 borrowings. The Fund is projected to have a balance of around $10.9 billion by the end of the forward estimates.

Further investments will be made in the future into the Fund through proceeds from designated government land sales and a proportion of future budget surpluses once net debt stabilises.

The Fund will be managed by the Victorian Funds Management Corporation (VFMC), the State's specialist investment agency, by implementing a diversified investment strategy designed to deliver returns that exceed the savings that would otherwise have been achieved. These excess returns will, over time, improve the state's operating result and net debt position, further supporting the State's debt stabilisation strategy.

The Fund will be managed in line with strict environmental, social and governance (ESG) principles consistent with other investments managed by the VFMC.

The application of cash resources for the general government sector (as shown in Table 2.5) outlines the annual movements in net debt.

Table 2.5: Application of cash resources for the general government sector [(a)] ($ million)

	2022-23 revised	*2023-24 estimate*	*2024-25 estimate*	*2025-26 estimate*
Net result from transactions	**(9 688)**	**(3 612)**	**(701)**	**894**
Add back: Operating cash flows not recognised in the net operating balance [(b)]	12 050	4 406	4 608	4 438
Net cash flows from operating activities	**2 361**	**793**	**3 907**	**5 332**
Less: Total net investment in fixed assets [(c)]	**15 832**	**18 303**	**20 534**	**19 306**
Surplus/(deficit) of cash from operations after funding net investment in fixed assets	**(13 470)**	**(17 510)**	**(16 628)**	**(13 973)**
Less:				
Leases and service concession arrangements [(d)]	2 380	2 401	946	300
Other movements	(221)	(1 556)	(85)	(327)
Decrease/(increase) in net debt	**(15 630)**	**(18 355)**	**(17 488)**	**(13 946)**

Notes:

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

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

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

(d) Includes most operating leases, which are now required to be recognised as lease liabilities. It also includes the financial liabilities relating to public private partnership projects including the High Capacity Metro Trains Project, the Metro Tunnel, the new Footscray Hospital and the Frankston Hospital Redevelopment.

Unfunded superannuation liability

The Government is on track to fully fund the State's unfunded superannuation liability by 2035. Note 3.6.3 of Chapter 3 *Estimated Financial Statements and Notes* shows information on the reported superannuation liability.

FISCAL RISKS

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

Details of specific contingent assets and liabilities, defined as possible assets or liabilities that arise from past events whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity, are contained within Chapter 4 *Contingent assets and contingent liabilities*.

GENERAL FISCAL RISKS

COVID-19

The risks to Victoria's economic outlook remain greater than were typical prior to the COVID-19 pandemic. These include ongoing risks relating to the pandemic, the outlook for inflation (and hence for interest rates), as well as prospects for global economic growth against a backdrop of geopolitical volatility.

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

Appendix B *Sensitivity analysis* contains information on the impact of variations in the macroeconomic outlook on the Government's key fiscal aggregates. This includes a scenario of a renewed global downturn resulting from the emergence of a vaccine-resistant COVID-19 strain, leading to renewed outbreaks and restrictions in major economies outside Australia.

National Partnership on COVID-19 Response

To support the national and coordinated health response to the COVID-19 pandemic, in April 2020 the Commonwealth, States and Territories agreed shared funding arrangements via a new National Partnership Agreement. The Agreement does not have a clear sunset date for budget purposes. The Commonwealth has only committed funding until 2022-23 despite ongoing impacts on the health system from the COVID-19 pandemic. As such, if the Agreement is terminated before the COVID-19 pandemic response ends, the State may bear increased costs without Commonwealth contributions, particularly if there are future outbreaks of COVID-19.

State taxes

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

Pressure on some households is growing in response to higher interest rates and inflation, and declining housing prices. Rising interest rates, inflation and slowing economic growth will also put pressure on business balance sheets. Each of these are sources of risk to the state taxation outlook.

Revenue from property-based taxes, such as land tax and land transfer duty, is subject to unique risks and historically has been volatile, as property markets can exhibit large cycles typically related to changes in interest rates and/or changes in sentiment. Both dwelling price and transaction volume movements are key risks to property-based tax collections.

Employee expenses

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

Demand for government services

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

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

Note 3.3.5 and Note 3.3.6 of Chapter 3 *Estimated Financial Statements and Notes* discloses general government output and asset contingencies not allocated to departments.

Capital program risks

The Government is delivering a historically large program of capital investments aimed at supporting jobs and improving productivity and the quality of public service delivery. The Government's project pipeline will continue to support elevated levels of activity in the construction sector over the medium term, with several committed major projects in the planning and procurement phase complementing the large volume of existing projects in delivery.

Victoria's Big Build coincides with a period of unprecedented growth in construction across Victoria and nationally. The high level of demand for skills and resources is placing significant pressure on the construction market and supply chain, resulting in capacity challenges and escalation in the price of materials and labour. The Government also continues to manage the effects of the COVID-19 pandemic on the State's capital program.

Specific fiscal risks

Commonwealth schools funding

In June 2017, the former Commonwealth Government passed amendments to the *Australian Education Act 2013* to implement a new national school funding model. In mid-2019, Victoria signed the National School Reform Agreement and an accompanying bilateral agreement, which expire on 31 December 2023. Estimates of funding required to acquit the Schooling Resource Standard target in a given year are based on student number and profile projections for that year. Expenditure targets are finalised towards the end of or after each school year based on actual student data, creating a risk that the Victorian and Commonwealth targets differ from the funding allocated that year.

National Health Reform Agreement Funding Cap

Under the 2020-25 Addendum to the National Health Reform Agreement (NHRA), the Commonwealth co-funds public hospitals by contributing 45 per cent of the cost of eligible activity, with the Commonwealth's contribution capped at a growth rate of 6.5 per cent compared to the previous year's contribution.

This is a 'soft cap' that applies at a national level, with states entitled to receive Commonwealth contributions beyond the cap until the growth rate of national expenditure reaches 6.5 per cent. Uncertainty around expenditure growth in other states and territories may create a fiscal risk to the State if the Commonwealth does not fund 45 per cent of additional eligible hospital spending.

In addition, should the Commonwealth's participation in the National Partnership on COVID-19 Response not be extended beyond the current commitment, additional hospital activity and costs relating to the COVID-19 response could fall instead under the NHRA, which would increase the risk of breaching the 6.5 per cent cap for annual efficient growth in Commonwealth funding.

Victoria’s GST revenue

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

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

National GST Pool

The outlook for the national GST pool has continued its strong recovery following the pandemic but is expected to be impacted by an anticipated slowing of consumption following interest rate rises.

A greater decline in consumption or dwelling investment could further slow growth in the GST pool. Key risks to the profile are largely around consumption and population growth. Further sources of uncertainty include the emergence of new variants of COVID-19, the outlook for inflation and interest rates and the prospects for global economic growth against a backdrop of elevated uncertainty.

GST relativities

The national GST pool is shared between states and territories based on relativities determined annually by the Commonwealth Treasurer, which are informed by the recommendations of the Commonwealth Grants Commission.

These relativities are based on the relative fiscal capacity of each jurisdiction and are influenced by differences in revenue bases and costs of delivering services. Relativities are sensitive to a broad range of factors, including demographics, infrastructure needs, developments in property markets and global commodity prices (particularly for iron ore and coal). Uncertainty in these factors represent risks for Victoria’s GST revenue.

In addition, the Commonwealth Grants Commission has not been allowed to account for the impacts of the COVID-19 pandemic on the GST distribution for 2022-23, and it is unclear if it will be allowed in future. This puts at risk Victoria’s capacity to support recovery from the pandemic and fully fund essential services.

Population

The 2021 Census results were utilised by the ABS to inform population statistics for the 2016 to 2021 period. Victoria’s population share has decreased over this period due to the impacts of the COVID-19 pandemic and interstate migration flows.

Victoria’s population share expectations have been amended for the 2021 Census results but are subject to greater risk around interstate and overseas migration as the ongoing effects of the COVID-19 migration flows are assessed.

Victoria’s GST revenue is subject to Victoria’s population share and population share growth and may be materially affected by changes.

Commonwealth no-worse-off guarantee for GST entitlement

In 2018, the former Commonwealth Government legislated a change in the system of horizontal fiscal equalisation (HFE), which introduced:

- a minimum GST revenue sharing relativity (relativity floor) of 0.70 commencing in 2019-20, supported by transition payments from the Commonwealth and facilitated within the GST distribution from 2022-23, rising to 0.75 from 2024-25
- a small boost to the GST revenue pool from 2021-22 with additional Commonwealth financial assistance
- the transition of the HFE system from full equalisation (so called equalising to the strongest state) to 'reasonable' equalisation, based upon the fiscal capacity of the stronger of New South Wales or Victoria.

During the six-year transition period commencing in 2021-22, each state and territory is entitled to receive additional Commonwealth financial assistance to ensure it is no worse off compared to its GST entitlement had full equalisation been maintained. The no-worse-off guarantee is currently only legislated until the end of the transition period in 2026-27, which poses a fiscal risk to states and territories.

Victoria continues to work with other state governments and the Commonwealth to ensure Victoria receives its fair share of GST.

CHAPTER 3 – ESTIMATED FINANCIAL STATEMENTS AND NOTES

ESTIMATED CONSOLIDATED GENERAL GOVERNMENT SECTOR COMPREHENSIVE OPERATING STATEMENT

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

	Notes	*2022-23 budget*	*2022-23 revised*	*2023-24 estimate*	*2024-25 estimate*	*2025-26 estimate*
Revenue and income from transactions						
Taxation	3.2.1	30 488	31 166	32 686	33 802	35 554
Interest income		715	831	884	942	979
Dividends, income tax equivalent and rate equivalent income	3.2.2	602	559	831	877	1 056
Sales of goods and services	3.2.3	6 366	6 067	6 238	6 535	6 500
Grants	3.2.4	40 351	39 204	40 335	43 024	45 893
Other revenue and income	3.2.5	3 459	3 547	3 639	3 210	3 432
Total revenue and income from transactions		**81 980**	**81 373**	**84 615**	**88 390**	**93 415**
Expenses from transactions						
Employee expenses		33 087	33 485	34 170	34 727	35 762
Net superannuation interest expense	3.3.2	682	719	716	690	668
Other superannuation	3.3.2	3 768	3 413	3 527	3 618	3 652
Depreciation	3.4.2	4 650	4 712	4 712	4 826	5 090
Interest expense	3.5.3	3 899	3 857	5 120	6 254	7 318
Grant expense	3.3.3	17 391	18 185	15 744	15 219	15 678
Other operating expenses	3.3.4	26 367	26 690	24 237	23 758	24 353
Total expenses from transactions	3.3.5	**89 844**	**91 061**	**88 227**	**89 091**	**92 521**
Net result from transactions – net operating balance		**(7 864)**	**(9 688)**	**(3 612)**	**(701)**	**894**
Other economic flows included in net result						
Net gain/(loss) on disposal of non-financial assets		52	54	31	32	25
Net gain/(loss) on financial assets or liabilities at fair value		76	60	54	91	199
Share of net profit/(loss) from associates/joint venture entities		4	26	30	32	36
Other gains/(losses) from other economic flows	3.7.1	(479)	(479)	(455)	(419)	(408)
Total other economic flows included in net result		**(347)**	**(339)**	**(339)**	**(265)**	**(147)**
Net result		**(8 212)**	**(10 027)**	**(3 952)**	**(966)**	**747**

ESTIMATED CONSOLIDATED GENERAL GOVERNMENT SECTOR COMPREHENSIVE OPERATING STATEMENT (CONTINUED)

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

	Notes	*2022-23 budget*	*2022-23 revised*	*2023-24 estimate*	*2024-25 estimate*	*2025-26 estimate*
Other economic flows – other comprehensive income						
Items that will not be reclassified to net result						
Changes in non-financial assets revaluation surplus		5 940	6 154	5 718	10 343	1 689
Remeasurement of superannuation defined benefit plans	3.3.2	984	1 872	672	676	677
Other movements in equity		46	21	27	33	18
Items that may be reclassified subsequently to net result						
Net gain/(loss) on financial assets at fair value		3	95	58	57	92
Net gain/(loss) on equity investments in other sector entities at proportional share of the carrying amount of net assets	3.6.1	(3 869)	(3 869)	(4 837)	(4 590)	(14 209)
Total other economic flows – other comprehensive income		**3 105**	**4 274**	**1 638**	**6 519**	**(11 733)**
Comprehensive result – total change in net worth		**(5 107)**	**(5 753)**	**(2 313)**	**5 552**	**(10 986)**
KEY FISCAL AGGREGATES						
Net operating balance		**(7 864)**	**(9 688)**	**(3 612)**	**(701)**	**894**
Less: Net acquisition of non-financial assets from transactions	3.3.7	6 504	7 046	7 964	6 432	(3 028)
Net lending/(borrowing)		**(14 368)**	**(16 734)**	**(11 576)**	**(7 133)**	**3 923**

The accompanying notes form part of these Estimated Financial Statements.

ESTIMATED CONSOLIDATED GENERAL GOVERNMENT SECTOR BALANCE SHEET

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

	Notes	*2023 budget* [(a)]	*2023 revised*	*2024 estimate*	*2025 estimate*	*2026 estimate*
Assets						
Financial assets						
Cash and deposits		10 932	11 118	11 426	11 880	12 388
Advances paid	3.5.2	5 066	5 110	6 426	6 328	6 336
Receivables and contract assets		8 615	7 918	8 220	8 508	8 868
Investments, loans and placements	3.5.2	9 651	12 549	13 844	15 443	17 411
Investments accounted for using equity method		10	1 219	1 219	1 428	1 428
Investments in other sector entities	3.6.1	92 092	91 378	93 338	98 559	101 851
Total financial assets		**126 366**	**129 292**	**134 472**	**142 146**	**148 281**
Non-financial assets						
Inventories		870	753	476	252	256
Non-financial assets held for sale		159	187	161	133	127
Land, buildings, infrastructure, plant and equipment	3.4.1	235 585	235 982	250 701	267 826	266 872
Other non-financial assets	3.4.4	7 178	7 342	7 140	6 917	6 669
Total non-financial assets		**243 792**	**244 264**	**258 478**	**275 128**	**273 923**
Total assets	3.4.5	**370 157**	**373 556**	**392 949**	**417 274**	**422 205**
Liabilities						
Deposits held and advances received		1 383	1 386	1 402	1 410	1 362
Payables	3.6.2	22 729	26 416	26 642	26 110	25 465
Contract liabilities	3.6.2	304	338	310	297	293
Borrowings	3.5.1	140 808	142 988	164 246	183 681	200 158
Employee benefits	3.3.1	10 179	10 099	10 429	10 766	11 109
Superannuation	3.6.3	19 244	17 461	17 336	16 789	16 421
Other provisions		2 090	2 090	2 121	2 204	2 366
Total liabilities		**196 736**	**200 778**	**222 485**	**241 257**	**257 174**
Net assets		**173 421**	**172 778**	**170 464**	**176 017**	**165 031**
Accumulated surplus/(deficit)		45 642	44 693	41 440	41 183	42 971
Reserves		127 779	128 085	129 024	134 834	122 060
Net worth		**173 421**	**172 778**	**170 464**	**176 017**	**165 031**
FISCAL AGGREGATES [(b)]						
Net financial worth		(70 371)	(71 487)	(88 013)	(99 111)	(108 893)
Net financial liabilities		162 463	162 864	181 351	197 670	210 744
Net debt		116 542	115 597	133 952	151 440	165 386

The accompanying notes form part of these Estimated Financial Statements.

Notes:

(a) *Balances represent actual opening balances at 1 July 2022 plus 2022-23 budgeted movements.*

(b) *The fiscal aggregates are defined in Note 9.9 of the* 2021-22 Financial Report.

ESTIMATED CONSOLIDATED GENERAL GOVERNMENT SECTOR CASH FLOW STATEMENT

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

	Notes	*2022-23 budget*	*2022-23 revised*	*2023-24 estimate*	*2024-25 estimate*	*2025-26 estimate*
Cash flows from operating activities						
Receipts						
Taxes received		30 770	31 426	32 465	33 516	35 201
Grants		40 319	39 196	40 338	43 022	45 893
Sales of goods and services [(a)]		6 920	6 634	6 762	7 116	7 093
Interest received		682	780	814	845	863
Dividends, income tax equivalent and rate equivalent receipts		596	888	826	872	1 051
Other receipts		6 873	10 381	2 117	2 281	2 356
Total receipts		**86 160**	**89 305**	**83 320**	**87 653**	**92 457**
Payments						
Payments for employees		(32 772)	(33 251)	(33 853)	(34 402)	(35 431)
Superannuation		(3 977)	(4 554)	(3 696)	(4 179)	(4 012)
Interest paid		(3 588)	(3 550)	(4 801)	(6 005)	(7 231)
Grants and subsidies		(17 391)	(18 169)	(15 642)	(15 071)	(15 567)
Goods and services [(a)]		(25 845)	(26 004)	(23 618)	(23 126)	(23 979)
Other payments		(1 305)	(1 415)	(917)	(963)	(906)
Total payments		**(84 879)**	**(86 944)**	**(82 526)**	**(83 746)**	**(87 125)**
Net cash flows from operating activities		**1 281**	**2 361**	**793**	**3 907**	**5 332**
Cash flows from investing activities						
Cash flows from investments in non-financial assets						
Purchases of non-financial assets	3.3.6	(15 138)	(14 788)	(16 820)	(18 559)	(17 885)
Sales of non-financial assets		693	423	661	607	698
Net cash flows from investments in non-financial assets		**(14 445)**	**(14 366)**	**(16 160)**	**(17 952)**	**(17 186)**
Net cash flows from investments in financial assets for policy purposes		(1 429)	(1 466)	(2 143)	(2 582)	(2 119)
Subtotal		**(15 874)**	**(15 832)**	**(18 303)**	**(20 534)**	**(19 306)**
Net cash flows from investment in financial assets for liquidity management purposes		(6 254)	(9 079)	(1 242)	(1 550)	(1 716)
Net cash flows from investing activities		**(22 129)**	**(24 910)**	**(19 545)**	**(22 084)**	**(21 022)**
Cash flows from financing activities						
Advances received (net)		(448)	(448)	16	8	(48)
Net borrowings		21 253	23 131	19 043	18 624	16 245
Net cash flows from financing activities		**20 805**	**22 682**	**19 060**	**18 632**	**16 197**
Net increase/(decrease) in cash and cash equivalents		**(43)**	**133**	**308**	**455**	**507**
Cash and cash equivalents at beginning of reporting period [(b)(c)]		10 974	10 985	11 118	11 426	11 880
Cash and cash equivalents at end of reporting period [(b)(c)]		**10 931**	**11 118**	**11 426**	**11 880**	**12 388**

ESTIMATED CONSOLIDATED GENERAL GOVERNMENT SECTOR CASH FLOW STATEMENT (CONTINUED)

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

	Notes	*2022-23 budget*	*2022-23 revised*	*2023-24 estimate*	*2024-25 estimate*	*2025-26 estimate*
FISCAL AGGREGATES						
Net cash flows from operating activities		1 281	2 361	793	3 907	5 332
Net cash flows from investments in non-financial assets		(14 445)	(14 366)	(16 160)	(17 952)	(17 186)
Cash surplus/(deficit)		**(13 164)**	**(12 004)**	**(15 366)**	**(14 045)**	**(11 854)**

The accompanying notes form part of these Estimated Financial Statements.

Notes:

(a) Inclusive of goods and services tax.

(b) 2022-23 Budget *figures have been restated to represent actual opening balances at 1 July 2022.*

(c) The variance in the cash and cash equivalents at the beginning of the reporting period for the 2022-23 budget and 2022-23 revised budget reflects the abolishment of seven Waste and Resource Recovery Groups in the PNFC sector with their functions transferred into the Department of Environment, Land, Water and Planning (DELWP) to form a business unit within DELWP, Recycling Victoria, effective from 1 July 2022.

ESTIMATED CONSOLIDATED GENERAL GOVERNMENT SECTOR STATEMENT OF CHANGES IN EQUITY

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

	Accumulated surplus/(deficit)	*Non-financial assets revaluation surplus*	*Investment in other sector entities revaluation surplus*	*Other reserves*	*Total*
2022-23 budget [(a)]					
Balance at 1 July 2022	52 824	79 719	44 815	1 170	178 528
Net result for the year	(8 212)	..	..	..	(8 212)
Other comprehensive income for the year	1 030	5 940	(3 869)	3	3 105
Total equity as at 30 June 2023	**45 642**	**85 660**	**40 946**	**1 173**	**173 421**
2022-23 revised					
Balance at 1 July 2022 [(b)]	52 827	79 719	44 815	1 170	178 531
Net result for the year	(10 027)	..	..	..	(10 027)
Other comprehensive income for the year	1 893	6 154	(3 869)	95	4 274
Total equity as at 30 June 2023	**44 693**	**85 874**	**40 946**	**1 265**	**172 778**
2023-24 estimate					
Balance at 1 July 2023	44 693	85 874	40 946	1 265	172 778
Net result for the year	(3 952)	..	..	..	(3 952)
Other comprehensive income for the year	699	5 718	(4 837)	58	1 638
Total equity as at 30 June 2024	**41 440**	**91 592**	**36 110**	**1 323**	**170 464**
2024-25 estimate					
Balance at 1 July 2024	41 440	91 592	36 110	1 323	170 464
Net result for the year	(966)	..	..	..	(966)
Other comprehensive income for the year	709	10 343	(4 590)	57	6 519
Total equity as at 30 June 2025	**41 183**	**101 935**	**31 519**	**1 379**	**176 017**
2025-26 estimate					
Balance at 1 July 2025	41 183	101 935	31 519	1 379	176 017
Net result for the year	747	..	..	..	747
Other comprehensive income for the year	695	1 689	(14 209)	92	(11 733)
Transfer to/(from) accumulated surplus	345	(345)	..	..	..
Total equity as at 30 June 2026	**42 971**	**103 278**	**17 310**	**1 472**	**165 031**

The accompanying notes form part of these Estimated Financial Statements.

Notes:

(a) Balances represent actual opening balances at 1 July 2022 plus 2022-23 budgeted movements.

(b) On 1 July 2022, the seven Waste and Resource Recovery Groups were abolished and transferred from the PNFC sector to be amalgamated into the Department of Environment, Land, Water and Planning (DELWP) to form a business unit within DELWP, Recycling Victoria. This has resulted in the 1 July 2022 opening balance not equalling the 30 June closing balance.

3.1 ABOUT THIS REPORT

Basis of preparation

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

The detailed accounting policies applied in preparing the Estimated Financial Statements for the 2022-23 budget year, and the three forward years, are consistent with those in the *2021-22 Financial Report* for the State of Victoria as presented to Parliament. The audited 30 June 2022 asset and liability balances, as reported in the *2021-22 Financial Report*, form the basis on which asset and liability balances are projected over the next four years.

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

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

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

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

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. However, the COVID-19 pandemic has introduced significant economic and fiscal uncertainties since early 2020. Although the economy has recovered well to date, risks to Victoria's economic outlook remain greater than normal. Beyond risks relating to COVID-19, other key risks include the outlook for inflation, and hence for interest rates, as well as geopolitical conditions. This means that these estimates are subject to a higher degree of uncertainty. Given the prospective nature of the Estimated Financial Statements, actual results are likely to differ from these estimates. Revisions to accounting estimates are recognised in the period in which the estimate is revised and also in future periods that are affected.

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

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

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

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

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

Reporting entity

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

The general government sector is not a separate entity but represents a sector within the State of Victoria reporting entity.

Basis for consolidation

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

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

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

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

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

Except as stated in Note 3.7.4, the significant entities consolidated within the sector comprise those general government sector entities listed in Note 9.8 of Chapter 4 of the *2021-22 Financial Report* for the State of Victoria.

Compliance

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

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

The information presented in the Estimated Financial Statements takes into account all policy decisions made by the Victorian Government as at 11 October 2022. It also includes preliminary estimates for Commonwealth Government funding revisions, where known, updates to GST revenue to reflect Commonwealth revisions to national population forecasts, as well as a preliminary provision for costs associated with the State's flood recovery efforts.

Economic assumptions

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

Economic assumptions

	2021-22 actual	*2022-23 forecast*	*2023-24 forecast*	*2024-25 projection*	*2025-26 projection*
					($ billion)
Nominal gross state product	517.6 [(a)]	568.0	598.4	632.6	667.3
					(percentage change) [(b)]
Real gross state product	5.00 [(a)]	3.00	1.75	2.75	2.75
Employment	3.90	1.75	1.00	1.25	1.75
Unemployment rate [(c)]	4.30	3.75	4.00	4.25	4.50
Consumer price index [(d)]	4.00	6.50	3.50	2.75	2.50
Wage price index [(e)]	2.40	3.25	3.50	3.25	3.25
Population [(f)]	0.90 [(a)]	1.40	1.70	1.70	1.70

Notes:
(a) Estimate, actual not yet available.
(b) Percentage change in year average terms compared with previous year, except for the unemployment rate (see note (c)) and population (see note (e)). Forecasts are rounded to the nearest 0.25 percentage points, except for population (see note (f)). The economic assumptions underlying the economic forecasts include interest rates that follow movements in market expectations, an Australian dollar trade-weighted index of 61.2, and oil prices that follow the path suggested by oil futures.
(c) Year average.
(d) Melbourne consumer price index. Forecasts predate data for the September quarter which was released on 26 October, after these forecasts were finalised.
(e) Wage price index, Victoria (based on total hourly rates of pay, excluding bonuses).
(f) Percentage change over the year to 30 June. Forecasts are rounded to the nearest 0.1 percentage point.

3.2 HOW FUNDS ARE RAISED

Introduction

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

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

Structure

3.2.1 Taxation ($ million)

	2022-23 budget	2022-23 revised	2023-24 estimate	2024-25 estimate	2025-26 estimate
Taxes on employers' payroll and labour force					
Payroll tax	6 815	7 145	7 809	8 134	8 526
Mental Health and Wellbeing Levy	819	858	893	936	985
Total taxes on employers' payroll and labour force	**7 634**	**8 003**	**8 702**	**9 070**	**9 511**
Taxes on immovable property					
Land tax	4 836	5 158	5 217	5 398	5 868
Fire Services Property Levy	800	800	839	873	895
Congestion levy	108	117	121	124	127
Metropolitan improvement levy	215	202	208	214	221
Windfall gains tax	..	..	42	62	90
Total taxes on property	**5 959**	**6 276**	**6 426**	**6 672**	**7 202**
Taxes on the provision of goods and services					
Gambling taxes					
Public lotteries [(a)]	690	636	681	710	733
Electronic gaming machines [(a)]	1 206	1 348	1 401	1 449	1 497
Casino [(a)]	223	183	219	227	233
Racing and other sports betting [(a)]	304	309	326	340	353
Other [(a)]	14	14	15	16	18
Financial and capital transactions					
Land transfer duty	8 226	8 064	8 249	8 494	8 820
Metropolitan planning levy	20	22	21	22	23
Financial accommodation levy	184	160	172	178	182
Growth areas infrastructure contributions	280	320	328	336	344
Levies on statutory corporations [(b)]	**173**	**173**	**173**	**..**	**..**
Taxes on insurance	**1 829**	**1 846**	**1 977**	**2 116**	**2 263**
Total taxes on the provision of goods and services	**13 150**	**13 078**	**13 562**	**13 889**	**14 465**
Taxes on the use of goods and performance of activities					
Motor vehicle taxes					
Vehicle registration fees	1 994	1 976	2 088	2 192	2 297
Duty on vehicle registrations and transfers	1 077	1 176	1 239	1 297	1 357
Liquor licence fees	**26**	**27**	**29**	**30**	**32**
Other	**648**	**629**	**641**	**653**	**691**
Total taxes on the use of goods and performance of activities	**3 745**	**3 808**	**3 996**	**4 172**	**4 376**
Total taxation	**30 488**	**31 166**	**32 686**	**33 802**	**35 554**

Notes:

(a) The public lotteries, electronic gaming machines, casino, racing and other sports betting and other gambling taxes balances include gambling licence revenue forecasts of $174 million in 2022-23, $190 million in 2023-24, $190 million in 2024-25 and $190 million in 2025-26, recognised under AASB 15. The balance of these items is recognised under AASB 1058.

(b) The fifth tranche of the environmental contribution levy began on 1 July 2020 for a period of four years concluding on 30 June 2024.

3.2.2 Dividends, income tax equivalent and rate equivalent income ($ million)

	2022-23 budget	*2022-23 revised*	*2023-24 estimate*	*2024-25 estimate*	*2025-26 estimate*
Dividends from PFC sector	60	60	67	79	70
Dividends from PNFC sector	74	100	145	139	132
Dividends from non-public sector	233	150	379	430	616
Dividends	**367**	**310**	**592**	**648**	**817**
Income tax equivalent income from PFC sector	8	8	10	10	10
Income tax equivalent income from PNFC sector	221	235	224	214	224
Income tax equivalent income	**229**	**244**	**234**	**224**	**234**
Local government rate equivalent income	5	5	5	6	5
Total dividends, income tax equivalent and rate equivalent income	**602**	**559**	**831**	**877**	**1 056**

Dividends by entity [(a)] ($ million)

	2022-23 budget	*2022-23 revised*	*2023-24 estimate*	*2024-25 estimate*	*2025-26 estimate*
Public financial corporations					
Victorian Managed Insurance Authority	..	..	..	..	..
WorkSafe Victoria	..	..	..	..	..
Transport Accident Commission	..	..	..	..	..
Treasury Corporation of Victoria	52	52	61	70	60
State Trustees Ltd	1	1	1	1	1
Victorian Funds Management Corporation	8	8	6	9	9
Dividends from PFC sector	**60**	**60**	**67**	**79**	**70**
Public non-financial corporations					
Greater Western Water	15	20	52	64	66
Melbourne Water Corporation	..	14	13	5	5
South East Water Corporation	33	29	33	24	21
Yarra Valley Water Corporation	15	33	13	11	16
Development Victoria	10	4	33	36	23
Others	..	..	..	..	..
Dividends from PNFC sector	**74**	**100**	**145**	**139**	**132**

Note:

(a) *Amounts equivalent to dividends to be paid by the Transport Accident Commission are received and reported as contributions forming part of grant revenue, consistent with the requirements of AASB 1023* General Insurance Contracts. *The amounts, subject to annual review, that are forecast to be paid are $200 million in 2022-23, $600 million in 2023-24, $900 million in 2024-25 and $1.3 billion in 2025-26. These payments include the insurance agencies' contribution to the Delivering for all Victorians Infrastructure Fund and will acquit the commitment in* Labor's Financial Statement 2018. *Based on current projections, the Transport Accident Commission is expected to remain financially sustainable, with an Insurance Funding Ratio (IFR) above the midpoint of the preferred range, across the forward estimates.*

3.2.3 Sales of goods and services ($ million)

	2022-23 budget	2022-23 revised	2023-24 estimate	2024-25 estimate	2025-26 estimate
Amounts recognised as revenue from contracts with customers (AASB 15)					
Sale of goods	90	91	92	94	93
Provision of services	5 230	5 052	5 054	5 344	5 373
Amounts recognised as income of not-for-profit entities (AASB 1058)					
Motor vehicle regulatory fees	296	190	233	236	230
Other regulatory fees	653	639	764	763	706
Amounts recognised as lease income (AASB 16)					
Rental	96	94	95	98	98
Total sales of goods and services	**6 366**	**6 067**	**6 238**	**6 535**	**6 500**

3.2.4 Grants [(a)] ($ million)

	2022-23 budget	2022-23 revised	2023-24 estimate	2024-25 estimate	2025-26 estimate
General purpose grants	18 721	18 343	18 791	20 551	21 672
Specific purpose grants for on-passing	5 171	4 678	5 430	5 628	5 821
Specific purposes grants	15 741	15 756	15 313	15 834	16 949
Total	**39 633**	**38 777**	**39 534**	**42 014**	**44 443**
Other contributions and grants	718	426	802	1 010	1 451
Total grants	**40 351**	**39 204**	**40 335**	**43 024**	**45 893**

Note:
(a) Grants predominantly relate to grants from the Commonwealth Government which are recognised under AASB 1058.

3.2.5 Other revenue and income ($ million)

	2022-23 budget	*2022-23 revised*	*2023-24 estimate*	*2024-25 estimate*	*2025-26 estimate*
Amounts recognised as revenue from contracts with customers (AASB 15)					
Royalties	140	140	142	144	144
Other revenue – health	248	248	254	261	261
Other miscellaneous revenue	676	812	657	677	724
Amounts recognised as income of not-for-profit entities (AASB 1058)					
Fair value of assets received free of charge or for nominal consideration (a)	382	384	488	2	2
Fines	857	857	944	967	985
Donations and gifts (b)	209	209	214	222	222
Other income – education	514	386	396	406	417
Amounts recognised as lease income (AASB 16)					
Other non-property rental	29	29	29	29	29
Revenue items accounted for under AASB 1059					
Revenue related to economic service concession arrangements	405	483	515	502	648
Total other revenue and income	**3 459**	**3 547**	**3 639**	**3 210**	**3 432**

Notes:

(a) The funding profile of the Fair value of assets received free of charge or for nominal consideration in 2022-23 and 2023-24 includes Cross Yarra Partnership Consortium's contribution to the additional costs borne by the operator as part of the Metro Tunnel settlement.

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

3.3 HOW FUNDS ARE SPENT

Introduction

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

Structure

3.3.1 Employee expenses and provision for outstanding employee benefits

Employee expenses and employee benefits are forecast on the basis of staffing profiles and current salaries, conditions and on-costs. For the forecast period, employee expenses and employee benefits mainly include the expected financial impact of employing more staff to increase service delivery in accordance with budget decisions and approved wage outcomes in line with wages policy. Forecast employee expenses also reflect the estimated impact of budget decisions that affect employee expense levels. The majority of employee expenses in the operating statement are salaries and wages. Employee expenses are recognised in the period in which the employee provides the services.

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

	2023 budget	*2023 revised*	*2024 estimate*	*2025 estimate*	*2026 estimate*
Current					
Accrued salaries and wages	787	787	802	817	833
Other employee benefits	209	141	141	141	141
Annual leave	2 598	2 581	2 616	2 651	2 686
Long service leave	5 385	5 387	5 532	5 678	5 825
Total current employee benefits and on-costs	**8 979**	**8 896**	**9 091**	**9 288**	**9 486**
Non-current					
Long service leave	1 200	1 203	1 337	1 478	1 623
Total non-current employee benefits and on-costs	**1 200**	**1 203**	**1 337**	**1 478**	**1 623**
Total employee benefits	**10 179**	**10 099**	**10 429**	**10 766**	**11 109**

3.3.2 Superannuation expense

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

	2022-23 budget	*2022-23 revised*	*2023-24 estimate*	*2024-25 estimate*	*2025-26 estimate*
Defined benefit plans					
Net superannuation interest expense	682	719	716	690	668
Current service cost	1 418	988	1 046	1 129	1 221
Remeasurements:					
Expected return on superannuation assets excluding interest income	(984)	(836)	(672)	(676)	(677)
Other actuarial (gain)/loss on superannuation assets	..	407	..	..	..
Actuarial and other adjustments to unfunded superannuation liability	..	(1 443)	..	..	..
Total expense recognised in respect of defined benefit plans	**1 116**	**(165)**	**1 089**	**1 143**	**1 212**
Defined contribution plans					
Employer contributions to defined contribution plans	2 280	2 357	2 415	2 422	2 364
Other (including pensions)	69	67	67	67	67
Total expense recognised in respect of defined contribution plans	**2 349**	**2 424**	**2 482**	**2 489**	**2 431**
Total superannuation (gain)/expense recognised in operating statement	**3 465**	**2 260**	**3 571**	**3 632**	**3 643**
Represented by:					
Net superannuation interest expense	682	719	716	690	668
Other superannuation	3 768	3 413	3 527	3 618	3 652
Superannuation expense from transactions	**4 449**	**4 132**	**4 243**	**4 308**	**4 320**
Remeasurements recognised in other comprehensive income	**(984)**	**(1 872)**	**(672)**	**(676)**	**(677)**
Total superannuation expense recognised in operating statement	**3 465**	**2 260**	**3 571**	**3 632**	**3 643**

The accounting policies relating to superannuation expenses and liabilities are consistent with the *2022-23 Budget*. However, the forecast assumptions have been revised for each relevant defined benefit superannuation scheme as in the following table.

Superannuation assumptions **(per cent)**

Underlying assumptions for all listed schemes [(a)]	
Discount rate [(b)]	4.1
Wages growth [(c)]	3.6
Inflation rate [(d)]	2.1
Expected return on assets [(e)]	
Emergency Services and State Super	7.0
Health Super Fund Defined Benefit Scheme	3.8
Constitutionally protected schemes [(f)]	n.a

Notes:
(a) All rates are nominal annual rates and are applicable to all the listed schemes.
(b) The discount rate is based on a long-term fixed interest Commonwealth bond rate. The rate stated above is an annual effective rate, gross of tax.
(c) Based on the historical relationship between price and wage inflation, wages growth is assumed to be 1.5 per cent higher than price inflation.
(d) The superannuation assumptions are determined in accordance with AASB 119 Employee Benefits*, which requires that the discount rate be based on Commonwealth bond yields. To ensure consistency with the market-based discount rate, the inflation rate assumed by the actuary reflects market expectations of price inflation, as implied by the relationship between the yields on nominal and inflation-linked Commonwealth bonds. Therefore, these assumptions differ from the key economic assumptions in Note 3.1, which reflect the expected change in consumer prices in Melbourne and movements in wages and salaries in the Victorian labour market.*
(e) The expected return on assets stated is gross of tax. Estimated tax payments are explicitly allowed for in the calculation process.
(f) Pensions payable from constitutionally protected schemes are paid from the Consolidated Fund. These schemes hold no assets, so there is no expected return on assets.

3.3.3 Grant expense ($ million)

	2022-23 budget	*2022-23 revised*	*2023-24 estimate*	*2024-25 estimate*	*2025-26 estimate*
Current grant expense					
Commonwealth Government	2 970	3 046	3 081	3 264	3 460
Local government (including grants for on-passing)	1 032	769	973	930	931
Private sector and not-for-profit for on-passing	4 513	4 508	4 719	4 887	4 992
Other private sector and not-for-profit	5 948	6 581	4 843	4 186	4 411
Grants within the Victorian Government	2 335	2 586	1 790	1 612	1 543
Grants to other state governments	92	103	84	83	81
Total current grant expense	**16 890**	**17 592**	**15 490**	**14 962**	**15 418**
Capital grant expense					
Local government (including grants for on-passing)	188	223	135	123	118
Private sector and not-for-profit on-passing	294	312	115	96	89
Other private sector and not-for-profit	19	27	4	4	4
Grants within the Victorian Government	..	32	..	..	..
Other grants	..	..	..	34	49
Total capital grant expense	**501**	**593**	**254**	**257**	**260**
Total grant expense	**17 391**	**18 185**	**15 744**	**15 219**	**15 678**

3.3.4 Other operating expenses ($ million)

	2022-23 budget	*2022-23 revised*	*2023-24 estimate*	*2024-25 estimate*	*2025-26 estimate*
Purchase of supplies and consumables [(a)]	9 582	8 281	6 883	7 069	7 865
Cost of goods sold	28	27	27	28	28
Finance expenses and fees	64	45	45	27	27
Purchase of services [(a)]	14 263	15 309	14 548	13 910	13 894
Insurance claims expense	353	359	341	339	339
Maintenance	1 136	1 176	1 112	1 104	1 113
Short-term and low value lease expense	146	163	149	152	162
Other	795	1 328	1 132	1 128	924
Total other operating expenses	**26 367**	**26 690**	**24 237**	**23 758**	**24 353**

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

Purchase of supplies and consumables ($ million)

	2022-23 budget	*2022-23 revised*	*2023-24 estimate*	*2024-25 estimate*	*2025-26 estimate*
Medicinal pharmacy and medical supplies	2 466	2 372	2 054	2 040	1 959
Office supplies and consumables	211	209	205	205	206
Specialised operational supplies and consumables	203	221	183	158	143
Other purchase of supplies and consumables	6 703	5 480	4 440	4 667	5 557
Total purchase of supplies and consumables	**9 582**	**8 281**	**6 883**	**7 069**	**7 865**

Purchase of services ($ million)

	2022-23 budget	*2022-23 revised*	*2023-24 estimate*	*2024-25 estimate*	*2025-26 estimate*
Service contracts	8 549	9 300	9 083	8 680	8 747
Accommodation/occupancy	909	928	905	908	896
Medical and client care services	469	483	472	470	469
Staff related expenses (non-labour related)	382	404	370	340	322
Other purchase of services	3 954	4 194	3 718	3 512	3 460
Total purchase of services	**14 263**	**15 309**	**14 548**	**13 910**	**13 894**

3.3.5 Total expenses by classification of the functions of government and by portfolio department

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

	2022-23 budget [(a)]	*2022-23 revised*	*2023-24 estimate*	*2024-25 estimate*	*2025-26 estimate*
General public services	7 400	7 572	8 324	9 199	10 226
Public order and safety	10 718	11 936	10 439	10 392	10 137
Economic affairs	4 075	4 494	2 430	1 779	2 627
Environmental protection	1 601	1 127	841	797	775
Housing and community amenities	2 433	2 131	2 155	1 879	1 836
Health [(b)]	27 914	28 927	27 685	27 995	28 346
Recreation, culture and religion	1 232	1 469	720	644	603
Education	20 745	20 872	21 610	22 476	23 508
Social protection	7 924	8 203	7 550	7 475	7 645
Transport	7 269	7 399	6 507	6 433	6 790
Not allocated by function [(c)]	(1 467)	(3 069)	(33)	21	28
Total expenses by COFOG	**89 844**	**91 061**	**88 227**	**89 091**	**92 521**

Notes:

(a) *The* 2022-23 Budget *numbers have been reclassified between various expenses by COFOG classifications to more correctly reflect the nature of the transactions.*

(b) *The higher level of estimated health expenditure in 2022-23 compared with 2023-24 estimated health expenditure is primarily driven by Government one-off expenditure, including initiatives in response to COVID-19. The increase in health expenditure in 2022-23 compared with the* 2022-23 Budget *is driven by new Government initiatives, including* Supporting workforce attraction and retention, Improving access to emergency care *and* COVID-19 testing and vaccination services and engagement. *Estimated health expenditure in 2022-23 is higher than 2021-22 health expenditure.*

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

Total expenses from transactions by portfolio department **($ million)**

	2022-23 budget	*2022-23 revised*	*2023-24 estimate*	*2024-25 estimate*	*2025-26 estimate*
Education and Training	21 018	21 302	21 067	21 287	21 675
Environment, Land, Water and Planning	3 680	4 275	2 855	2 524	2 488
Families, Fairness and Housing	7 593	7 820	7 346	7 326	7 426
Health	26 973	28 592	26 390	25 893	25 834
Jobs, Precincts and Regions	3 866	4 261	2 978	2 394	2 299
Justice and Community Safety	9 144	9 886	9 022	8 969	8 731
Premier and Cabinet	867	1 104	634	612	529
Transport	6 937	7 156	6 329	6 265	6 619
Treasury and Finance	11 072	11 532	12 299	13 283	14 435
Parliament	346	357	349	355	362
Courts	886	877	853	848	855
Regulatory bodies and other part funded agencies [(a)]	3 211	3 486	3 120	3 045	2 886
Output contingencies not allocated to departments [(b)]	5 411	3 181	5 325	6 846	9 260
Total expenses by department	**101 006**	**103 830**	**98 567**	**99 645**	**103 399**
Less eliminations and adjustments [(c)]	*(11 161)*	*(12 769)*	*(10 340)*	*(10 554)*	*(10 879)*
Total expenses from transactions	**89 844**	**91 061**	**88 227**	**89 091**	**92 521**

Notes:

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

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

(c) *Mainly payroll tax, departmental underspend estimates and inter-departmental transfers.*

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

	2022-23 budget	2022-23 revised	2023-24 estimate	2024-25 estimate	2025-26 estimate
Decisions made but not yet allocated [(b)]	5 311	3 081	4 925	6 146	8 160
Funding not allocated to specific purposes [(c)]	100	100	400	700	1 100
Total general government output contingencies	**5 411**	**3 181**	**5 325**	**6 846**	**9 260**

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

3.3.6 Purchases of non-financial assets by classification of the functions of government and by portfolio department

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

	2022-23 budget	2022-23 revised	2023-24 estimate	2024-25 estimate	2025-26 estimate
General public services	244	249	95	116	108
Public order and safety	1 742	1 850	805	424	272
Economic affairs	226	464	221	159	97
Environmental protection	232	232	150	93	62
Housing and community amenities	58	35	79	45	104
Health	2 479	2 361	2 032	1 133	1 159
Recreation, culture and religion	111	152	76	188	267
Education	2 977	3 471	1 915	1 199	1 258
Social protection	569	599	921	462	89
Transport	13 846	13 277	12 874	12 304	12 336
Not allocated by function [(a)]	(7 347)	(7 902)	(2 347)	2 438	2 133
Total purchases of non-financial assets	**15 138**	**14 788**	**16 820**	**18 559**	**17 885**

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

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

	2022-23 budget	*2022-23 revised*	*2023-24 estimate*	*2024-25 estimate*	*2025-26 estimate*
Education and Training	2 808	3 303	1 718	931	370
Environment, Land, Water and Planning	406	417	286	200	146
Families, Fairness and Housing	112	128	59	51	51
Health	1 571	2 235	1 350	632	519
Jobs, Precincts and Regions	54	329	44	30	30
Justice and Community Safety	958	1 060	304	181	132
Premier and Cabinet	47	41	18	37	37
Transport	8 430	9 400	6 768	4 016	979
Treasury and Finance	190	204	71	78	70
Parliament	19	28	7	3	3
Courts	158	194	61	32	19
Regulatory bodies and other part funded agencies [(a)]	165	211	142	128	137
Asset contingencies not allocated to departments [(b)]	7 611	5 187	8 802	10 042	14 370
Adjustments [(c)]	(7 391)	(7 948)	(2 812)	2 197	1 020
Total purchases of non-financial assets	**15 138**	**14 788**	**16 820**	**18 559**	**17 885**

Notes:
(a) Other general government sector agencies not allocated to departmental portfolios.
(b) The following table provides a breakdown of the general government sector asset contingencies not allocated to departments.
(c) Mainly comprises estimated departmental underspend, which may be subject to carryover, and estimated underspends by other regulatory bodies and other part-funded agencies.

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

	2022-23 budget	*2022-23 revised*	*2023-24 estimate*	*2024-25 estimate*	*2025-26 estimate*
Decisions made but not yet allocated [(a)(b)]	8 831	5 505	11 303	12 569	16 141
Funding not allocated to specific purposes [(c)]	..	..	500	700	1 200
Total general government asset contingencies	**8 831**	**5 505**	**11 803**	**13 269**	**17 341**

Notes:
(a) A provision to account for asset policy decisions for which the funding has yet to be allocated to departments.
(b) Asset contingencies include equity contributions to other sectors for capital projects which are included as part of net cash flows from investments in financial assets for policy purposes, rather than purchases of non-financial assets, on the cash flow statement.
(c) An unallocated provision available for future government asset investment decisions.

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

	2022-23 budget	2022-23 revised	2023-24 estimate	2024-25 estimate	2025-26 estimate
Purchases of non-financial assets (including change in inventories)	14 746	14 281	16 543	18 336	17 889
Less: Sales of non-financial assets	(693)	(423)	(661)	(607)	(698)
Less: Depreciation and amortisation	(4 650)	(4 712)	(4 712)	(4 826)	(5 090)
Less: Other movements in non-financial assets [(a)(b)]	(2 900)	(2 100)	(3 206)	(6 471)	(15 129)
Total net acquisition of non-financial assets from transactions	**6 504**	**7 046**	**7 964**	**6 432**	**(3 028)**

Notes:

(a) Other movements in non-financial assets includes transferring fixed assets to other sectors of government, recognising the right-of-use assets under lease arrangements, and recognising service concession arrangements, including from public private partnerships.

(b) The public private partnerships across the budget and forward estimates relate to the High Capacity Metro Trains project, the Metro Tunnel, the new Footscray Hospital, the Frankston Hospital Redevelopment and the West Gate Tunnel Project.

3.4 MAJOR ASSETS AND INVESTMENTS

Introduction

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

Structure

3.4.1 Total land, buildings, infrastructure, plant and equipment [(a)] ($ million)

	2023 budget	*2023 revised*	*2024 estimate*	*2025 estimate*	*2026 estimate*
Buildings	54 613	54 545	57 718	61 540	63 624
Land and national parks	93 906	94 401	94 608	101 180	101 331
Infrastructure systems	23 374	23 509	28 605	28 877	22 754
Plant, equipment and vehicles	6 057	6 501	5 255	4 955	4 754
Roads and road infrastructure	40 834	40 226	47 794	53 609	56 502
Earthworks	10 035	10 035	9 950	10 057	10 053
Cultural assets	6 765	6 765	6 771	7 607	7 854
Total land, buildings, infrastructure, plant and equipment	**235 585**	**235 982**	**250 701**	**267 826**	**266 872**

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

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

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

	2023 budget	*2023 revised*	*2024 estimate*	*2025 estimate*	*2026 estimate*
Buildings	8 141	8 173	7 577	7 010	6 451
Infrastructure systems	1	1	2	2	2
Plant, equipment and vehicles	402	401	294	209	123
Total right-of-use assets: buildings, infrastructure, plant and equipment	**8 544**	**8 575**	**7 873**	**7 221**	**6 577**

Total service concession assets: land, buildings, infrastructure, plant and equipment ($ million)

	2023 budget	*2023 revised*	*2024 estimate*	*2025 estimate*	*2026 estimate*
Buildings	1 927	1 927	1 875	1 821	1 767
Land	3 353	3 353	3 353	3 653	3 653
Infrastructure systems	8 327	8 590	10 326	10 544	1 646
Plant, equipment and vehicles	1 430	1 430	96	141	170
Roads and road infrastructure	15 434	15 242	16 795	18 391	18 535
Earthworks	916	916	916	990	990
Total service concession assets: land, buildings, infrastructure, plant and equipment	**31 386**	**31 457**	**33 360**	**35 540**	**26 762**

3.4.2 Depreciation ($ million)

	2022-23 budget	*2022-23 revised*	*2023-24 estimate*	*2024-25 estimate*	*2025-26 estimate*
Buildings [(a)]	2 448	2 490	2 533	2 638	2 762
Infrastructure systems	53	53	54	60	56
Plant, equipment and vehicles [(a)]	890	888	863	867	863
Roads and road networks [(a)]	967	967	949	941	1 087
Cultural assets	16	16	16	16	16
Intangible produced assets [(b)]	277	298	297	304	306
Total depreciation	**4 650**	**4 712**	**4 712**	**4 826**	**5 090**

Notes:
(a) Includes estimated depreciation on amounts not yet allocated to projects in 2022-23 to 2025-26.
(b) Amortisation of intangible non-produced assets is included under other gains/(losses) from other economic flows.

The following two tables are subsets of total depreciation expense.

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

	2022-23 budget	2022-23 revised	2023-24 estimate	2024-25 estimate	2025-26 estimate
Buildings	768	764	742	783	761
Plant, equipment and vehicles	125	127	125	123	124
Total depreciation of right-of-use assets	**893**	**891**	**867**	**907**	**884**

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

	2022-23 budget	2022-23 revised	2023-24 estimate	2024-25 estimate	2025-26 estimate
Buildings	47	47	47	47	47
Plant, equipment and vehicles	28	28	28	28	28
Roads and road infrastructure	199	199	178	177	303
Intangible produced assets	1	1	1	1	1
Total depreciation of service concession assets	**276**	**276**	**255**	**254**	**380**

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

($ million)

	2023 budget	2023 revised	2024 estimate	2025 estimate	2026 estimate
Carrying amount at the start of the year [(b)]	225 770	225 771	235 982	250 701	267 826
Additions of self-owned assets [(c)]	15 326	14 878	17 353	18 560	17 945
Additions of right-of-use assets	274	324	130	164	135
Additions of service concession arrangement assets	2 754	2 481	2 544	473	82
Disposals at written down value	(522)	(250)	(517)	(510)	(642)
Revaluations	1 927	2 055	5 718	10 343	1 689
Asset transfers [(d)]	(5 572)	(4 862)	(6 094)	(7 383)	(15 379)
Depreciation expense	(4 373)	(4 414)	(4 415)	(4 522)	(4 783)
Carrying amount at the end of the year	**235 585**	**235 982**	**250 701**	**267 826**	**266 872**

Notes:

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

(b) The variance in the carrying amount at the start of the year for the 2023 budget and 2023 revised budget reflects the abolishment of seven Waste and Resource Recovery Groups in the PNFC sector with their functions transferred into the Department of Environment, Land, Water and Planning (DELWP) to form a business unit within DELWP, Recycling Victoria, effective from 1 July 2022.

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

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

3.4.4 Other non-financial assets ($ million)

	2023 budget	*2023 revised*	*2024 estimate*	*2025 estimate*	*2026 estimate*
Intangible produced assets	3 175	3 249	3 344	3 413	3 446
Accumulated depreciation	(1 903)	(1 916)	(2 193)	(2 482)	(2 759)
Service concession assets – intangible produced	4 526	4 612	4 612	4 612	4 612
Accumulated depreciation	(1)	(1)	(3)	(4)	(6)
Intangible non-produced assets	81	80	82	83	84
Accumulated amortisation	(62)	(60)	(67)	(71)	(76)
Total intangibles	**5 816**	**5 964**	**5 776**	**5 551**	**5 302**
Investment properties	302	302	302	302	302
Biological assets	7	7	8	10	11
Other assets	1 053	1 070	1 053	1 053	1 054
Total other non-financial assets	**7 178**	**7 342**	**7 140**	**6 917**	**6 669**

3.4.5 Total assets by classification of the functions of government ($ million)

	2023 budget	*2023 revised*	*2024 estimate*	*2025 estimate*	*2026 estimate*
General public services	4 261	4 321	3 947	3 645	3 665
Public order and safety	15 880	15 954	15 946	16 843	16 673
Economic affairs	1 458	1 696	1 748	2 946	3 027
Environmental protection	16 808	16 809	16 889	16 912	16 903
Housing and community amenities	2 364	2 341	2 579	3 682	4 168
Health	23 361	23 090	25 598	25 475	24 982
Recreation, culture and religion	8 723	8 763	8 769	8 885	9 079
Education	42 736	43 358	44 494	44 961	45 471
Social protection	3 370	3 386	3 637	3 878	4 119
Transport	132 860	132 856	145 759	156 606	152 596
Not allocated by function [(a)]	118 336	120 982	123 584	133 443	141 520
Total assets by COFOG	**370 157**	**373 556**	**392 949**	**417 274**	**422 205**

Note:

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

3.5 FINANCING STATE OPERATIONS

Introduction

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

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

Structure

3.5.1 Borrowings ($ million)

	2023 *budget*	2023 *revised*	2024 *estimate*	2025 *estimate*	2026 *estimate*
Current borrowings					
Domestic borrowings	13 990	13 824	13 868	13 933	14 020
Lease liabilities	593	638	557	468	382
Service concession arrangement liabilities	2 410	2 319	461	215	187
Derivative financial instruments	54	54	65	76	87
Total current borrowings	**17 047**	**16 836**	**14 951**	**14 692**	**14 676**
Non-current borrowings					
Domestic borrowings	112 113	114 367	137 157	157 327	174 477
Lease liabilities	7 222	7 249	6 758	6 276	5 770
Service concession arrangement liabilities	4 137	4 173	5 018	5 054	4 943
Derivative financial instruments	289	364	362	332	292
Total non-current borrowings	**123 761**	**126 152**	**149 294**	**168 989**	**185 482**
Total borrowings	**140 808**	**142 988**	**164 246**	**183 681**	**200 158**

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

	2023 budget	2023 revised	2024 estimate	2025 estimate	2026 estimate
Current advances paid and investments, loans and placements					
Loans and advances paid	853	861	581	459	439
Equities and managed investment schemes	744	744	782	798	814
Australian dollar term deposits	114	114	129	148	151
Debt securities	3	3	3	3	3
Derivative financial instruments	376	373	311	208	163
Total current advances paid and investments, loans and placements	**2 090**	**2 095**	**1 806**	**1 616**	**1 570**
Non-current advances paid and investments, loans and placements					
Loans and advances paid	4 214	4 249	5 845	5 869	5 897
Equities and managed investment schemes	8 354	11 256	12 560	14 226	16 220
Australian dollar term deposits	37	36	37	37	37
Debt securities	22	22	22	22	22
Derivative financial instruments	1	1	1	1	1
Total non-current advances paid and investments, loans and placements	**12 627**	**15 564**	**18 464**	**20 155**	**22 177**
Total advances paid and investments, loans and placements	**14 717**	**17 659**	**20 270**	**21 771**	**23 747**
Represented by:					
Advances paid	5 066	5 110	6 426	6 328	6 336
Investments, loans and placements	9 651	12 549	13 844	15 443	17 411

3.5.3 Interest expense ($ million)

	2022-23 budget	2022-23 revised	2023-24 estimate	2024-25 estimate	2025-26 estimate
Interest on interest bearing liabilities	3 056	3 024	4 353	5 501	6 584
Interest on lease liabilities	369	373	356	354	341
Interest on service concession liabilities	442	428	381	372	366
Discount interest on payables	32	32	30	27	26
Total interest expense	**3 899**	**3 857**	**5 120**	**6 254**	**7 318**

3.6 OTHER ASSETS AND LIABILITIES

Introduction

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

Structure

3.6.1 Investments in other sector entities ($ million)

	2023 budget	*2023 revised*	*2024 estimate*	*2025 estimate*	*2026 estimate*
Balance of investment in PNFC and PFC sectors at beginning of period	89 162	89 162	91 378	93 338	98 559
Net contributions to other sectors by owner	6 799	6 085	6 796	9 812	17 502
Revaluation gain/(loss) for period	(3 869)	(3 869)	(4 837)	(4 590)	(14 209)
Investment in other sector entities at end of period	**92 092**	**91 378**	**93 338**	**98 559**	**101 851**

3.6.2 Payables ($ million)

	2023 budget	*2023 revised*	*2024 estimate*	*2025 estimate*	*2026 estimate*
Contractual					
Accounts payable	836	844	866	876	874
Accrued expenses	5 143	4 727	4 704	4 416	4 417
Grant of a right to the operator liability	15 628	19 705	20 056	19 924	19 402
Unearned income	629	649	596	545	495
Statutory					
Accrued taxes payable	69	71	70	71	71
Unearned income	423	421	350	278	206
Other					
Contract liabilities	304	338	310	297	293
Total payables and contract liabilities	**23 033**	**26 754**	**26 952**	**26 407**	**25 758**
Represented by:					
Current payables and contract liabilities	7 246	7 001	6 919	6 570	6 502
Non-current payables and contract liabilities	15 787	19 753	20 033	19 837	19 257

3.6.3 Superannuation

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

	2023 budget	*2023 revised*	*2024 estimate*	*2025 estimate*	*2026 estimate*
Emergency Services and State Super					
Defined benefit obligation	40 224	38 216	37 957	37 754	37 631
Tax liability [(a)]	1 733	1 851	1 744	1 640	1 550
Plan assets	(23 868)	(23 823)	(23 646)	(23 948)	(24 170)
Net liability/(asset)	**18 089**	**16 243**	**16 055**	**15 446**	**15 010**
Other funds [(b)]					
Defined benefit obligation	2 071	2 088	2 123	2 151	2 186
Plan assets	(917)	(870)	(841)	(808)	(776)
Net liability/(asset)	**1 155**	**1 218**	**1 282**	**1 343**	**1 410**
Total superannuation					
Defined benefit obligation	42 295	40 303	40 079	39 905	39 817
Tax liability [(a)]	1 733	1 851	1 744	1 640	1 550
Plan assets	(24 784)	(24 693)	(24 487)	(24 755)	(24 946)
Total superannuation liability	**19 244**	**17 461**	**17 336**	**16 789**	**16 421**
Represented by:					
Current superannuation liability	1 079	579	1 042	917	1 150
Non-current superannuation liability	18 165	16 882	16 295	15 873	15 271

Notes:

(a) Tax liability is the present value of tax payments on contributions that are expected to be required to fund accrued benefits.

(b) Other funds include constitutionally protected schemes and the State's share of liabilities of the defined benefit scheme of the former Health Super Fund.

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

	2023 budget	*2023 revised*	*2024 estimate*	*2025 estimate*	*2026 estimate*
Opening balance of defined benefit obligation	**44 148**	**44 148**	**42 154**	**41 823**	**41 545**
Current service cost	1 418	988	1 046	1 129	1 221
Interest expense	1 426	1 630	1 672	1 657	1 645
Contributions by plan participants	226	224	229	235	241
Actuarial (gains)/losses on the defined benefit obligation, due to:					
Changes in financial assumptions	..	(1 443)	..	..	..
Benefits paid	(3 189)	(3 393)	(3 277)	(3 300)	(3 285)
Closing balance of defined benefit obligation	**44 028**	**42 154**	**41 823**	**41 545**	**41 367**

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

	2023 budget	*2023 revised*	*2024 estimate*	*2025 estimate*	*2026 estimate*
Opening balance of plan assets	**24 392**	**24 392**	**24 693**	**24 487**	**24 755**
Interest income	744	910	956	967	977
Return on plan assets not included in interest income	984	429	672	676	677
Employer contributions	1 627	2 130	1 214	1 690	1 580
Contributions by plan participants	226	224	229	235	241
Benefits paid (including tax paid)	(3 189)	(3 393)	(3 277)	(3 300)	(3 285)
Closing balance of plan assets	**24 784**	**24 693**	**24 487**	**24 755**	**24 946**

See Note 3.3.2 for further information on superannuation assumptions.

3.7 OTHER DISCLOSURES

Introduction

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

Structure

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

	2022-23 budget	*2022-23 revised*	*2023-24 estimate*	*2024-25 estimate*	*2025-26 estimate*
Net (increase)/decrease in allowances for credit losses	(21)	(21)	(114)	(34)	80
Amortisation of intangible non-produced assets	(7)	(7)	(7)	(7)	(7)
Bad debts written off	(398)	(398)	(316)	(367)	(470)
Other gains/(losses)	(54)	(54)	(19)	(12)	(12)
Total other gains/(losses) from other economic flows	**(479)**	**(479)**	**(455)**	**(419)**	**(408)**

3.7.2 Reconciliation of Government Finance Statistics and Australian Accounting Standards

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

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

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

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

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

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

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

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 satisfied, or for capital grants from the Commonwealth Government, is a requirement under AASB 15 and AASB 1058.	Deferral of revenue recognition, such as where performance obligations have not been satisfied, or for capital grants from the Commonwealth Government, is not recognised. This timing difference is expected to impact all the key fiscal aggregates. While it is expected that there will not be a net change to the fiscal aggregates over time, there will be convergence differences in any given year.	• 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*
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
Doubtful receivables			
	Provisions for expected credit loss are included on the balance sheet as a reduction in assets.	The act of creating provisions is not considered an economic event and is therefore not included on the balance sheet.	• 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

3.7.3 Prospective accounting and reporting changes

New and revised accounting standards have been issued that are not effective for the 2022-23 reporting period. These accounting standards have not been applied to the Estimated Financial Statements. The State is reviewing its existing policies and assessing the potential implications of:

- AASB 17 *Insurance Contracts*: it is proposed in Exposure Draft 319 *Insurance Contracts in the Public Sector* that public sector entities would apply AASB 17 to annual periods beginning on or after 1 July 2025, with earlier application permitted. This is later than the application date of AASB 17 to entities that are not public sector entities, which is annual periods beginning on or after 1 January 2023. AASB 17 will supersede AASB 4 *Insurance Contracts* and AASB 1023 *General Insurance Contracts* and 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 reinsurance contracts, that an insurer holds. The standard also provides new requirements for presentation and disclosure to enhance comparability between entities.

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

3.7.4 Controlled entities

Note 9.8 in Chapter 4 of the *2021-22 Financial Report* for the State of Victoria lists significant controlled entities that were consolidated in that financial report.

The following are changes in general government sector entities since 1 July 2022, which have also been incorporated in this financial report:

General government sector
Department of Environment, Land, Water and Planning [(a)]
Department of Jobs, Precincts and Regions
Victoria 2026 Pty Ltd [(b)]
Department of Transport [(c)]
Safe Transport Victoria (STV) [(d)]
VicRoads Modernisation including: [(e)]
• CP Services Victoria Pty Ltd
• R&L Services Victoria Pty Ltd
• Victorian R&L Services Trust
• Victoria CP Services Trust

Notes:

(a) On 1 July 2022, the seven Waste and Resource Recovery Groups were abolished and amalgamated into the Department of Environment, Land, Water and Planning (DELWP) to form a business unit within DELWP, Recycling Victoria.

(b) On 7 September 2022, the Victorian Commonwealth Games Organising Committee was established as Victoria 2026 Pty Ltd to organise, host and manage the 2026 Commonwealth Games.

(c) Effective from August 2022, VicHoldCo was dissolved.

(d) On 1 July 2022, Commercial Passenger Vehicles Victoria and Transport Safety Victoria came together as a new entity, Safe Transport Victoria (STV), to create a new regulator to manage safety, compliance, accreditation and registration for commercial passenger vehicles, buses and the marine sector.

(e) On 15 August 2022, the majority interest in the two proprietary companies established under the Corporations Act 2001 *and the two Special Purpose Trusts was transferred to the joint venture partner as part of the financial close of the VicRoads Modernisation process, with the State retaining an interest in the joint venture.*

CHAPTER 4 – CONTINGENT ASSETS AND CONTINGENT LIABILITIES

This chapter contains information on contingent assets and liabilities for the general government sector and should be read in conjunction with Chapter 3.

CONTINGENT ASSETS

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

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

Table 4.1 contains quantifiable contingent assets as at 11 October 2022.

Table 4.1: Quantifiable contingent assets **($ million)**

	As at Oct 2022	*Published budget estimate (a)*
Guarantees, indemnities and warranties	75	81
Legal proceedings and disputes	2	3
Other	46	47
Total contingent assets	**123**	**131**

Note:
(a) As published in the 2022-23 Budget.

Non-quantifiable contingent assets

Peninsula Link compensable enhancement claim

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

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

CONTINGENT LIABILITIES

Contingent liabilities are either:

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

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

Table 4.2 contains quantifiable contingent liabilities as at 11 October 2022.

Table 4.2: Quantifiable contingent liabilities **($ million)**

	As at Oct 2022	*Published budget estimate [(a)]*
Guarantees, indemnities and warranties [(b)]	1 070	999
Legal proceedings and disputes	335	423
Other	442	454
Non-general government debt [(c)]	14 603	14 241
Total contingent liabilities	**16 450**	**16 118**

Notes:
(a) As published in the 2022-23 Budget.
(b) Guarantees, indemnities and warranties include loans provided by the Treasury Corporation of Victoria to entities other than the State of Victoria and participating authorities, subject to the provision of a guarantee by the Treasurer.
(c) Mainly represents the guarantee of borrowings provided by the Treasurer for the public sector borrowings portfolio. Expected losses under any financial guarantees are recorded as financial liabilities in the balance sheet.

Non-quantifiable contingent liabilities

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

- indemnities 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.

Compulsory property acquisitions

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

COVID-19 class action – Victorian businesses

A class action has been filed in the Supreme Court of Victoria against the State of Victoria, the 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.

COVID-19 class action – public housing towers residents

A class action was filed in the Supreme Court of Victoria against the State of Victoria relating to the decision to declare localised 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.

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 the COVID-19 pandemic 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.

Department of Education and Training

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

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

The *Firefighters' Presumptive Rights Compensation and Fire Services Legislation Amendment (Reform) Act 2019* (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 the 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). In addition, the CFA has received a clean-up notice to remediate the immediate neighbouring properties located downstream of the formal Fiskville Training College.

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.

Land remediation – environmental concerns

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

Native Title

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

October 2022 flood event

In October 2022, Victoria experienced a significant flood event which resulted in loss and damage to many homes, farms, properties, community assets, roads and other infrastructure. These impacts were felt in many local government areas across regional Victoria and metropolitan Melbourne. The Victorian and Commonwealth Governments are working cooperatively together on implementing relief and recovery initiatives to be jointly funded under the Disaster Recovery Funding Arrangements (DRFA). At this stage it is impractical to accurately quantify the financial effects of these 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.

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. As a result, the liability 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.

The Royal Commission into the Management of Police Informants

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

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

Royal Melbourne Showgrounds redevelopment

The State has entered into an agreement with the Royal Agricultural Society of Victoria (RASV) pursuant to which the State agrees to support certain payment obligations of RASV that may arise under the Non-Core Development Agreement subject to the RASV complying with certain obligations as set out in that Deed.

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.

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 as defined under the *Victorian Managed Insurance Authority Act 1996* and other entities as declared by the Minister. The VMIA insures its clients for property, public and products liability, professional indemnity, medical indemnity, contract works and a range of other risks. The VMIA also provides domestic building insurance to Victorian residential builders and, until 31 December 2022, has been directed to provide COVID-19 event insurance to qualifying creative, business, sporting and community event organisers.

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

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

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

Yallourn Power Station safety net

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

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

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

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

APPENDIX A – SPECIFIC POLICY INITIATIVES AFFECTING THE BUDGET POSITION

Appendix A outlines specific policy initiatives that affect outputs and assets, including Treasurer's Advances, agreed by the Government since the *2022-23 Budget*.

The following tables provide details of output and asset initiatives for departments.

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

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

WHOLE OF GOVERNMENT – FLOOD RECOVERY

Output initiatives

Table A.1: Output initiatives – Flood Recovery **($ million)**

	2022-23	*2023-24*	*2024-25*	*2025-26*
Victoria's Flood Recovery [(a)]	500.0	..	..	..
Total output initiatives	**500.0**	**..**	**..**	**..**

Note:
(a) Some of the initiatives listed below will receive Commonwealth funding under the Disaster Recovery Funding Arrangements. Estimates of the Commonwealth's contribution are yet to be determined.

Victoria's Flood Recovery

Initial funding is provided to meet the immediate needs of flood-affected communities and support the emergency response, including:

- emergency road repair works to ensure the safety of road users and the community, repair works to reopen priority roads in flood affected areas, and larger-scale works like the reconstruction of roads, bridges and culverts following damage assessments
- the coordinated clean-up of impacted communities, operationalising the Centre for National Resilience, flood recovery case support program, community recovery officers, surge capacity for emergency services, volunteer support payments, repairs and clean-up of the Rochester VicSES facilities
- delivering grants, concessional loans and transport costs to support primary producers directly affected by the floods
- one-off grants to business owners whose livelihoods have been affected by the floods
- the *Council Flood Support Fund* to support local government areas with profound flood damage
- support for schools, TAFEs and students affected by the floods to ensure continuation of education services, including for repairs of damaged equipment and facilities, cleaning up outdoor areas, replacement of lost school consumables and furniture, additional emergency relocatable buildings, additional staffing, transport and delivery of remote learning
- a landfill gate fee rebate that will ensure that all flood-related waste within affected Local Government Areas (LGAs) can be disposed of free of charge until 31 December 2022
- support for health services, including delivering 200 additional hospital staff to flood-affected areas for three months, 20 locum pharmacists to support small local pharmacies, repairs to public health services and public sector residential aged care facilities and extra air ambulance transfers for patients and staff while roads are inaccessible

- health protection initiatives, including a dedicated monitoring and control system to prevent and control mosquitos, making the Japanese Encephalitis Virus vaccination free in flood-affected areas, deployment of an Environmental Health and Field workforce to flooded regions, and additional resources for Local Public Health Units in affected areas
- extra mental healthcare support for flood-affected Victorians, including additional hours of care through Mental Health and Wellbeing Hubs and community mental health organisations, and facilitation of local events by Neighbourhood Houses and Aboriginal Community-Controlled Organisations to connect flood-affected residents
- immediate food relief and support for flood impacted communities, including assistance for food relief organisations and regional food hubs, multicultural food providers, Neighbourhood Houses and for Shepparton Foodshare to build a new food relief hub and warehouse facility
- the *Community Sport Emergency Flood Assistance Program* for grants to sporting clubs directly affected by the floods to assist meeting costs of damaged items
- grants to sessional kindergartens impacted by the floods to assist with clean-up and provide children with additional support programs.

DEPARTMENT OF EDUCATION AND TRAINING

Output initiatives

Table A.2: Output initiatives – Department of Education and Training ($ million)

	2022-23	2023-24	2024-25	2025-26
Early Childhood Education				
Best Start, Best Life	154.5	365.1	524.8	717.1
School Education				
Extending the Tutor Learning Initiative	129.2	129.2	..	..
Mental Health in Primary Schools	13.0	37.9	63.0	86.7
Training, Higher Education and Workforce Development	**..**			
Improving Free TAFE	56.4	23.2	25.9	..
Prahran campus site purchase and master planning	0.8	..	..	..
Total output initiatives [(a)]	**353.9**	**555.4**	**613.7**	**803.8**

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

Early Childhood Education

Best Start, Best Life

An initial investment has been made for the Best Start, Best Life initiative to progressively transition Four-Year-Old Kindergarten to Pre-Prep, providing 30 hours per-week of play-based learning by 2032. This will support every Victorian child to access Free Kinder from 2023 and deliver workforce support and attraction initiatives.

This initiative will also build new facilities across the state, including 50 government owned Early Learning Centres and expand existing services.

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

School Education

Extending the Tutor Learning Initiative

Funding is provided to extend the Tutor Learning Initiative, enabling government and non-government schools to continue delivering small group learning support in 2023 to students with the most need for additional academic support.

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

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

Mental Health in Primary Schools

Funding is provided to expand the Mental Health in Primary Schools pilot program to ensure every government and low-fee non-government primary school has a Mental Health and Wellbeing Leader supporting students in primary schools by implementing a whole-school approach to mental health and wellbeing.

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

Training, Higher Education and Workforce Development

Improving Free TAFE

Funding is provided to support sustainable TAFE operations, enabling TAFEs to respond to the Victorian Skills Plan and deliver training in priority areas, including Free TAFE and apprenticeships. This will also support TAFEs to meet additional demand for Free TAFE Early Childhood courses to expand and develop the workforce that will support the rollout of the Best Start Best Life initiative.

This initiative contributes to the Department of Education and Training's Training, Higher Education and Workforce Development output.

Prahran campus site purchase and master planning

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

Asset initiatives

Table A.3: Asset initiatives – Department of Education and Training ($ million)

	2022-23	2023-24	2024-25	2025-26	TEI
Early Childhood Education					
Best Start, Best Life	10.7	63.1	363.7	870.4	1 308.0
Training, Higher Education and Workforce Development					
Prahran campus site purchase and master planning	142.1	..	..	..	142.1
Total asset initiatives [(a)]	**152.8**	**63.1**	**363.7**	**870.4**	**1 450.0**

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

Early Childhood Education

Best Start, Best Life

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

Training, Higher Education and Workforce Development

Prahran campus site purchase and master planning

Funding is provided to purchase the Prahran campus of Swinburne University comprising three parcels of land between Chapel, High, Thomas and Green streets to continue provision of high-quality local training in Prahran as an education and arts precinct. Funding also provides for a master planning process to determine future government uses and investment in the site.

This initiative contributes to the Department of Education and Training's Training, Higher Education and Workforce Development output.

DEPARTMENT OF ENVIRONMENT, LAND, WATER AND PLANNING

Output initiatives

Table A.4: Output initiatives – Department of Environment, Land, Water and Planning **($ million)**

	2022-23	2023-24	2024-25	2025-26
Building				
Pathway to cladding remediation	22.4	20.3	11.7	12.2
Energy				
$250 Power Saving Bonus	249.9	..	..	..
Additional resources for energy projects	2.9	1.2	0.9	0.4
Unlocking offshore wind	33.8	20.9	16.1	5.0
Victorian Energy Storage Target	5.5	..	..	..
Victorian Renewable Energy Target 2	9.5	2.8	2.8	1.7
Fire and Emergency Management				
Aviation firefighting resources	16.0	..	..	..
Management of Public Land and Forests				
Financial support for portfolio entities impacted by COVID-19	10.0	..	..	..
Joint management arrangements	..	2.4	2.7	2.9
Statutory Activities and Environment Protection				
Emergency animal disease preparedness	3.2	..	..	..
Total output initiatives [(a)]	**353.2**	**47.6**	**34.1**	**22.2**

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

Building

Pathway to cladding remediation

Funding is provided to continue the Cladding Rectification Program to support councils to assist owners of apartments with suspected or identified combustible cladding and to progressively hand-back to councils municipal building surveyor responsibility for inspection and assessment of buildings.

This initiative will be funded from the Cladding Rectification Levy.

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

Energy

$250 Power Saving Bonus

Additional funding is provided for the one-off $250 Power Saving Bonus announced in the *2022-23 Budget*.

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

Additional resources for energy projects

Funding is provided for technical, commercial and legal advice to progress a number of significant energy infrastructure projects in partnership with the Commonwealth Government. This includes funding for an equity contribution towards MarinusLink, a second undersea electricity connection between Tasmania and Victoria.

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

Unlocking offshore wind

Funding is provided to support the delivery of Victoria's offshore wind energy generation targets, including at least 2 gigawatts online by 2032.

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

This initiative contributes to the Department of Transport's Ports and Freight output.

Victorian Energy Storage Target

Funding is provided for the design of an energy storage mechanism to facilitate the target of at least 2.6 gigawatts of renewable energy storage capacity by 2030 and at least 6.3 gigawatts by 2035. This capacity will assist in the transition to clean energy.

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

Victorian Renewable Energy Target 2

A second Victorian Renewable Energy Target auction (VRET2) has concluded, which will deliver 623 megawatts (MW) of new renewable energy generating capacity. The six projects across Victoria will support the Government's commitment to achieve 100 per cent renewable electricity consumption of its operations by 2025. Funding is provided for the contract management and delivery of these significant projects. Funding is also provided to enhance Victorian manufacturing capacity in readiness for future renewable energy projects.

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

Fire and Emergency Management

Aviation firefighting resources

Funding is provided for aviation resources to support the State's firefighting capability during the 2022-23 bushfire season.

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

Management of Public Land and Forests

Financial support for portfolio entities impacted by COVID-19

Funding is provided to Phillip Island Nature Park, Zoos Victoria and Alpine Resorts Victoria to assist in rebuilding revenue streams and managing supply chain costs following the COVID-19 pandemic.

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

Joint management arrangements

Funding is provided for joint management of additional Aboriginal title lands, including additional Gunaikurnai land and sea rangers.

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

Statutory Activities and Environment Protection

Emergency animal disease preparedness

Refer to the Department of Jobs, Precincts and Regions for a description of this initiative.

Asset initiatives

Table A.5: Asset initiatives – Department of Environment, Land, Water and Planning **($ million)**

	2022-23	*2023-24*	*2024-25*	*2025-26*	*TEI*
Energy					
Additional resources for energy projects	..	..	209.0	..	209.0
Total asset initiatives	**..**	**..**	**209.0**	**..**	**209.0**

Energy

Additional resources for energy projects

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

DEPARTMENT OF FAMILIES, FAIRNESS AND HOUSING

Output initiatives

Table A.6: Output initiatives – Department of Families, Fairness and Housing ($ million)

	2022-23	*2023-24*	*2024-25*	*2025-26*
Child Protection and Family Services				
Funding for community service organisations	33.6	..	..	..
Integrated Client and Case Management System modernisation	1.9	..	..	..
Victorian redress scheme for survivors of historical abuse and neglect in care	2.9	..	..	..
Community Participation				
Neighbourhood House Coordination Program	..	..	6.3	6.5
Multicultural Affairs Policy and Programs				
Vietnamese Museum Australia	2.3	..	..	..
Support to Veterans in Victoria				
National Vietnam Veterans Museum	5.0	5.0	..	..
Total output initiatives [(a)]	**45.7**	**5.0**	**6.3**	**6.5**

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

Child Protection and Family Services

Funding for community service organisations

Additional funding is provided for community service organisations that deliver social services on behalf of the Government to assist in managing the impact of recent minimum wage decisions on their operating costs.

This initiative contributes to the Department of Families, Fairness and Housing's:

- Child Protection and Family Services output
- Concessions to Pensioners and Beneficiaries output
- Disability Services output
- Family Violence Service Delivery output
- Housing Assistance output
- Office for Disability output
- Seniors Programs and Participation output.

This initiative contributes to the Department of Health's:

- Community Health Care output
- Drug Treatment and Rehabilitation output
- Health Protection output
- Home and Community Care Program for Younger People output
- Mental Health Community Support Services output
- Non-Admitted Services output
- Small Rural Services – Aged Care output.

Integrated Client and Case Management System modernisation

Funding is provided to commence planning on a replacement for the existing Integrated Client and Case Management System. This is part of a package of initiatives that includes upgrades to the Integrated Client and Case Management System, used by child protection practitioners and funded agencies providing out-of-home care services, to make it quicker and easier to input and access the information that is needed to make efficient decisions for children and families.

This initiative contributes to the Department of Families, Fairness and Housing's Child Protection and Family Services output.

Victorian redress scheme for survivors of historical abuse and neglect in care

Funding is provided to establish a redress scheme for survivors of child abuse and neglect in historical institutional care. This includes support for scheme co-design, hardship payments and increased support services.

This initiative contributes to the Department of Families, Fairness and Housing's Child Protection and Family Services output.

Community Participation

Neighbourhood House Coordination Program

Funding is provided to maintain the current Neighbourhood House Coordination Program. This will provide funding certainty, and support additional coordination hours and Neighbourhood House Networks that facilitate regional collaboration and increase sector capacity. Neighbourhood Houses support the health and wellbeing of local communities through activities that build stronger communities and meet local needs.

This builds upon previous funding in the *2018-19 Budget* which expanded the Neighbourhood House Coordination Program.

The *2022-23 Budget* extended this funding for a further two years.

This initiative contributes to the Department of Families, Fairness and Housing's Community Participation output.

Multicultural Affairs Policy and Programs

Vietnamese Museum Australia

Additional funding is provided for the delivery of Stage 1 of the Vietnamese Museum Australia ahead of the 50th anniversary of the settlement of Vietnamese refugees in Australia.

This initiative contributes to the Department of Families, Fairness and Housing's Multicultural Affairs Policy and Programs output.

Support to Veterans in Victoria

National Vietnam Veterans Museum

Funding is provided to support the construction of a new purpose-built National Vietnam Veterans Museum. The new museum will include multimedia experiences for visitors and improved conservation systems and visitor facilities.

This initiative contributes to the Department of Families, Fairness and Housing's Support to Veterans in Victoria output.

DEPARTMENT OF HEALTH

Output initiatives

Table A.7: Output initiatives – Department of Health **($ million)**

	2022-23	2023-24	2024-25	2025-26
Admitted Services				
Albury Wodonga Health Development [(a)]	tbc	tbc	tbc	tbc
Supporting workforce attraction and retention	380.0	..	..	..
Ambulance Services				
Improving access to emergency care	164.9	4.8	..	..
Community Health Care				
Funding for community service organisations	14.8	..	..	..
Drug Treatment and Rehabilitation				
Supporting decriminalisation of public intoxication	17.2	20.1	..	..
Emergency Services				
Support for primary care to protect our hospitals	32.5	24.0	..	..
Health Protection				
COVID-19 testing and vaccination services and engagement [(b)]	105.8	..	..	..
Free flu vaccinations for all Victorians	33.0	..	..	..
Monkeypox vaccination program	7.7	..	..	..
Health Workforce Training and Development				
Making it free to study nursing and midwifery [(c)]	44.2	74.5	43.1	66.6
Maternal and Child Health and Early Parenting Services				
Maternal and child health workforce package	5.3	4.8	..	..
Mental Health Clinical Care				
Additional funding for community-based services and Mental Health and Wellbeing Hubs	12.1	..	..	..
Total output initiatives [(d)]	**817.7**	**128.2**	**43.1**	**66.6**

Notes:
(a) Cashflows to be confirmed following the outcome of project planning. This initiative includes funding beyond the forward estimates.
(b) This initiative contributes to activity that attracts Commonwealth Government funding under the National Partnership on COVID-19 Response. Estimates of the Commonwealth Government's contribution are included.
(c) This initiative contributes to activity that attracts Commonwealth Government funding under the National Health Reform Agreement. Estimates of the Commonwealth Government's contribution are included.
(d) Table may not add due to rounding. Totals exclude estimated expenditure for initiatives with 'tbc'.

Admitted Services

Albury Wodonga Health Development

Funding is provided to construct a new clinical services tower at Albury Wodonga Health's Albury Hospital campus to deliver new and expanded maternity, paediatrics, peri operative, intensive care, medical and surgical services. It is a joint project between the New South Wales and Victorian governments with respective funding contributions.

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

Supporting workforce attraction and retention

Funding is provided to increase the capacity of the public health service workforce. This includes a Healthcare Worker Winter Retention and Surge Payment and an expanded Healthcare Worker Wellbeing program. Funding is also provided to implement a Local Agreement Extended Team Model Stipend.

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

Ambulance Services

Improving access to emergency care

Funding is provided for a range of initiatives to support improvements in Ambulance Victoria's operations and ambulance response times. This includes doubling capacity and expanding eligibility for the Victorian Virtual Emergency Department program, expanding Ambulance Victoria offload teams, and the development of a data dashboard to provide emergency department staff and paramedics with near real-time insights into system capacity.

Funding is also provided to support system wide improvements for hospitals to respond to the ongoing impacts of the COVID-19 pandemic. This includes the deployment of specialist staff across 12 hospitals to help offload, assess and treat patients faster, a new trial with select private hospitals to secure additional capacity and the establishment of two new paediatric GP respiratory clinics.

This initiative contributes to the Department of Health's:

- Admitted Services output
- Ambulance Services output
- Emergency Services output.

Community Health Care

Funding for community service organisations

Refer to the Department of Families, Fairness and Housing for a description of this initiative.

Drug Treatment and Rehabilitation

Supporting decriminalisation of public intoxication

Funding is provided to further support trials to inform the development of a health-based response to public drunkenness ahead of the statewide rollout of this reform. This includes funding for four trial sites in the City of Yarra, City of Greater Dandenong, City of Greater Shepparton and Castlemaine.

This initiative contributes to the Department of Health's Drug Treatment and Rehabilitation output.

This initiative contributes to the Department of Justice and Community Safety's:

- Justice Policy, Services and Law Reform output
- Policing and Community Safety output.

Emergency Services

Support for primary care to protect our hospitals

Funding is provided to support the establishment of an additional 20 Priority Primary Care Clinics in partnership with general practitioners (GPs). Services will help ease pressure on emergency departments, support patients with conditions that require an urgent response but not an emergency response, and offer services to reflect category 4 and 5 presentations such as simple fractures, minor burns, and mild infections. Services will operate for extended hours and patient consults will be billed only to the Medical Benefits Schedule which means there is no cost to the patient. This initiative expands the investment already provided to establish and operate five new Priority Primary Care Clinics.

This initiative contributes to the Department of Health's Emergency Services output.

Health Protection

COVID-19 testing and vaccination services and engagement

Funding is provided to continue testing, pathology and vaccination services from July to December 2022, as the COVID-19 public health response moves to an ongoing public health stewardship role. Funding will also support engagement activities targeted at meeting the public health needs of Victoria's most clinically vulnerable populations. Funding is also provided to increase mobile testing and vaccination services for vulnerable people and remote communities.

This initiative contributes to the Department of Health's Health Protection output.

Free flu vaccinations for all Victorians

Funding is provided to support free flu vaccinations for all Victorians between 1 June and 10 July 2022. Increased flu vaccinations help people stay well and avoid more hospitalisations. Funding is also provided to support immunisation providers to roster additional staff and offer longer operating hours to meet the additional demand for flu vaccinations.

This initiative contributes to the Department of Health's Health Protection output.

Monkeypox vaccination program

Funding is provided to implement the monkeypox vaccination program as part of the public health response to limit the spread of monkeypox. This includes purchasing vaccines, establishing vaccination hubs and outreach vaccination teams, and developing a clinical training package for monkeypox immunisation workforces. Funding is also provided to SAFEVIC for monitoring of adverse events following immunisation as required by the National Essential Partnership on Vaccines.

This initiative contributes to the Department of Health's Health Protection output.

Health Workforce Training and Development

Making it free to study nursing and midwifery

Funding is provided to grow and help retain Victoria's nursing and midwifery workforce. This package includes undergraduate scholarships for more than 10 000 nursing or midwifery students, scholarships for postgraduate nurses to complete studies in specialty areas, training and employment of 100 new Nurse Practitioners and an expanded postgraduate midwifery incentive program.

This initiative contributes to the Department of Health's Health Workforce Training and Development output.

Maternal and Child Health and Early Parenting Services

Maternal and child health workforce package

Funding is provided for maternal and child health services, including in metropolitan growth corridors, to attract and support new and existing workers. This includes recruitment and promotion strategies to boost workforce supply and provide additional administrative support. Funding is also provided to develop a new client health record management system for the Maternal and Child Health and Early Parenting Centre network to increase system and workforce efficiencies.

This initiative contributes to the Department of Health's Maternal and Child Health and Early Parenting Services output.

Mental Health Clinical Care

Additional funding for community-based services and Mental Health and Wellbeing Hubs

Funding is provided to expand services for a number of community organisations experiencing a sustained level of demand as a result of the COVID-19 pandemic.

Funding is also provided to continue Mental Health and Wellbeing Hubs, which support Victorians with mental health or wellbeing concerns as new local adult and older adult mental health and wellbeing services are established.

This initiative contributes to the Department of Health's Mental Health Clinical Care output.

Asset initiatives

Table A.8: Asset initiatives – Department of Health **($ million)**

	2022-23	2023-24	2024-25	2025-26	TEI
Admitted Services					
Redevelopment of Royal Melbourne Hospital and Royal Women's Hospital [(a)]	7.0	95.8	53.5	141.8	2 338.0
Ambulance Services					
Improving access to emergency care	6.4	..	..	..	6.4
Total asset initiatives [(b)]	**13.4**	**95.8**	**53.5**	**141.8**	**2 344.5**

Notes:
(a) The TEI includes funding beyond 2025-26.
(b) Table may not add due to rounding.

Admitted Services

Redevelopment of Royal Melbourne Hospital and Royal Women's Hospital

Funding is provided to commence redeveloping the Royal Melbourne Hospital and Royal Women's Hospital. The initial investment will build a new hospital tower at the Arden precinct creating more than 400 beds and treatment spaces. This will provide a significant boost to women's health services including low risk birthing, day surgery and ambulatory services. This investment will also be a catalyst to activate the Arden precinct which will be linked to the Parkville medical precinct by train stations from the Metro Tunnel.

This investment will also prepare the world-renowned Parkville precinct for future redevelopment including upgrades to the Royal Melbourne Hospital and the Royal Women's Hospital. The redeveloped Parkville site will continue to focus on emergency, trauma and acute care.

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

Ambulance Services

Improving access to emergency care

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

DEPARTMENT OF JOBS, PRECINCTS AND REGIONS

Output initiatives

Table A.9: Output initiatives – Department of Jobs, Precincts and Regions ($ million)

	2022-23	2023-24	2024-25	2025-26
Agriculture				
Emergency animal disease preparedness	16.7	5.0	4.1	..
Supporting attendance at Victoria's agricultural shows	3.5	..	..	..
Timber worker support	5.0	..	..	..
Industry, Innovation, Medical Research and Small Business				
COVID-19 business support program payments	4.2	..	..	..
Cumming Global Centre for Pandemic Therapeutics (a)	6.0	6.0	6.0	6.0
Victorian Land Systems Fund (b)	3.7	4.3	..	..
Jobs				
Delivery of an expanded Victorian Visa Nomination Program	0.8	..	..	..
Extension of the Pandemic Leave Disaster Payment	101.4	..	..	..
Local Government and Suburban Development				
Digital Literacy for Seniors Program	2.0	..	..	..
Regional Development				
Regional Car Parks Fund additional allocation	..	12.2	7.9	..
Resources				
Mineral licencing	1.2	..	..	..
Sport, Recreation and Racing				
MCG Great Southern Stand business case	2.0	..	..	..
Sporting trusts support	5.3	..	..	..
Tourism and Major Events				
Formula One Grand Prix (c)	nfp	nfp	nfp	nfp
Geelong Convention and Exhibition Centre budget and operations	2.1	..	..	..
Total output initiatives (d)	**153.8**	**27.4**	**18.0**	**6.0**

Notes:
(a) Additional funding of $51 million between 2026-27 and 2031-32 brings the total funding for this initiative to $75 million over 10 years.
(b) Funding of $2.067 million in 2021-22 was also provided for this initiative, bringing the total funding for this initiative to $10 million.
(c) Funding allocation is not reported at this time as it includes some elements that are commercial in confidence.
(d) Table may not add due to rounding.

Agriculture

Emergency animal disease preparedness

Funding is provided to prepare for the increased risk of a significant emergency animal disease entering Australia, such as foot-and-mouth disease and lumpy skin disease. This includes workforce, equipment, and capability preparedness and initial capacity in the event of a major emergency animal disease outbreak response to mitigate the impact on Victoria's agriculture sector.

This initiative contributes to the Department of Jobs, Precincts and Regions' Agriculture output.

This initiative contributes to the Department of Environment, Land, Water and Planning's:

- Statutory Activities and Environment Protection output
- Fire and Emergency Management output.

Supporting attendance at Victoria's agricultural shows

Funding is provided to boost COVID-19 support and recovery by allowing children to enjoy free access to the 2022 Melbourne Royal Show and rural and regional events.

This initiative contributes to the Department of Jobs, Precincts and Regions' Agriculture output.

Timber worker support

Funding is provided to support timber workers under the Victorian Forestry Plan.

This initiative contributes to the Department of Jobs, Precincts and Regions' Agriculture output.

Industry, Innovation, Medical Research and Small Business

COVID-19 business support program payments

Funding is provided to finalise payments relating to COVID-19 business support programs, including grants relating to the State-Commonwealth jointly funded programs.

This initiative contributes to the Department of Jobs, Precincts and Regions' Industry, Innovation, Medical Research and Small Business output.

Cumming Global Centre for Pandemic Therapeutics

Funding is provided to establish the Cumming Global Centre for Pandemic Therapeutics (CGCPT), a global-scale research initiative with a mission to develop platform technologies for the rapid design, testing and scale-up of therapeutic treatments for pathogens of pandemic potential. Embedded within the Doherty Institute and located in the Melbourne Biomedical Precinct, the CGCPT will focus on breakthrough research in emerging, high potential molecular platforms, and will further strengthen Victoria's medical research sector by attracting global talent and investment into the state.

This initiative contributes to the Department of Jobs, Precincts and Regions' Industry, Innovation, Medical Research and Small Business output.

Victorian Land Systems Fund

Funding is provided for the Victorian Land Systems Fund, which supports supply chain partners of Hanwha Defense Australia and the broader defence supply chain in Victoria. The Supply Chain Investment Program will provide grants for investments that create jobs and stimulate industry growth and recovery within the defence industry. The Supply Chain Uplift Program will assist SMEs to access growth finance, capture industry development opportunities and resolve industry growth impediments.

This initiative contributes to the Department of Jobs, Precincts and Regions' Industry, Innovation, Medical Research and Small Business output.

Jobs

Delivery of an expanded Victorian Visa Nomination Program

Funding is provided to enable higher processing capacity in the Victorian Visa Nomination Program to support increased nominated skilled visa places in Victoria in 2022-23.

This initiative contributes to the Department of Jobs, Precincts and Regions' Jobs output.

Extension of the Pandemic Leave Disaster Payment

Funding is provided for Victoria's 50 per cent contribution to financial assistance provided through the Commonwealth-administered Pandemic Leave Disaster Payment program from 1 July 2022. This program supports workers who are unable to earn an income because they, or someone they are caring for, must self-isolate or quarantine.

This initiative contributes to the Department of Jobs, Precincts and Regions' Jobs output.

Local Government and Suburban Development

Digital Literacy for Seniors Program

Funding is provided to support the delivery of digital training programs in Victoria's public libraries for Victorians aged over 60 years during 2023. Grants will be made available for the resourcing and equipment required to deliver training programs.

This initiative contributes to the Department of Jobs, Precincts and Regions' Local Government and Suburban Development output.

Regional Development

Regional Car Parks Fund additional allocation

Funding is provided to support the delivery of 2 000 car parking spaces in high-demand locations in regional Victoria.

This initiative contributes to the delivery of the Government's election commitment as published in Labor's Financial Statement 2018.

This initiative contributes to the Department of Jobs, Precincts and Regions' Regional Development output.

Resources

Mineral licencing

Funding is provided to address the demand for mineral licencing across Victoria. These licences cover the exploration, retention, prospecting, and mining of Victorian minerals contributing to increased investment and jobs within Victoria's resources sector.

This initiative contributes to the Department of Jobs, Precincts and Regions' Resources output.

Sport, Recreation and Racing

MCG Great Southern Stand business case

Funding is provided to support the development of a business case to consider potential redevelopment options for the MCG.

This initiative contributes to the Department of Jobs, Precincts and Regions' Sport, Recreation and Racing output.

Sporting trusts support

Funding is provided to support the State Sport Centres Trust and the Kardinia Park Stadium Trust to continue operations and undertake asset renewals in 2022-23.

This initiative contributes to the Department of Jobs, Precincts and Regions' Sport, Recreation and Racing output.

Tourism and Major Events

Formula One Grand Prix

Funding is provided to secure the extension of the Australian Formula One Grand Prix in Victoria until 2035.

Geelong Convention and Exhibition Centre budget and operations

Funding is provided to the Melbourne Convention and Exhibition Trust (MCET) and the Department of Jobs, Precincts and Regions to support the future operation of the Geelong Convention and Exhibition Centre. This will support MCET to establish temporary office space in Geelong and meet other project costs, including staff recruitment.

This initiative contributes to the Department of Jobs, Precincts and Regions' Tourism and Major Events output.

Asset initiatives

Table A.10: Asset initiatives – Department of Jobs, Precincts and Regions ($ million)

	2022-23	2023-24	2024-25	2025-26	TEI
Agriculture					
Emergency animal disease preparedness	3.7	0.3	..	..	4.0
Industry, Innovation, Medical Research and Small Business					
Purchase of a site on Poplar Road, Parkville [(a)]	tbc	tbc	tbc	tbc	tbc
Total asset initiatives [(b)]	**3.7**	**0.3**	**..**	**..**	**4.0**

Note:
(a) TEI and cashflows will be disclosed following the outcome of commercial negotiations.
(b) Totals exclude estimated expenditure for initiatives with 'tbc'.

Agriculture

Emergency animal disease preparedness

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

Industry, Innovation, Medical Research and Small Business

Purchase of a site on Poplar Road, Parkville

Funding is provided to purchase a site on Poplar Road, Parkville to continue supporting Parkville as a world-leading biomedical precinct.

This initiative contributes to the Department of Jobs, Precincts and Regions' Industry, Innovation, Medical Research and Small Business output.

DEPARTMENT OF JUSTICE AND COMMUNITY SAFETY

Output initiatives

Table A.11: Output initiatives – Department of Justice and Community Safety ($ million)

	2022-23	*2023-24*	*2024-25*	*2025-26*
Community Crime Prevention				
Countering violent extremism	0.3	1.0	..	..
Emergency Management Capability				
Council Support Fund extension	4.8	..	..	..
Fiskville Redress Scheme	13.6	19.1	14.2	9.8
Flood awareness campaigns	1.0	..	..	..
Natural Disaster Relief Trust Account	73.3	..	..	..
Victorian Emergency Relief and Recovery Foundation	3.1	..	..	..
Forensic Justice Services				
Support for victims of sexual violence	8.2	8.3	6.1	6.2
Justice Policy, Services and Law Reform				
Office of the Special Investigator	..	4.4	..	..
Supporting decriminalisation of public intoxication	7.3	5.4	..	..
Traditional Owner Settlement Act Agreements	4.1	14.1	29.1	16.5
Policing and Community Safety				
Service Delivery Transformation Program	3.8	3.9	4.0	4.0
Total output initiatives [(a)]	**119.4**	**56.1**	**53.4**	**36.5**

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

Community Crime Prevention

Countering violent extremism

Funding is provided to continue programs to counter violent extremism.

This initiative contributes to the Department of Justice and Community Safety's Community Crime Prevention output.

Emergency Management Capability

Council Support Fund extension

Funding is provided to extend the Council Support Fund to address ongoing recovery needs in communities affected by the June 2021 flood and storm event.

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

Fiskville Redress Scheme

Funding is provided for a redress scheme for people affected by activities at the former Fiskville Training College site between 1971 and 2015. The scheme includes financial redress, access to health services and the opportunity to participate in conferences with the Country Fire Authority.

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

Flood awareness campaigns

Funding is provided for public awareness media campaigns to mitigate flash or riverine flooding forecasted for late spring and over the 2022-23 summer period.

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

Natural Disaster Relief Trust Account

Funding is provided to meet commitments from claims arising from Commonwealth registered natural disaster events, including the June 2021 flood and storm event.

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

Victorian Emergency Relief and Recovery Foundation

Funding is provided to establish the Victorian Emergency Relief and Recovery Foundation to manage the distribution of public donations to communities and individuals requiring support following future emergency events.

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

Forensic Justice Services

Support for victims of sexual violence

Funding is provided to the Victorian Institute of Forensic Medicine to deliver clinical forensic medicine functions that support better outcomes for victims of sexual violence. This includes additional forensic nurses and doctors to implement a new service delivery model that improves victims' experience.

This initiative contributes to the Department of Justice and Community Safety's Forensic Justice Services output.

Justice Policy, Services and Law Reform

Office of the Special Investigator

Funding is provided to support key functions of the Office of the Special Investigator, which is an independent statutory body established as a result of recommendations of the Royal Commission into the Management of Police Informants.

This initiative contributes to the Department of Justice and Community Safety's Justice Policy, Services and Law Reform output.

Supporting decriminalisation of public intoxication

Refer to the Department of Health for a description of this initiative.

Traditional Owner Settlement Act Agreements

Funding is provided for interim settlement packages with several Traditional Owner groups, together with other initiatives, under the *Traditional Owner Settlement Act 2010* (Vic) (the Act). Agreements under the Act advance positive and progressive relationships with Victorian Traditional Owners towards Aboriginal self-determination.

This initiative contributes to the Department of Justice and Community Safety's Justice Policy, Services and Law Reform output.

Policing and Community Safety

Service Delivery Transformation Program

Funding is provided to Victoria Police for a program of works to improve and modernise the policing service delivery model.

This initiative contributes to the Department of Justice and Community Safety's Policing and Community Safety output.

DEPARTMENT OF PREMIER AND CABINET

Output initiatives

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

	2022-23	2023-24	2024-25	2025-26
Economic Policy and Advice				
Commonwealth Games	0.5	..	..	..
Public Sector Administration Advice and Support				
Parliamentary standards and integrity reforms	1.4	1.5	..	..
Social Policy and Intergovernmental Relations				
Donation for the Ukraine Crisis Appeal	0.5	..	..	..
Traditional Owner Engagement and Cultural Heritage Management Programs				
Munarra Centre for Regional Excellence project funding	7.3	..	..	..
Total output initiatives [(a)]	**9.7**	**1.5**	**..**	**..**

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

Economic Policy and Advice

Commonwealth Games

Refer to the Department of Treasury and Finance for a description of this initiative.

Public Sector Administration Advice and Support

Parliamentary standards and integrity reforms

Funding is provided to progress parliamentary integrity reforms, including examining pathways to strengthen confidence in public institutions, and consultation with the Parliament, Victorian Electoral Commission, Victoria Ombudsman and the Independent Broad-based Anti-corruption Commission.

This initiative contributes to the Department of Premier and Cabinet's Public Sector Administration Advice and Support output.

Social Policy and Intergovernmental Relations

Donation for the Ukraine Crisis Appeal

Funding is provided for a donation to the Ukraine Crisis Appeal to support ongoing humanitarian efforts in the country, including the rebuilding of critical infrastructure. The donation will complement the Government's ongoing assistance to the local Ukrainian community.

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

Traditional Owner Engagement and Cultural Heritage Management Programs

Munarra Centre for Regional Excellence project funding

Funding is provided to complete the establishment of a new education, sporting, cultural and community centre for local Aboriginal people in Shepparton.

This initiative contributes to the Department of Premier and Cabinet's Traditional Owner Engagement and Cultural Heritage Management Programs output.

DEPARTMENT OF TRANSPORT

Output initiatives

Table A.13: Output initiatives – Department of Transport **($ million)**

	2022-23	2023-24	2024-25	2025-26
Ports and Freight				
Unlocking offshore wind	8.0	..	..	..
Regulation of Commercial Passenger Vehicle Services				
Multi Purpose Taxi Program	5.5	..	..	..
Sustainably managed fish and boating resources				
Better Boating Fund	0.3	..	..	..
Train Services				
Regional Rail Services	6.9	9.4	..	..
Unlocking Capacity on the Metro Rail Network	11.5	13.5	..	..
Transport Infrastructure				
Ballarat station upgrade [(a)]	..	..	..	0.6
New Tarneit railway station	2.5	2.5	..	..
Total output initiatives [(b)]	**34.6**	**25.4**	**..**	**0.6**

Notes:
(a) Excludes $1.245 million in funding for financial year 2026-27 and $1.287 million in funding ongoing from financial year 2027-28.
(b) Table may not add due to rounding.

Ports and Freight

Unlocking offshore wind

Refer to the Department of Environment, Land, Water and Planning for a description of this initiative.

Regulation of Commercial Passenger Vehicle Services

Multi Purpose Taxi Program

Funding is provided to increase the Multi Purpose Taxi Program (MPTP) lifting fee for wheelchair accessible vehicles (WAVs) to further incentivise the supply of wheelchair accessible vehicles and improve the availability of WAV services for MPTP members with mobility needs.

This initiative contributes to the Department of Transport's Regulation of Commercial Passenger Vehicle Services output.

Sustainably managed fish and boating resources

Better Boating Fund

Funding is provided to supplement the Better Boating Fund in 2022-23 to meet the Government's commitment that every cent of revenue from marine licences and vessel registration fees is spent on boating safety and facilities.

This initiative contributes to the Department of Transport's Sustainably Managed Fish and Boating Resources output.

Train Services

Regional Rail Services

Funding is provided for additional regional train services following the completion of enabling infrastructure works as part of the Regional Rail Revival.

This initiative contributes to the Department of Transport's:

- Bus Services – Statewide output
- Train Services – Metropolitan output
- Train Services – Regional output
- Train Services – Statewide output.

Unlocking Capacity on the Metro Rail Network

Funding is provided to undertake detailed planning and development for future upgrades of the Upfield and Craigieburn lines and the metropolitan rail network's inner area traction power system.

This initiative contributes to the Department of Transport's:

- Train Services – Metropolitan output
- Transport Infrastructure output.

Transport Infrastructure

Ballarat station upgrade

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

New Tarneit railway station

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

Asset initiatives

Table A.14: Asset initiatives – Department of Transport **($ million)**

	2022-23	2023-24	2024-25	2025-26	TEI
Road Operations					
Ison Road – Rail Overpass [(a)]	25.6	42.0	34.9	0.5	103.6
Transport Infrastructure					
Albion station upgrade	3.0	30.8	30.8	15.4	80.0
Ballarat station upgrade	3.2	25.0	18.5	2.5	49.2
COVID-19 impacts on major projects	240.0	..	..	..	240.0
Kananook stage 2 [(b)]	12.6	..	..	..	tbc
New Tarneit railway station	4.3	20.0	52.6	47.1	124.0
South Dynon train maintenance facility stage 2 development [(c)]	10.2	..	..	..	tbc
Twenty-five more level crossing removals by 2030 [(d)]	tbc	tbc	tbc	tbc	6522.1
Total asset initiatives [(e)]	**298.8**	**117.8**	**136.8**	**65.5**	**7118.9**

Notes:
(a) The TEI includes funding beyond 2025-26. The TEI includes $56.9 million in Commonwealth Government funding.
(b) The Government has committed $12.6 million for initial detailed design, planning and early works. The TEI and estimated completion date will be disclosed following funding consideration of future works packages.
(c) The Government has committed $10.2 million for design and development work. The TEI and estimated completion date will be disclosed following funding consideration of future works packages.
(d) Cashflows to be confirmed following confirmation of final designs and the delivery profile of the program.
(e) Table may not add due to rounding. Totals exclude estimated expenditure for initiatives with a 'tbc'.

Road Operations

Ison Road – Rail Overpass

Funding is provided for the construction of a bridge over the Geelong-Melbourne rail line to connect Ison Road through Wyndham West to the Princes Freeway corridor. Once completed, this will allow for direct travel between developing residential areas in Melbourne's west and employment and education precincts. This initiative is supported by co-funding from the Commonwealth Government.

This initiative contributes to the Department of Transport's Road Operations output.

Transport Infrastructure

Albion station upgrade

Funding is provided to undertake detailed design, planning and delivery of works to upgrade Albion station. The upgrade is expected to support compliance with the Disability Standard for Accessible Public Transport and improve the station's amenity for commuters.

This initiative contributes to the Department of Transport's:

- Train Services – Metropolitan output
- Transport Infrastructure output.

Ballarat station upgrade

Funding is provided for accessibility, safety and amenity upgrades at Ballarat station.

This initiative contributes to the Department of Transport's:

- Train Services - Regional output
- Transport Infrastructure output.

COVID-19 impacts on major projects

Funding is provided for the Metro Tunnel Project following the impacts of COVID-19 for the period until 30 June 2022. The project has experienced financial impacts as a result of COVID-19, including additional site costs for the resequencing of work.

This initiative contributes to the Department of Transport's:

- Train Services – Metropolitan output
- Transport Infrastructure output.

Kananook stage 2

Funding is provided to undertake initial detailed design, planning and early works to deliver additional stabling and related infrastructure to support service capacity and resilience across the metropolitan network.

This initiative contributes to the Department of Transport's:

- Train Services – Metropolitan output
- Transport Infrastructure output.

New Tarneit railway station

Funding is provided to construct a new train station at Davis Road, Tarneit. Funding is also provided to commence planning for additional stations including at Dohertys Road, Truganina. This initiative will service growing demand in Melbourne's west.

This initiative contributes to the Department of Transport's:

- Train Services – Regional output
- Transport Infrastructure output.

South Dynon train maintenance facility stage 2 development

Funding is provided to undertake design and development work to further upgrade the South Dynon train maintenance facility to support additional maintenance capacity for the regional VLocity fleet.

This initiative contributes to the Department of Transport's:

- Train Services – Regional output
- Transport Infrastructure output.

Twenty-five more level crossing removals by 2030

A program of 25 additional level crossing removals will build upon the Government's existing commitment to remove 85 dangerous and congested level crossings in Victoria. These additional level crossing removals will improve travel time, enhance safety and create more accessible communities.

This initiative contributes to the Department of Transport's:

- Road Operations output
- Train Services – Metropolitan output
- Transport Infrastructure output.

DEPARTMENT OF TREASURY AND FINANCE

Output initiatives

Table A.15: Output initiatives – Department of Treasury and Finance **($ million)**

	2022-23	2023-24	2024-25	2025-26
Budget and Financial Advice				
Commonwealth Games	1.0	..	..	..
Commercial and Infrastructure Advice				
Funding to support government priorities	0.6	..	..	..
Economic and Policy Advice				
Expanding the Victorian Homebuyer Fund	8.6	5.1	4.1	4.1
Services to Government				
Security Services State Purchase Contract variation	1.2	..	..	..
Total output initiatives [(a)]	**11.4**	**5.1**	**4.1**	**4.1**

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

Budget and Financial Advice

Commonwealth Games

Funding is provided to support delivery of the 2026 Commonwealth Games including managing governance, delivery planning and budget processes.

This initiative contributes to the Department of Treasury and Finance's Budget and Financial Advice output.

This initiative contributes to the Department of Premier and Cabinet's Economic Policy and Advice output.

Commercial and Infrastructure Advice

Funding to support government priorities

Funding is provided for administration and oversight responsibilities related to the Local Council Lending Scheme, the Victorian Funds Management Corporation (VFMC) and management of the general government sector debt and funding program.

This initiative contributes to the Department of Treasury and Finance's Commercial and Infrastructure Advice output.

Economic and Policy Advice

Expanding the Victorian Homebuyer Fund

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

Services to Government

Security Services State Purchase Contract variation

Funding is provided to implement the Security Services State Purchase Contract (SPC) variation that provides improvements to worker conditions, including for staff engaged under the SPC to be paid a minimum 6 per cent above the Security Services Industry Award 2020. The funding will enhance oversight and assurance of transactions through the SPC.

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

Asset initiatives

Table A.16: Asset initiatives – Department of Treasury and Finance **($ million)**

	2022-23	*2023-24*	*2024-25*	*2025-26*	*TEI*
Economic and Policy Advice					
Expanding the Victorian Homebuyer Fund	1 100.0	..	..	..	1 100.0
Total asset initiatives	**1 100.0**	**..**	**..**	**..**	**1 100.0**

Economic and Policy Advice

Expanding the Victorian Homebuyer Fund

Additional funding will enable the Victorian Homebuyer Fund to support even more households into home ownership and ensure its continuation into 2022-23.

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

PARLIAMENT

Output initiatives

Table A.17: Output initiatives – Parliament **($ million)**

	2022-23	2023-24	2024-25	2025-26
Parliamentary Services				
Implementation of Operation Watts recommendations	1.3	2.3	2.4	2.5
Victorian Ombudsman				
Supporting the Victorian Ombudsman's office	0.7	..	..	..
Total output initiatives [(a)]	**2.0**	**2.3**	**2.4**	**2.5**

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

Parliamentary Services

Implementation of Operation Watts recommendations

Funding is provided to implement recommendations from the Independent Broad-based Anti-corruption Commission and Victorian Ombudsman's joint report into the use of public funds. This includes dedicated resources to ensure that Members of Parliament and their electorate officers are appropriate trained and supported.

This initiative contributes to Parliament's Parliamentary Services output.

Victorian Ombudsman

Supporting the Victorian Ombudsman's office

Funding is provided to further support the Victorian Ombudsman's office to meet increases in demand for its services and effectively meet the needs and expectations of the community.

This initiative contributes to the Victorian Ombudsman output.

APPENDIX B – SENSITIVITY ANALYSIS

The *2022 Victorian Economic and Fiscal Update* relies on forecasts and judgements about the economic, operating and financial conditions for the Victorian general government sector. Uncertainty in these conditions, for example, as a result of international developments and other risks to the national economy, may cause the actual results to differ from projections.

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

The first approach quantifies the fiscal impacts of a scenario involving simultaneous variations in economic parameters that represent key risks to the economic outlook described in Chapter 1 *Economic Conditions and Outlook*. This scenario was selected to cover a plausible shock that could affect Victoria over the budget period, and the modelling takes account of linkages between key international, Australian and Victorian economic aggregates.

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

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

FISCAL IMPACTS OF VARIATIONS TO THE ECONOMIC OUTLOOK

This part of the sensitivity analysis quantifies a key risk identified in Chapter 1 *Economic Conditions and Outlook* and presents how this risk might affect the State's economic and fiscal aggregates.

The scenario considered is the emergence of a new vaccine-resistant COVID-19 variant that leads to a setback in global growth, which weighs on the Victorian economy. Under the scenario, domestic policy responses for the duration of the outbreak such as closing Australia's international border – though not a return to the tight restrictions required in 2020 and 2021 ahead of mass vaccination – also slow economic activity. The behavioural responses of businesses and households, reflected in labour supply and supply chain challenges, and downward pressure on consumer confidence also slow economic activity.

The economic impacts of the scenario have been modelled using VURMTAX, a computable general equilibrium model developed by the Centre of Policy Studies at Victoria University. The results of the scenario are analysed as a deviation from the 'business as usual' base case, which represents the economic forecasts outlined in Chapter 1 *Economic Conditions and Outlook*.

The changes in economic variables resulting from the modelled shocks are then mapped into estimated revenue and expenditure impacts using elasticities that describe the historical relationship between fiscal outcomes and major macroeconomic parameters in Table B.1.[1]

Scenario: Global COVID-19 resurgence

The global economy was severely affected by the onset of the COVID-19 pandemic, with world GDP falling by 3 per cent in 2020. In 2021, global economic output was recovering well and rebounded by a strong 6.0 per cent. Success in rolling out vaccines, particularly in advanced economies, allowed public health restrictions to be eased over late 2021 and early 2022 despite elevated COVID-19 case numbers (Chart B.1).

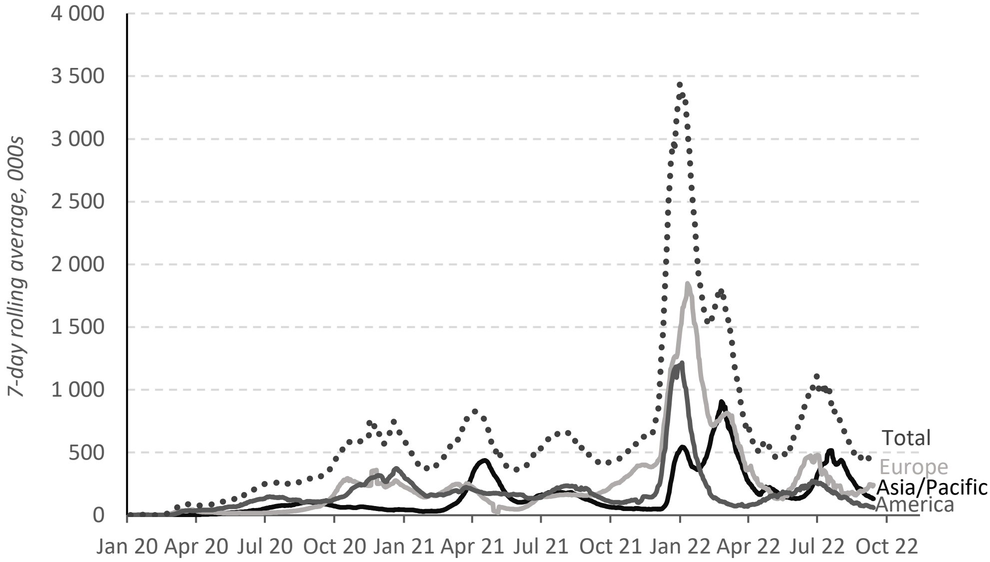
More recently, case numbers have declined again, and public health restrictions in major advanced economies continue to be limited – while the emergence of high inflation and sharply rising interest rates now dominate the economic outlook. In China, though, the authorities' zero-COVID policy has led to periods of tight public health restrictions that have continued to weigh on economic activity there in 2022.

The World Health Organization has warned that more transmissible and deadly variants of COVID-19 may evolve as long as a substantial share of the world population remains unprotected. Such a development would be a major setback for the global economy. This scenario explores the implications of the emergence of such a variant, which leads to a renewed global economic downturn that disrupts Victoria's economy.

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

In this scenario, global economic activity falls with the reimposition of health restrictions in major economies outside Australia. Global growth is assumed to be 1.6 percentage points lower than the baseline in 2023, with the shock assumed to begin in the March quarter 2023.

Chart B.1: Daily COVID-19 case numbers



Source: Johns Hopkins University

Australia's national border restrictions are assumed to be reimposed for a period of 12 months due to significant outbreaks overseas. Subdued global demand and the reimposition of border restrictions have an adverse impact on immigration and services trade in Victoria, including international education and tourism exports.

The reimposition of Australian border controls in this scenario leads to net overseas migration falling sharply, with Victoria's population 0.8 per cent smaller than the base case by 2025-26. A smaller population weighs on Victorian consumer spending, dwelling investment and business investment relative to the base case.

With the state accounting for nearly a third of onshore international students in Australia, international education is Victoria's largest service export. A setback in international student arrivals has a significant negative impact on Victoria's education exports. Tourism, which accounted for over 2 per cent of the Victorian economy in 2020-21, is also adversely affected by the national border restrictions. While Victorian consumers substitute some international tourism to domestic tourism in the scenario, the net impact on the Victorian economy is negative. Overall, national border restrictions result in a 5.4 per cent fall in Victoria's service exports relative to the base case in 2023 in the scenario. Service imports also decline by 2.2 per cent.

Consumer confidence in Victoria is weighed down by reports of global outbreaks of a vaccine-resistant COVID-19 variant, lower levels of global growth and national border restrictions. Consumers respond by increasing precautionary savings, weighing on household spending. These impacts are in addition to those caused by lower trade and population flows.

The shocks to exports, net overseas migration and consumer confidence reduce Victoria's gross state product (GSP) by 0.35 per cent in 2022-23, 0.69 per cent in 2023-24, 0.66 per cent in 2024-25 and 0.67 per cent in 2025-26 compared with the base case.

The peak economic impact occurs in 2023, when household consumption declines due to lower confidence (see Chart B.2). Later in the forecast period, as this confidence effect dissipates, consumption recovers somewhat, but lower global growth and a lower population mean it remains weaker than in the baseline.

Government consumption is also lower over the forecast period as a smaller population requires a lower level of expenditure. In the scenario, there is no further discretionary fiscal expenditure assumed to occur in response to the shock. In practice, governments and the Reserve Bank of Australia may intervene to mitigate the shock's impacts on the economy.

Weaker domestic activity puts downward pressure on the real exchange rate, leading to a depreciation of the domestic currency that increases the international competitiveness of domestic exporters. This raises goods export volumes relative to the baseline, more than offsetting the decline in service exports in the scenario. Overall, net trade adds to growth and somewhat offsets the negative impacts of the shocks.

Subdued domestic activity lowers the demand for labour, with employment growth 0.28 per cent lower in 2022-23 and 0.61 per cent lower than the base case in 2023-24. Labour supply is also reduced due to the decline in international migration, and employment is still lower than the base case in 2025-26. Weaker economic growth increases the level of spare capacity in the labour market, which puts downward pressure on wages.

The depreciation of the domestic currency raises the cost of imports to households, placing upward pressure on consumer prices. This effect on consumer prices is more than offset, though, by weaker domestic activity, with the net effect that consumer prices are lower in the scenario.

Table B.1 summarises the economic effects of this shock.

Chart B.2: Scenario impact on select variables

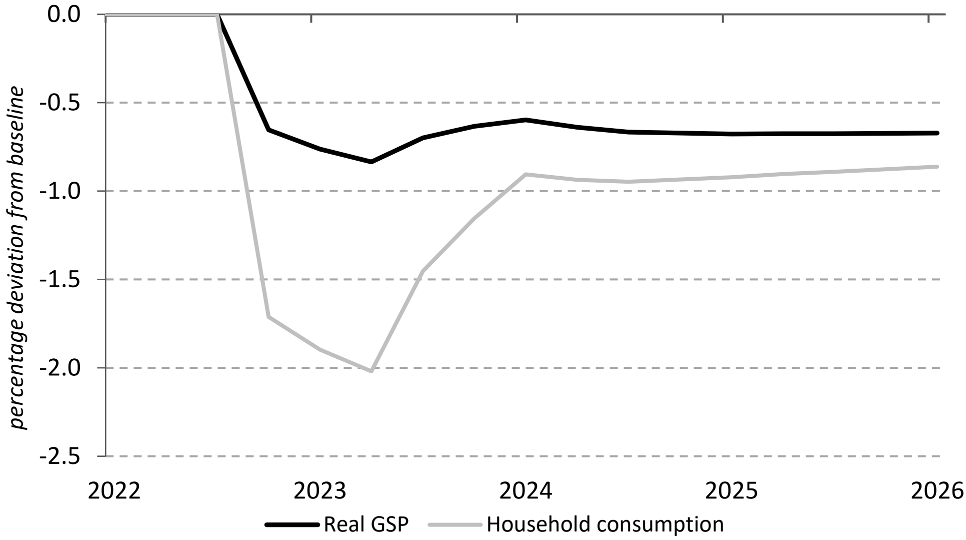


Table B.1: Projected economic impact of a global COVID-19 outbreak [(a)] (per cent)

	2022-23 estimate	2023-24 estimate	2024-25 estimate	2025-26 estimate
Real GSP	(0.35)	(0.69)	(0.66)	(0.67)
Employment	(0.28)	(0.61)	(0.67)	(0.69)
Consumer price index	(0.17)	(0.28)	(0.21)	(0.21)
Wage price index	(0.21)	(0.42)	(0.28)	(0.21)

Note:

(a) Figures reported are the change in the level of each parameter relative to the baseline forecasts as presented in Chapter 1 Economic Conditions and Outlook.

The shock has a negative fiscal impact on the State's finances (see Table B.2). Lower population growth, because of lower overseas migration, slows growth in property-related taxation revenue, including land transfer duty and land taxes. Reduced consumption leads to a smaller national GST pool and hence smaller GST grants revenue for Victoria. As a result, income from transactions is lower over the forward estimates.

Expenses from transactions are also lower in the scenario relative to the base case, mainly due to lower employment growth which lowers employee expenses. These estimated impacts on expenses reflect the assumed relationships between private and public sector employment and wages in the model, namely, that public sector employment is a fixed share of overall employment, and public sector wage growth corresponds to private sector wage growth in the medium to long-term.

Table B.2: Projected fiscal impact of a global COVID-19 outbreak [(a)] ($ million)

	2022-23 estimate	*2023-24 estimate*	*2024-25 estimate*	*2025-26 estimate*
Income from transactions	(505.0)	(984.9)	(811.0)	(824.2)
Expenses from transactions	(135.1)	(248.0)	(259.8)	(246.1)
Net result from transactions	**(369.9)**	**(736.9)**	**(551.2)**	**(578.1)**
Other economic flows	(4.2)	(12.3)	(7.4)	(8.9)
Net result	**(374.1)**	**(749.2)**	**(558.6)**	**(587.0)**
Net debt (cumulative)	**374.1**	**1 006.9**	**1 451.0**	**1 926.8**
Net debt to GSP ratio (percentage point difference)	**0.07**	**0.17**	**0.23**	**0.29**

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

SENSITIVITY TO INDEPENDENT VARIATIONS IN MAJOR ECONOMIC PARAMETERS

Table B.3 presents the sensitivity of financial aggregates where the levels of key economic parameters are 1 per cent (or, for interest rates, 1 percentage point) above the forecast for each year of the budget and forward estimates, holding all else constant.

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

Table B.3: Sensitivity of key fiscal aggregates to selected indicators being 1 per cent higher than expected from 2022-23 [(a)(b)(c)(d)(e)] **($ million)**

	2022-23 estimate	*2023-24 estimate*	*2024-25 estimate*	*2025-26 estimate*
GSP				
Income from transactions	124	127	139	146
Expenses from transactions	1	(4)	(11)	(19)
Net result from transactions	**123**	**131**	**150**	**165**
Net debt	**(123)**	**(255)**	**(404)**	**(569)**
Employment [(f)]				
Income from transactions	108	117	122	127
Expenses from transactions	340	357	375	399
Net result from transactions	**(232)**	**(241)**	**(253)**	**(272)**
Net debt	**232**	**473**	**726**	**998**
Consumer prices [(g)]				
Income from transactions	295	302	322	337
Expenses from transactions	272	246	238	239
Net result from transactions	**23**	**56**	**85**	**98**
Net debt	**(24)**	**(80)**	**(166)**	**(264)**
Average weekly earnings [(h)]				
Income from transactions	112	120	125	131
Expenses from transactions	3	(2)	(8)	(15)
Net result from transactions	**109**	**122**	**133**	**146**
Net debt	**(109)**	**(230)**	**(363)**	**(509)**
Total employee expenses				
Income from transactions	..	38	129	141
Expenses from transactions	342	364	384	409
Net result from transactions	**(342)**	**(327)**	**(255)**	**(267)**
Net debt	**342**	**669**	**924**	**1 191**

Table B.3: Sensitivity of key fiscal aggregates to selected indicators being 1 per cent higher than expected from 2022-23 ***(continued)*** **($ million)**

	2022-23 estimate	*2023-24 estimate*	*2024-25 estimate*	*2025-26 estimate*
Domestic share prices				
Income from transactions	..	..	..	..
Expenses from transactions	..	..	..	..
Net result from transactions	**..**	**..**	**..**	**..**
Net debt	**..**	**..**	**..**	**..**
Overseas share prices				
Income from transactions	..	..	..	..
Expenses from transactions	..	..	..	..
Net result from transactions	**..**	**..**	**..**	**..**
Net debt	**..**	**..**	**..**	**..**
Property prices				
Income from transactions	190	193	200	211
Expenses from transactions	(4)	(13)	(24)	(36)
Net result from transactions	**194**	**207**	**223**	**247**
Net debt	**(197)**	**(408)**	**(636)**	**(888)**
Property transaction volumes				
Income from transactions	77	79	82	85
Expenses from transactions	(2)	(5)	(10)	(15)
Net result from transactions	**79**	**85**	**91**	**99**
Net debt	**(79)**	**(164)**	**(255)**	**(354)**
Interest rates (i)				
Income from transactions	110	105	101	98
Expenses from transactions	120	491	749	1 019
Net result from transactions	**(11)**	**(386)**	**(648)**	**(921)**
Net debt	**11**	**281**	**815**	**1 624**

Notes:

(a) Variations are applied to the economic variables effective from the first day in the budget year (1 July 2022). It is assumed that each variable's growth rate matches that under a no-variation scenario for the forward estimates period. This implies that the level of all economic variables (other than interest rates) is 1 per cent higher in level terms in each year of the budget and forward estimates. Interest rates are assumed to be 1 percentage point higher in each year of the budget and forward estimates.

(b) A positive number for income from transactions denotes an increase in revenue. A positive number for expenses from transactions denotes an increase in expenses (and hence a reduction in the net result from transactions). A positive number for the net result from transactions denotes a higher surplus or smaller deficit. A positive number for net debt denotes a higher level of net debt in the relevant year compared with a no-variation scenario.

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

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

(e) Figures may not add due to rounding.

(f) A shock to employment is assumed to impact payroll tax revenue. Both public and private sector employment levels are assumed to be 1 per cent higher across the four years, with the shares of full-time and part-time employment held constant. The rise in public sector employment boosts general government sector employee expenses.

(g) Estimates assume that higher consumer prices flow through to government operating expenses, such as the purchase of supplies and consumables and the purchase of services. For simplicity, these estimates make no assumptions about agencies' administrative actions or government policy responses to mitigate the effects of higher inflation on aggregate spending. It is assumed an increase in consumer prices within the budget year does not affect employee entitlements.

(h) A positive shock to average weekly earnings increases the expenses of public financial and non-financial corporations and reduces the general government sector's income from dividends and ITEs.

(i) Interest rates on Treasury Corporation Victoria bonds and Victorian Government holdings of financial assets are assumed to be 1 percentage point higher in each year of the budget and forward estimates. The fiscal impact is based on the portion of government debt being refinanced, as well as new debt issuance.

STYLE CONVENTIONS

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

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

The notation used in the tables is as follows:

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

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

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