



Victorian Budget 18/19

GETTING THINGS DONE

2018-19 Mid-Year Financial Report

(incorporating Quarterly Financial Report No. 2) March 2019

Presented by Tim Pallas MP,
Treasurer of the State of Victoria

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CHAPTER 1 – MID-YEAR RESULTS FOR THE STATE OF VICTORIA, INCLUDING THE GENERAL GOVERNMENT SECTOR

The *2018-19 Mid-Year Financial Report* presents the financial results for the State of Victoria, including the general government sector, for the six months to 31 December 2018. The report has been prepared in accordance with the *Financial Management Act 1994* and applicable accounting standards.

The actual results in this report are compared to the revised budget estimates in the *2018-19 Budget Update*. However, the likely 2018-19 full year results cannot be extrapolated from the half-year results due to seasonal and other factors impacting on the timing of activity and transactions. In particular, they do not include significant revenue items that are expected to be recognised in the second half of the financial year. For example, land tax revenue is mainly recognised in the March quarter, and certain grant revenue from the Commonwealth Government is expected to be received later in the financial year.

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

The general government sector consists of all government departments and other controlled public sector agencies that are largely financed by State taxes and Commonwealth grants. The general government sector is primarily responsible for delivering government policy as set out in the annual budget.

The PNFC and PFC sectors comprise a wide range of entities that provide goods and services through commercial cost recovery principles via user charges and fees. The largest Victorian PNFCs provide water, housing and transport services. Victorian PFCs can be categorised into two broad types: those that service the general public and businesses (such as the statutory insurers), and those that provide financial services to other areas of government including investing and borrowing functions.

The non-financial public sector (NFPS) represents the general government sector and the PNFC sector after eliminating transactions between the two sectors.

Due to transactions between the different sectors, not all transactions in each sector affect the overall State of Victoria outcome.

For the period to 31 December 2018, the general government sector recorded a positive net result from transactions of \$365 million.

OVERVIEW

Victoria's state final demand grew by 5.2 per cent over the year to the December quarter, the highest growth rate of the states. The largest contributors were business investment, household consumption and public demand. Victoria's labour market remains strong, with the unemployment rate falling 1.0 percentage point to 4.5 per cent and employment growing by 3.5 per cent over the year to January 2019.

Victoria's economic outlook remains positive, supported by robust population and employment growth. Victoria's diversified economy and the Government's strong financial position leaves the State well placed to manage unforeseen developments.

The State's investment in fixed assets for the period to 31 December 2018 was \$6.0 billion, mainly in the general government and the PNFC sectors. This investment is primarily funded by cash flows from operating activities and borrowings. Net cash flows from operating activities for the State for the period to 31 December 2018 were \$6.6 billion. This is higher than the same period last year due to the receipt of the proceeds from the commercialisation of the land titles and registry functions of Land Use Victoria in September 2018.

Net debt for the NFPS was \$35.6 billion, or 7.8 per cent of gross state product (GSP), at 31 December 2018 (7.9 per cent as at 30 June 2018).

FINANCIAL PERFORMANCE

For the six months to 31 December 2018, the general government sector recorded a positive net result from transactions of \$365 million. This is lower than the \$950 million net result from transactions for the same period last year, primarily due to lower land transfer duty resulting from the current downturn in the property market, higher grants expenses and increased employee expenses, reflecting increased service delivery and annual salary growth.

The net result for the State was a deficit of \$4.7 billion. This is lower than the \$2.1 billion surplus net result for the same period last year, primarily due to the negative impact of discount rate movements on insurer claims valuations and market revaluation movements on investment portfolio revaluations.

Table 1.1: Summary comprehensive operating statement for the period ended 31 December ^(a) (\$ million)

	State of Victoria				General government sector			
	2017-18 actual to Dec	2018-19 actual to Dec	2018-19 revised estimate	% ^(b)	2017-18 actual to Dec	2018-19 actual to Dec	2018-19 revised estimate	% ^(b)
Revenue from transactions								
Taxation revenue	10 524	10 734	23 634	45	10 708	10 945	24 092	45
Interest revenue	337	339	517	66	415	417	818	51
Dividends and income tax equivalent and rate equivalent revenue	867	1 845	1 708	108	433	330	1 103	30
Sales of goods and services	7 338	7 683	15 286	50	3 637	3 849	7 594	51
Grant revenue	14 119	15 338	32 525	47	14 227	15 801	33 515	47
Other revenue	1 599	1 755	3 281	53	1 170	1 348	2 636	51
Total revenue from transactions	34 783	37 694	76 951	49	30 591	32 689	69 757	47
Expenses from transactions								
Employee expenses	11 875	12 883	26 246	49	11 296	12 294	24 986	49
Net superannuation interest expense	360	347	692	50	360	347	688	50
Other superannuation	1 328	1 460	2 909	50	1 255	1 382	2 750	50
Depreciation	2 478	2 535	5 315	48	1 312	1 369	2 921	47
Interest expense	1 346	1 326	2 569	52	1 009	1 033	2 090	49
Grant expense	3 446	4 142	9 143	45	5 064	5 981	12 785	47
Other operating expenses	13 905	14 802	31 199	47	9 344	9 919	21 296	47
Total expenses from transactions	34 739	37 496	78 074	48	29 642	32 324	67 517	48
Net result from transactions – net operating balance	44	198	(1 123)	(18)	950	365	2 241	16
Total other economic flows included in net result	2 026	(4 936)	1 721	(287)	(81)	(554)	(233)	237
Net result	2 070	(4 738)	598	(792)	868	(189)	2 008	(9)
Total other economic flows – other comprehensive income	679	(1 146)	5 449	(21)	1 360	(2 362)	4 705	(50)
Comprehensive result – total change in net worth	2 749	(5 884)	6 048	(97)	2 229	(2 551)	6 713	(38)

Notes:

(a) This is an abbreviated statement. The full consolidated and disaggregated operating statement is reported in Chapter 2.

(b) The percentage represents the 2018-19 actual to December as a percentage of the revised estimate presented in the 2018-19 Budget Update.

General government sector

Revenue

Revenue for the six months ended 31 December 2018 was \$32.7 billion. This is 47 per cent of the full year revised budget estimate and an increase of \$2.1 billion from the same period last year.

Taxation revenue was \$10.9 billion, or 45 per cent of the revised budget estimate. Taxation revenue is influenced by seasonal factors, such as land tax revenue recognised in the March quarter and the Fire Services Property Levy recognised in the first quarter of the financial year.

Aside from these timing factors, taxation revenue slightly increased when compared to the same period last year. This was largely due to an increase in payroll tax, gambling taxes and growth areas infrastructure contributions as a result of strong development activity in outer growth areas. These increases were partially offset by lower land transfer duty resulting from the current downturn in the Victorian property market.

Grant revenue was \$15.8 billion, or 47 per cent of the revised full year budget estimate. This was slightly below the pro rata revised budget, primarily due to the timing of grants from the Commonwealth, which are expected to increase in the second half of the year.

Compared to the same period last year, grant revenue increased by \$1.6 billion. This was mainly due to growth in GST grants resulting from Victoria's increased share of the population, and adjusted Commonwealth funding associated with increased National Health Reform program activity.

Dividends and income tax equivalent revenue for the half year was 30 per cent of the revised full year budget estimate, which primarily reflects the timing of dividends and income tax equivalent revenue from the PFC sector.

Revenue from the sale of goods and services for the half year was \$3.8 billion, or 51 per cent of the revised full year revised budget estimate, in line with expectations.

The other sources of general government revenue represent a relatively small component of total revenue.

Expenses

Total expenses were \$32.3 billion, or 48 per cent of the revised full year budget estimate.

Employee expenses were slightly under pro rata for the first half of the year at \$12.3 billion, or 49 per cent of the revised full year budget estimate.

Compared to the same period last year, employee expenses were almost \$1 billion higher, mainly due to increased service delivery in the health, education and community safety sectors, as well as salary growth in line with enterprise bargaining agreements.

Grant expense for the first half of the year was \$6.0 billion, or 47 per cent of the revised full year budget estimate. This was slightly under pro rata mainly due to the timing of certain grant payments.

Compared to the same period last year, grant expense increased by \$917 million. The largest contributor to the increase is the ongoing transition to the National Disability Insurance Scheme.

Other operating expenses were \$9.9 billion, or 47 per cent of the revised full year budget estimate. This was lower than pro rata due to the timing of the purchase of services and supplies and consumables, where a larger portion of these operating expenses are expected in the second half of the year.

The other categories of general government operating expenses were generally in line with the pro rata revised full year budget estimates.

State of Victoria

Revenue

Total revenue for the State for the six months ended 31 December 2018 was \$37.7 billion which was 8 per cent higher than the same period in 2017-18. The general government sector contributed \$32.7 billion, with the balance coming from the PNFC and PFC sectors.

PNFC sector revenue increased by 6 per cent to \$5.6 billion. This was mainly due to an increase in grants revenue for Victorian Rail Track (VicTrack) and additional grants to the Director of Housing to improve crisis accommodation responses.

The PFC sector revenue increased by 28 per cent or \$1.1 billion to \$5.2 billion compared to the same period in 2017-18, mainly due to an increase in trust distributions received by insurers which form part of dividends and income tax equivalent revenue.

Expenses

Total expenses for the State increased by 8 per cent to \$37.5 billion compared to the same period last year. Of this, \$32.3 billion was incurred by the general government sector as previously highlighted.

Compared to the same period in 2017-18, total expenses in the PNFC sector increased by 4.3 per cent to \$5.7 billion. This was mainly due to an increase in other operating expenses, including an increase in the capital asset charge for VicTrack due to an increase in its asset base and expenditure by the Director of Housing to meet commitments under the Family Violence and Homelessness Package.

For the PFC sector, total expenses were \$5.1 billion. This was an increase of 5 per cent compared to the same period in 2017-18. The change in expenses was mainly driven by an increase in grant expenses and other operating expenses from the Transport Accident Commission due to higher claim costs.

Net result from transactions

The net result from transactions for the State for the six months to December 2018 was a surplus of \$198 million.

It is important to note that the net result from transactions measure does not include unrealised investment income earned or portfolio revaluations for the State's insurers as these impacts are disclosed as 'other economic revenue' below the line, as required by accounting standards. Accordingly, it is not a meaningful measure of performance at the whole of state level. These impacts are included in the State's net result.

Net result and other economic flows

The net result for the State is derived by adding other economic flows to the net result from transactions. For the six months to 31 December 2018, other economic flows were negative \$4.9 billion which contributed to a negative net result of \$4.7 billion.

Other economic flows included in the net result of the State comprise accounting and actuarial revaluations that impact the valuation of assets and liabilities, including:

- movements mainly relating to the provisioning for doubtful debts in the general government sector;
- movements in the valuation of financial liabilities due to a decrease in bond rates; and
- lower than forecast investment performance in equity markets by PFC entities.

FINANCIAL POSITION

Table 1.2: Summary balance sheet as at 31 December ^(a) (\$ million)

	State of Victoria			General government sector		
	Jun 2018	Dec 2018	Actual movement	Jun 2018	Dec 2018	Actual movement
Assets						
Financial assets	58 024	56 769	(1 255)	127 717	125 281	(2 436)
Non-financial assets	265 090	268 473	3 383	136 577	138 238	1 662
Total assets	323 114	325 242	2 129	264 294	263 519	(775)
Liabilities						
Superannuation	25 233	26 627	1 394	25 205	26 600	1 396
Borrowings	49 771	50 564	794	33 506	32 974	(532)
Other liabilities	60 170	65 995	5 825	21 467	22 379	913
Total liabilities	135 173	143 186	8 013	80 178	81 954	1 776
Net assets	187 941	182 056	(5 884)	184 116	181 565	(2 551)

Note:

(a) This is an abbreviated balance sheet. The full consolidated and disaggregated balance sheet is reported in Chapter 2.

State of Victoria

During the period to 31 December 2018, the net assets for the State of Victoria decreased by \$5.9 billion. The total assets of the State increased by \$2.1 billion mainly driven by the significant investment in the State's capital program, offset by a decline in the financial assets in the PFC sector.

Total liabilities for the State increased by \$8.0 billion to \$143.2 billion. This increase was mainly due to an increase in other liabilities, superannuation liabilities and borrowings.

The increase in other liabilities is due to an increase in unearned premium income for WorkSafe, an increase in claims liabilities for all the insurers, and the unearned revenue from the upfront receipt of proceeds from the commercialisation of the land titles and registry functions of Land Use Victoria in September 2018.

CASH FLOW

Table 1.3 outlines the use of cash resources. It summarises cash generated through the operations of government departments and other general government sector agencies, and how the cash has been invested in fixed assets.

A detailed cash flow statement is provided in Chapter 2.

Table 1.3: Application of cash resources for the general government sector ^(a) (\$ million)

	2018-19 <i>actual</i> <i>to Dec</i>	2018-19 <i>revised</i> <i>estimate</i>
Net result from transactions – net operating balance	365	2 241
Add back: Non-cash revenues and expenses (net) ^(b)	3 767	4 914
Net cash flows from operating activities	4 132	7 155
Less:		
Net investment in fixed assets		
Purchases of non-financial assets	4 851	9 361
Net cash flows from investments in financial assets for policy purposes	(886)	(1 263)
Sales of non-financial assets	(84)	(365)
Net investment in fixed assets	3 881	7 733
Finance leases ^(c)	39	451
Other investment activities (net)	1 223	1 481
Decrease/(increase) in net debt	(1 012)	(2 510)

Notes:

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

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

(c) *The 2018-19 estimate relates to the High Capacity Metro Trains and Western Roads Upgrade.*

Infrastructure investment

The State's infrastructure program supports growing community needs and ongoing productivity improvement.

For the six months to 31 December 2018, investment in fixed assets by the State totalled \$6.0 billion.

The Government's infrastructure scorecard as at 31 December 2018

Major projects under procurement or in progress include:

- Ballarat Base Hospital expansion and redevelopment;
- Casey Hospital expansion;
- Caulfield to Dandenong conventional signalling and power infrastructure upgrade;
- Chandler Highway upgrade;
- Chisholm Road Prison Project;
- City Loop fire and safety upgrade (Stage 2) and intruder alarm;
- Community Safety Statement (Police Assistance Line/Online reporting);
- Courts case management system;
- Cranbourne-Pakenham and Sunbury line upgrade;
- Drysdale Bypass and High Street upgrades;
- Echuca-Moama Bridge;
- Electronic medical records in Parkville;
- Family violence information sharing system reform (Central Information Point);
- Frankston line stabling;
- Goulburn-Murray Water Connections Project (Northern Victoria Irrigation Renewal Project);
- Goulburn Valley Health redevelopment;
- High Capacity Metro Trains;
- Hurstbridge Corridor upgrade – Stage 1;
- Joan Kirner Women's and Children's Hospital;
- Level Crossing Removal Program;
- M80 Ring Road upgrade:
 - Sunshine Avenue to Calder Freeway;
 - Princes Freeway to Western Highway;
 - Sydney Road to Edgars Road; and
 - Plenty Road to Greensborough Highway.
- Melbourne Park redevelopment – Stages 2 and 3;
- Mernda Rail Extension;
- Metro Tunnel;
- Metropolitan Network Modernisation program;
- Mordialloc Bypass;
- More E-Class trams and infrastructure;
- Murray Basin Rail Project;
- New E-Class trams;
- New youth justice facility;
- Non-urban train radio renewal;

- North East Link;
- Northern Hospital inpatient expansion – Stage 2;
- Princes Highway West duplication project – Winchelsea to Colac;
- Public housing renewal program;
- Public Safety – Police Response (Intelligence capability);
- Public Safety – Police Response (Mobile technology solution);
- Regional rail infrastructure and new regional trains;
- Regional Rail Revival;
- Royal Victorian Eye and Ear Hospital redevelopment;
- Shepparton Line Upgrade – Stage 2;
- Suburban Roads Upgrade;
- The new Footscray Hospital;
- Thompsons Road duplication;
- Tram procurement and supporting infrastructure;
- Victorian Heart Hospital;
- Victorian Infringement Enforcement and Warrant System;
- West Gate Tunnel Project;
- Western Highway duplication – Ballarat to Stawell;
- Western Roads Upgrade; and
- Yan Yean Road duplication.

FINANCIAL SUSTAINABILITY

General government sector

Table 1.4 shows general government sector net debt increased by \$1.0 billion to \$21.0 billion as at 31 December 2018. This is consistent with expectations, and reflects the Government's significant infrastructure program. The ratio of net debt to GSP has remained at 4.6 per cent.

Overall, net financial liabilities increased during the period due to the increase in net debt and a \$1.4 billion increase in the superannuation liability due to the negative investment market performance

in the six months to 31 December 2018. There was also a \$2.6 billion increase in other liabilities primarily resulting from the unearned income associated with the upfront receipt of the proceeds from the commercialisation of the land titles and registry functions of Land Use Victoria.

Over the period to 31 December 2018, the ratio of net financial liabilities to GSP increased from 12.5 per cent to 12.9 per cent.

Table 1.4: General government sector net debt and net financial liabilities as at 31 December (\$ million)

	Opening 1 July 2018	Closing 31 Dec 2018	Actual movement	% change
Assets				
Cash and deposits	6 257	4 567	(1 690)	(27)
Advances paid	10 019	8 918	(1 101)	(11)
Investment, loans and placements	3 928	3 965	37	1
Total	20 204	17 450	(2 753)	(14)
Liabilities				
Deposits held and advances received	6 700	5 491	(1 209)	(18)
Borrowings	33 506	32 974	(532)	(2)
Total	40 207	38 465	(1 741)	(4)
Net debt ^(a)	20 003	21 015	1 012	5
Superannuation liability	25 205	26 600	1 396	6
Net debt plus superannuation liabilities	45 208	47 615	2 407	5
Other liabilities ^(b)	8 505	11 098	2 592	30
Net financial liabilities ^(c)	53 713	58 713	5 000	9
				(per cent)
Net debt to GSP ^(d)	4.6	4.6		
Net debt plus superannuation liability to GSP ^(d)	10.5	10.5		
Net financial liabilities to GSP ^(d)	12.5	12.9		

Notes:

(a) The sum of borrowings, deposits held and advances received less the sum of cash and deposits, advances paid, and investments, loans and placements.

(b) Includes other employee entitlements, provisions and other liabilities, less receivables and investments accounted for using the equity method.

(c) Total liabilities less financial assets (excluding investments in other sector entities).

(d) Ratios to GSP may vary from publications year-to-year due to revisions to the ABS GSP data. The ratios as at 31 December 2018 reflect the 2018-19 GSP forecast growth rate for the full year.

Non-financial public sector

Table 1.5 includes several key indicators to assess financial sustainability of the NFPS (comprising the general government and the PNFC sectors), which is significant to the State's credit rating.

Table 1.5: Non-financial public sector net debt and net financial liabilities as at 31 December (\$ million)

	Opening 1 July 2018	Closing 31 Dec 2018	Actual movement	% change
Assets				
Cash and deposits	7 676	5 838	(1 837)	(24)
Advances paid	378	389	12	3
Investment, loans and placements	5 208	5 220	11	..
Total	13 262	11 447	(1 814)	(14)
Liabilities				
Deposits held and advances received	1 570	1 446	(124)	(8)
Borrowings	45 878	45 602	(276)	(1)
Total	47 448	47 049	(400)	(1)
Net debt ^(a)	34 187	35 601	1 415	4
Superannuation liability	25 233	26 627	1 394	6
Net debt plus superannuation liabilities	59 420	62 228	2 809	5
Other liabilities ^(b)	17 551	19 748	2 198	13
Net financial liabilities ^(c)	76 971	81 977	5 006	7
				(per cent)
Net debt to GSP ^(d)	7.9	7.8		
Net debt plus superannuation liability to GSP ^(d)	13.8	13.7		
Net financial liabilities to GSP ^(d)	17.9	18.1		

Notes:

(a) The sum of borrowings, deposits held and advances received less the sum of cash and deposits, advances paid, and investments, loans and placements.

(b) Includes other employee entitlements, provisions and other liabilities, less receivables and investments accounted for using the equity method.

(c) Total liabilities less financial assets (excluding investments in other sector entities).

(d) Ratios to GSP may vary from publications year-to-year due to revisions to the ABS GSP data. The ratios as at 31 December 2018 reflect the 2018-19 GSP forecast growth rate for the full year.

For the six months to 31 December 2018, the NFPS net debt increased by \$1.4 billion. This increase was mainly due to a decrease in cash and deposits by \$1.8 billion, which was mainly applied towards the State's capital investment program.

The ratio of NFPS net financial liabilities to GSP has increased from 17.9 per cent to 18.1 per cent at the end of the period. The ratio of net debt to GSP has declined from 7.9 per cent to 7.8 per cent at the end of the period.

CHAPTER 2 – MID-YEAR FINANCIAL REPORT

CONSOLIDATED COMPREHENSIVE OPERATING STATEMENT

For the six months ended 31 December

(\$ million)

	Notes	State of Victoria		General government sector	
		2018	2017	2018	2017
Revenue from transactions					
Taxation revenue	2.1	10 734	10 524	10 945	10 708
Interest revenue		339	337	417	415
Dividends, income tax equivalent and rate equivalent revenue	2.2	1 845	867	330	433
Sales of goods and services	2.3	7 683	7 338	3 849	3 637
Grant revenue	2.4	15 338	14 119	15 801	14 227
Other revenue	2.5	1 755	1 599	1 348	1 170
Total revenue from transactions		37 694	34 783	32 689	30 591
Expenses from transactions					
Employee expenses		12 883	11 875	12 294	11 296
Net superannuation interest expense	3.2	347	360	347	360
Other superannuation	3.2	1 460	1 328	1 382	1 255
Depreciation	4.2	2 535	2 478	1 369	1 312
Interest expense	5.4	1 326	1 346	1 033	1 009
Grant expense	3.3	4 142	3 446	5 981	5 064
Other operating expenses	3.4	14 802	13 905	9 919	9 344
Total expenses from transactions	3.5, 3.6	37 496	34 739	32 324	29 642
Net result from transactions – net operating balance		198	44	365	950
Other economic flows included in net result					
Net gain/(loss) on disposal of non-financial assets		(58)	34	(50)	21
Net gain/(loss) on financial assets or liabilities at fair value		(2 966)	1 583	(199)	39
Share of net profit/(loss) from associates/joint venture entities		..	38	..	..
Other gains/(losses) from other economic flows	9.2	(1 912)	371	(305)	(141)
Total other economic flows included in net result		(4 936)	2 026	(554)	(81)
Net result		(4 738)	2 070	(189)	868
Other economic flows – other comprehensive income					
Items that will not be reclassified to net result					
Changes in non-financial assets revaluation surplus		(6)	27	2	(2)
Remeasurement of superannuation defined benefits plans	3.2	(1 081)	763	(1 091)	759
Other movements in equity		11	(161)	14	(107)
Items that may be reclassified subsequently to net result					
Net gain/(loss) on financial assets at fair value		(70)	49	(48)	25
Net gain/(loss) on equity investments in other sector entities at proportional share of the carrying amount of net assets		..	..	(1 240)	686
Total other economic flows – other comprehensive income		(1 146)	679	(2 362)	1 360
Comprehensive result – total change in net worth		(5 884)	2 749	(2 551)	2 229
KEY FISCAL AGGREGATES					
Net operating balance		198	44	365	950
Less: Net acquisition of non-financial assets from transactions	9.1	3 455	3 484	1 664	1 751
Net lending/(borrowing)		(3 258)	(3 439)	(1 299)	(801)

The accompanying notes form part of these financial statements.

CONSOLIDATED BALANCE SHEET

As at 31 December

(\$ million)

	Notes	State of Victoria		General government sector	
		Dec 2018	Jun 2018	Dec 2018	Jun 2018
Assets					
Financial assets					
Cash and deposits	5.2	6 770	6 494	4 567	6 257
Advances paid	5.3	389	378	8 918	10 019
Receivables	6.2	8 989	8 764	5 738	6 208
Investments, loans and placements	5.3	40 568	42 336	3 965	3 928
Investments accounted for using the equity method		53	53	53	53
Investments in other sector entities		..	..	102 040	101 253
Total financial assets		56 769	58 024	125 281	127 717
Non-financial assets					
Inventories	6.1	1 078	1 050	177	175
Non-financial assets held for sale		406	462	361	389
Land, buildings, infrastructure, plant and equipment	4.1	263 552	260 578	135 411	134 141
Other non-financial assets	4.3	3 437	3 001	2 289	1 872
Total non-financial assets		268 473	265 090	138 238	136 577
Total assets	3.6	325 242	323 114	263 519	264 294
Liabilities					
Deposits held and advances received		2 190	2 331	5 491	6 700
Payables	6.3	20 984	18 243	8 694	6 713
Borrowings	5.1	50 564	49 771	32 974	33 506
Employee benefits	3.1	7 668	7 570	7 141	7 020
Superannuation	6.4	26 627	25 233	26 600	25 205
Other provisions	6.5	35 154	32 025	1 053	1 034
Total liabilities		143 186	135 173	81 954	80 178
Net assets		182 056	187 941	181 565	184 116
Accumulated surplus/(deficit)		72 354	78 125	51 256	52 574
Reserves		109 702	109 816	130 310	131 543
Net worth		182 056	187 941	181 565	184 116
FISCAL AGGREGATES					
Net financial worth		(86 417)	(77 149)	43 327	47 540
Net financial liabilities		86 417	77 149	58 713	53 713
Net debt		5 027	2 894	21 015	20 003

The accompanying notes form part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 31 December

(\$ million)

	Notes	State of Victoria		General government sector	
		2018	2017	2018	2017
Cash flows from operating activities					
Receipts					
Taxes received		11 432	10 815	11 644	10 999
Grants		15 299	14 118	15 805	14 226
Sales of goods and services ^(a)		12 090	9 058	6 922	4 077
Interest received		216	231	412	416
Dividends, income tax equivalent and rate equivalent receipts		1 845	867	380	477
Other receipts		1 008	1 225	872	909
Total receipts		41 890	36 314	36 034	31 104
Payments					
Payments for employees		(12 819)	(11 813)	(12 204)	(11 228)
Superannuation		(1 495)	(1 394)	(1 425)	(1 318)
Interest paid		(1 299)	(1 334)	(1 021)	(990)
Grants and subsidies		(4 165)	(3 712)	(6 135)	(5 455)
Goods and services ^(a)		(15 104)	(14 172)	(10 703)	(9 984)
Other payments		(414)	(393)	(414)	(393)
Total payments		(35 296)	(32 818)	(31 902)	(29 368)
Net cash flows from operating activities		6 594	3 497	4 132	1 736
Cash flows from investing activities					
Cash flows from investments in non-financial assets					
Purchases of non-financial assets	3.5, 3.6	(5 999)	(5 625)	(4 851)	(4 570)
Sales of non-financial assets		164	164	84	96
Net cash flows from investments in non-financial assets		(5 835)	(5 462)	(4 767)	(4 473)
Net cash flows from investments in financial assets for policy purposes		(51)	(17)	886	718
Sub-total		(5 887)	(5 478)	(3 881)	(3 756)
Net cash flows from investments in financial assets for liquidity management purposes		(745)	2 772	(158)	(426)
Net cash flows from investing activities		(6 632)	(2 707)	(4 039)	(4 181)
Cash flows from financing activities					
Advances received (net)		(104)	25	(1 174)	(937)
Net borrowings		453	(424)	(573)	1 744
Deposits received (net)		(37)	(424)	(35)	101
Net cash flows from financing activities		312	(823)	(1 782)	908
Net increase/(decrease) in cash and cash equivalents		274	(33)	(1 690)	(1 537)
Cash and cash equivalents at beginning of reporting period		6 494	5 868	6 257	5 530
Cash and cash equivalents at end of the reporting period ^(b)	5.2	6 768	5 835	4 567	3 992
FISCAL AGGREGATES					
Net cash flows from operating activities		6 594	3 497	4 132	1 736
Net cash flows from investments in non-financial assets		(5 835)	(5 462)	(4 767)	(4 473)
Cash surplus/(deficit)		758	(1 965)	(635)	(2 738)

The accompanying notes form part of these financial statements.

Notes:

(a) These items are inclusive of goods and services tax.

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 31 December

(\$ million)

<i>State of Victoria</i>	<i>Accumulated surplus/(deficit)</i>	<i>Contributions by owners</i>	<i>Non-financial assets revaluation surplus</i>	<i>Investment in other sector entities revaluation surplus</i>	<i>Other reserves</i>	<i>Total</i>
2018						
Balance at 1 July 2018	78 125	..	108 122	..	1 694	187 941
Net result for the year	(4 738)	..	..	..	..	(4 738)
Other comprehensive income for the year	(1 143)	..	(6)	..	3	(1 146)
Transfer to/(from) accumulated surplus	110	..	(110)	..	..	..
Total equity as at 31 December 2018	72 354	..	108 006	..	1 696	182 056
2017						
Balance at 1 July 2017 ^(a)	75 141	..	95 472	..	1 620	172 234
Net result for the year	2 070	..	..	..	..	2 070
Other comprehensive income for the year	569	..	27	..	82	679
Transfer to/(from) accumulated surplus	26	..	(26)	..	..	..
Total equity as at 31 December 2017 ^(a)	77 806	..	95 474	..	1 703	174 983

The accompanying notes form part of these financial statements.

Note:

(a) The 1 July 2017 and 31 December 2017 comparative figures have been restated to reflect the reclassification of \$425 million from the non-financial assets revaluation surplus to other reserves relating to accumulated revenue dedicated to the purchase of assets in the National Gallery of Victoria.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY *(continued)*

For the six months ended 31 December

(\$ million)

<i>General government sector</i>	<i>Accumulated surplus/(deficit)</i>	<i>Non-financial assets revaluation surplus</i>	<i>Investment in other sector entities revaluation surplus</i>	<i>Other reserves</i>	<i>Total</i>
2018					
Balance at 1 July 2018	52 574	64 084	66 351	1 108	184 116
Net result for the year	(189)	..	..	..	(189)
Other comprehensive income for the year	(1 130)	2	(1 240)	5	(2 362)
Transfer to/(from) accumulated surplus	..	..	..	..	..
Total equity as at 31 December 2018	51 256	64 086	65 111	1 113	181 565
2017					
Balance at 1 July 2017 ^(a)	51 464	55 320	60 149	1 094	168 027
Net result for the year	868	..	..	..	868
Other comprehensive income for the year	633	(2)	686	44	1 360
Transfer to/(from) accumulated surplus	..	..	..	..	..
Total equity as at 31 December 2017 ^(a)	52 965	55 318	60 835	1 137	170 256

The accompanying notes form part of these financial statements.

Note:

(a) The 1 July 2017 and 31 December 2017 comparative figures have been restated to reflect the reclassification of \$425 million from the non-financial assets revaluation surplus to other reserves relating to accumulated revenue dedicated to the purchase of assets in the National Gallery of Victoria.

1. ABOUT THIS REPORT

Basis of preparation

This Mid-Year Financial Report presents the unaudited general purpose consolidated interim financial statements of the State of Victoria (the State) and the Victorian general government sector. The report also incorporates the quarterly financial report of the general government sector for the quarter ended 31 December 2018.

The accounting policies applied are consistent with those applied in the financial statements published in the *2017-18 Financial Report* for the State. Full presentation and disclosure of transition to AASB 9 *Financial Instruments* will be reflected in the *2018-19 Financial Report*. This interim financial report does not include all the notes normally included with the annual financial report and should be read in conjunction with the *2017-18 Financial Report*.

Statement of compliance

These financial statements have been prepared in the manner and form as determined by the Treasurer, in accordance with the *Financial Management Act 1994* and applicable Australian Accounting Standards (AASs) which include Interpretations issued by the Australian Accounting Standards Board (AASB). In particular, they are presented consistent with the requirements of AASB 1049 *Whole of Government and General Government Sector Financial Reporting* (AASB 1049) and AASB 134 *Interim Financial Reporting* (AASB 134).

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

The financial statements have also applied reporting requirements from the *Australian System of Government Finance Statistics: Concepts, Sources and Methods (2015)* manual released by the Australian Bureau of Statistics.

The *2018-19 Mid-Year Financial Report* was authorised for issue by the Treasurer on 15 March 2019.

Basis of accounting and measurement

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

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

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

Reporting entity

The State of Victoria reporting entity includes government departments, public non-financial corporations (PNFCs), public financial corporations (PFCs) and other government controlled entities. The State and most of its subsidiary entities are not-for-profit entities. The State controlled entities are classified into various sectors according to the System of National Accounts as described below.

General government

The Victorian general government sector includes all government departments, offices and other bodies engaged in providing services free of charge or at prices significantly below their cost of production.

The general government sector is not a separate reporting entity but represents a sector within the State of Victoria reporting entity and is reported in accordance with AASB 1049. The primary function of entities within the general government sector is to provide public services (outputs), which are mainly non-market in nature, for the collective consumption of the community, and involve the transfer or redistribution of revenue, which is financed mainly through taxes and other compulsory levies. Unless otherwise noted, accounting policies applied by the State of Victoria apply equally to the general government sector.

Public non-financial corporations

The primary function of entities in the PNFC sector is to provide goods and services in a competitive market that is non-regulatory and non-financial in nature. Such entities are financed mainly through sales to the consumer of these goods and services.

Public financial corporations

The PFC sector comprises entities engaged primarily in providing financial intermediation services or auxiliary financial services and which have one or more of the following characteristics:

- they perform a central borrowing function;
- they provide insurance services;
- they accept call, term or savings deposits; or
- they have the ability to incur liabilities and acquire financial assets in the market on their own account.

Non-financial public sector

The non-financial public sector (NFPS) consolidates the general government and PNFC sectors.

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

Basis of consolidation

The consolidated financial statements of the State incorporate assets and liabilities of all reporting entities it controlled as at 31 December 2018 and the revenue and expenses of controlled entities for the part of the reporting period in which control existed.

The consolidated financial statements of the Victorian general government sector incorporate assets and liabilities, revenue and expenses of entities classified as general government. Entities in the PNFC and 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 the PNFC sector and PFC sector entities before consolidation eliminations. Where the carrying amount of the entity's net assets before consolidation eliminations of an entity within the sector is less than zero, the amount is not included in the general government sector, but the net liabilities will be consolidated at the State level. Any change in the carrying amount of the investment from period to period is accounted for as if the change in carrying amount is a change in fair value.

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

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

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

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

Details of significant changes to entities consolidated by the State are shown in Note 9.3.

Prospective accounting and reporting changes

Certain new and revised accounting standards have been issued but are not effective for the 2018-19 reporting period. These accounting standards have not been applied to the *Mid-Year Financial Report*.

The State is reviewing its existing policies and assessing the potential implications of these accounting standards which include:

- AASB 15 *Revenue from Contracts with Customers*, operative for reporting periods commencing 1 January 2019 for not-for-profit entities. The core principle of AASB 15 is to require an entity to recognise revenue when the entity satisfies a performance obligation by transferring a promised good or service to a customer. The changes in revenue recognition will result in changes to the timing and amount of revenue recognised. Revenue from grants that are provided under an enforceable agreement that have sufficiently specific obligations, will now be deferred and recognised as the performance obligations are satisfied.

In September 2018, AASB 2018-4 *Amendments to Australian Accounting Standards – Australian Implementation Guidance for Not-for-profit Sector Licensors* (AASB 2018-4) was released, providing guidance on the application of AASB 15 to the issuing of licences by public sector entities.

- AASB 16 *Leases*, operative for reporting periods commencing 1 January 2019. The key change introduced by AASB 16 includes the requirement to recognise most operating leases on the balance sheet, which will result in an increase in net debt.
- AASB 17 *Insurance Contracts*: operative on or after 1 January 2021, will supersede AASB 4 *Insurance Contracts*. AASB 17 eliminates inconsistencies and weaknesses in existing practices by providing a

single principle-based framework to account for all types of insurance contracts, including reissuance contracts that an insurer holds. The standard also provides requirements for presentation and disclosure to enhance comparability between entities. The standard currently does not apply to the not-for-profit public sector entities.

- AASB 1058 *Income of Not-for-Profit Entities*, operative for reporting periods commencing 1 January 2019. This standard will replace AASB 1004 *Contributions* and establishes revenue recognition principles for transactions where the consideration to acquire an asset is significantly less than fair value to enable not-for-profit entities to further their objectives.

Revenue from capital grants will be deferred and recognised progressively as the asset is being constructed.

- AASB 1059 *Service Concession Arrangements: Grantors*, operative for reporting periods commencing 1 January 2020, with early adoption permitted. This standard prescribes the accounting treatment for public private partnership (PPP) arrangements involving a private sector operator providing public services related to a service concession asset on behalf of the State, for a specified period of time. Note 5.6 of the *2017-18 Financial Report* for the State of Victoria defines the State's two main forms of PPP arrangements. For social infrastructure PPP arrangements, this will result in an earlier recognition of financial liabilities (increase in net debt), progressively over the construction period rather than at completion date. For economic infrastructure PPP arrangements that were previously not on the balance sheet, the standard will require recognition of these arrangements on-balance sheet. The liabilities associated with these arrangement will be recognised as accrued revenue which does not form part of the calculation of net debt.

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.

Rounding

All amounts in the financial report have been rounded to the nearest \$1 million unless otherwise stated. Figures in this financial report may not add due to rounding.

2. HOW FUNDS ARE RAISED

Introduction

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

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

Structure

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2.1 Taxation revenue

(\$ million)

	State of Victoria		General government sector	
	2018	2017	2018	2017
Taxes on employers' payroll and labour force	3 146	2 980	3 185	3 018
Taxes on immovable property				
Land tax	100	109	123	126
Fire Services Property Levy ^(a)	642	659	642	659
Congestion levy ^(b)	1	(4)	1	(4)
Metropolitan improvement levy	186	171	186	171
Total taxes on property	929	935	952	952
Gambling taxes				
Public lotteries	256	212	256	212
Electronic gaming machines	584	561	584	561
Casino	111	114	111	114
Racing	37	37	37	37
Other	15	14	15	14
Financial and capital transactions				
Land transfer duty	3 309	3 484	3 309	3 484
Metropolitan planning levy	12	14	12	14
Financial accommodation levy	..	..	74	74
Growth areas infrastructure contribution	132	101	132	101
Levies on statutory corporations	..	..	75	53
Taxes on insurance	733	683	733	683
Total taxes on the provision of goods and services	5 188	5 221	5 336	5 348
Motor vehicle taxes				
Vehicle registration fees	839	792	840	793
Duty on vehicle registrations and transfers	463	451	463	451
Liquor licence fees	17	15	17	15
Other	152	131	152	131
Total taxes on the use of goods and performance of activities	1 471	1 389	1 472	1 390
Total taxation revenue	10 734	10 524	10 945	10 708

Notes:

(a) The Government set the 2017-18 and 2018-19 Fire Services Property Levy rates to collect the amount that was budgeted in 2016-17 (\$662 million). In the 2018-19 Budget, the Government decided to return the 2017-18 over-collection through reduced rates for the 2018-19 levy year.

(b) The negative congestion levy revenue for 2017-18 to date represents a portion of congestion levy revenues accrued in 2016-17 that were written off in 2017-18 due to changes in car park ownership or circumstances of affected taxpayers.

2.2 Dividends, income tax equivalent and rate equivalent revenue

(\$ million)

	State of Victoria		General government sector	
	2018	2017	2018	2017
Dividends from PFC sector	..	..	7	94
Dividends from PNFC sector	..	..	158	228
Dividends from non-public sector	1 845	867	29	19
Dividends	1 845	867	194	341
Income tax equivalent revenue from PFC sector ^(a)	..	..	24	(3)
Income tax equivalent revenue from PNFC sector	..	..	112	94
Income tax equivalent revenue	..	..	136	91
Local government rate equivalent revenue	..	..	..	..
Total dividends, income tax equivalent and rate equivalent revenue	1 845	867	330	433

Note:

(a) The negative revenue figure can be attributed to the finalisation of income tax assessments by the Australian Taxation Office, resulting in some revenue that was accrued in 2016-17 being revised.

Dividends by entity

(\$ million)

	General government sector	
	2018	2017
Public financial corporations		
Transport Accident Commission ^(a)	..	..
Treasury Corporation of Victoria	..	83
State Trustees Ltd	..	5
Victorian Funds Management Corporation	7	7
Dividends from PFC sector	7	94
Public non-financial corporations		
City West Water Corporation	20	48
Melbourne Water Corporation	24	51
South East Water Corporation	59	82
Yarra Valley Water Corporation	44	31
Development Victoria	9	15
Others	1	..
Dividends from PNFC sector	158	228

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 (AASB 1023).

2.3 Sales of goods and services

(\$ million)

	State of Victoria		General government sector	
	2018	2017	2018	2017
Motor vehicle regulatory fees	117	110	117	110
Other regulatory fees	301	308	294	301
Sale of goods	289	313	40	37
Provision of services	6 711	6 354	2 239	2 130
Rental	155	140	39	35
Refunds and reimbursements	109	112	1	2
Inter-sector capital asset charge	..	..	1 119	1 022
Total sales of goods and services	7 683	7 338	3 849	3 637

2.4 Grant revenue

(\$ million)

	State of Victoria		General government sector	
	2018	2017	2018	2017
General purpose grants	8 545	7 710	8 545	7 710
Specific purpose grants for on-passing	1 822	1 735	1 822	1 735
Specific purpose grants	4 967	4 672	4 967	4 671
Total	15 335	14 116	15 334	14 116
Other contributions and grants	4	3	467	112
Total grant revenue	15 338	14 119	15 801	14 227

2.5 Other revenue

(\$ million)

	State of Victoria		General government sector	
	2018	2017	2018	2017
Fair value of assets received free of charge or for nominal consideration	185	188	30	33
Fines	382	346	382	345
Royalties	62	65	50	50
Donations and gifts	126	162	85	128
Other non-property rental	39	46	17	14
Other revenue – Education	299	329	299	329
Other revenue – Health	90	21	90	21
Other miscellaneous revenue	573	443	395	251
Total other revenue	1 755	1 599	1 348	1 170

3. HOW FUNDS ARE SPENT

Introduction

This section accounts for the major components of expenditure incurred by the State towards the operating activities (expenses from transactions) and on capital or infrastructure projects during the year, as well as any related obligations outstanding as at 31 December 2018.

Structure

3.1	Employee expenses and provision for outstanding employee benefits.....	22
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3.1 Employee expenses and provision for outstanding employee benefits

Employee expenses (operating statement)

Employee expenses in the operating statement are a major component of operating costs and include all costs related to employment, including wages and salaries, fringe benefits tax, leave entitlements and redundancy payments. The majority of employee expenses in the operating statement are wages and salaries. Increases in employee expenses are mainly attributable to increased service delivery in the health, education, and community safety sectors as well as salary growth in line with enterprise bargaining agreements.

Employee expenses (balance sheet)

As part of annual operations, the State provides for benefits accruing to employees but payable in future periods in respect of wages and salaries, annual leave and long service leave, and related on-costs for services rendered to the reporting date. In measuring employee benefits, consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted to reflect the estimated timing and amount of benefit payment. The table below shows the key components of this provision at 31 December and 30 June.

Total provision for employee benefits and on-costs at 31 December

(\$ million)

	State of Victoria		General government sector	
	Dec 2018	Jun 2018	Dec 2018	Jun 2018
Current				
Accrued salaries and wages	622	633	598	592
Other employee benefits	95	113	84	87
Annual leave	1 743	1 775	1 590	1 615
Long service leave	4 253	4 130	4 004	3 888
Total current employee benefits and on-costs ^(a)	6 713	6 651	6 276	6 182
Non-current				
Accrued salaries and wages	15	18	..	..
Long service leave	939	901	865	837
Total non-current employee benefits and on-costs ^(a)	954	919	865	837
Total employee benefits and on-costs	7 668	7 570	7 141	7 020

Note:

(a) The June 2018 comparative figures have been reclassified to reflect more current information.

3.2 Superannuation expense recognised in the operating statement

(\$ million)

	State of Victoria	
	2018	2017
Defined benefit plans		
Net superannuation interest expense	347	360
Current service cost	509	471
Remeasurements:		
Expected return on superannuation assets excluding interest income	(524)	(479)
Other actuarial (gain)/loss on superannuation assets	1 707	(639)
Actuarial and other adjustments to unfunded superannuation liability	(102)	354
Total expense recognised in respect of defined benefit plans	1 938	68
Defined contribution plans		
Employer contributions to defined contribution plans	907	820
Other (including pensions)	44	38
Total expense recognised in respect of defined contribution plans	951	858
Total superannuation (gain)/expense recognised in operating statement	2 889	925
Represented by:		
Net superannuation interest expense	347	360
Other superannuation	1 460	1 328
Superannuation expense from transactions	1 807	1 689
Remeasurement recognised in other comprehensive income	1 081	(763)
Total superannuation costs recognised in operating statement	2 889	925

3.3 Grant expense

(\$ million)

	State of Victoria		General government sector	
	2018	2017	2018	2017
Current grant expense				
Commonwealth government	526	267	525	267
Local government (including grants for on-passing)	344	307	344	307
Private sector and not-for-profit on-passing	1 654	1 567	1 654	1 567
Other private sector and not-for-profit	1 373	1 103	1 324	1 071
Grants within the Victorian government	..	..	1 990	1 760
Grants to other state governments	12	13	12	13
Total current grant expense	3 910	3 256	5 850	4 984
Capital grant expense				
Local government (including grants for on-passing)	12	7	12	7
Private sector and not-for-profit on-passing	73	69	66	58
Grants within the Victorian government	..	..	22	6
Other grants	147	113	30	8
Total capital grant expense	232	190	131	80
Total grant expense	4 142	3 446	5 981	5 064

3.4 Other operating expenses

(\$ million)

	State of Victoria		General government sector	
	2018	2017	2018	2017
Purchase of supplies and consumables ^(a)	2 512	2 466	2 009	2 007
Cost of goods sold	128	141	17	11
Finance expenses and fees	240	241	21	20
Purchase of services ^(a)	7 384	6 885	6 679	6 146
Insurance claims expense	3 096	2 807	139	134
Maintenance	720	693	388	406
Operating lease payments	258	216	217	181
Other	463	455	449	440
Total other operating expenses	14 802	13 905	9 919	9 344

Note:

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

Purchase of supplies and consumables

(\$ million)

	State of Victoria		General government sector	
	2018	2017	2018	2017
Medicinal pharmacy and medical supplies ^(a)	779	763	779	763
Office supplies and consumables	107	129	100	122
Specialised operational supplies and consumables	123	100	83	73
Other purchase of supplies and consumables ^(a)	1 503	1 475	1 047	1 048
Total purchase of supplies and consumables	2 512	2 466	2 009	2 007

Note:

(a) The December 2017 comparative figures have been reclassified to reflect more current information.

Purchase of services

(\$ million)

	State of Victoria		General government sector	
	2018	2017	2018	2017
Service contracts	4 033	3 829	3 827	3 642
Accommodation/occupancy	512	446	447	390
Medical and client care services	194	167	194	167
Staff related expenses (non-labour related)	152	137	136	121
Other purchase of services	2 493	2 307	2 076	1 826
Total purchases of services	7 384	6 885	6 679	6 146

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

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

Total operating expenses and purchases of non-financial assets – by department (\$ million)

	Expenses from transactions		Purchases of non-financial assets	
	Dec 2018	Dec 2017	Dec 2018	Dec 2017
State of Victoria				
Economic Development, Jobs, Transport and Resources	7 673	7 044	3 069	3 041
Education and Training	8 909	8 420	857	546
Environment, Land, Water and Planning	4 682	4 234	1 043	761
Health and Human Services	13 843	12 699	646	526
Justice and Regulation	3 860	3 480	364	514
Premier and Cabinet	397	262	9	8
Treasury and Finance	8 660	8 216	52	58
Parliament	104	95	9	23
Courts	313	283	22	33
Regulatory bodies and other part budget funded agencies ^(a)	1 202	1 140	103	84
Total	49 644	45 873	6 174	5 593
<i>Less eliminations and adjustments ^(b)</i>	<i>(12 148)</i>	<i>(11 134)</i>	<i>(175)</i>	<i>32</i>
Grand total	37 496	34 739	5 999	5 625

General government sector				
Economic Development, Jobs, Transport and Resources	5 191	4 572	2 882	2 838
Education and Training	8 909	8 420	857	546
Environment, Land, Water and Planning	1 759	1 385	64	41
Health and Human Services	13 022	11 954	486	418
Justice and Regulation	3 761	3 387	363	513
Premier and Cabinet	384	251	9	8
Treasury and Finance	3 508	3 346	12	21
Parliament	104	95	9	23
Courts	313	283	22	33
Regulatory bodies and other part budget funded agencies ^(a)	1 202	1 140	103	84
Total	38 154	34 834	4 807	4 525
<i>Less eliminations and adjustments ^(b)</i>	<i>(5 830)</i>	<i>(5 192)</i>	<i>44</i>	<i>45</i>
Grand total	32 324	29 642	4 851	4 570

Notes:

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

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

3.6 Total operating expenses, purchases of non-financial assets and total assets – by classification of the functions of government ^(a)

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

Total operating expenses, purchases of non-financial assets and total assets – by COFOG (\$ million)

<i>State of Victoria</i>	<i>Expenses from transactions</i>		<i>Purchases of non-financial assets</i>		<i>Total assets</i>	
	<i>Dec 2018</i>	<i>Dec 2017</i>	<i>Dec 2018</i>	<i>Dec 2017</i>	<i>Dec 2018</i>	<i>Jun 2018</i>
General public services	6 325	6 247	67	86	4 445	3 252
Public order and safety	3 859	3 503	463	618	9 780	9 447
Economic affairs	798	637	41	25	1 354	1 378
Environmental protection	359	305	47	21	11 904	11 917
Housing and community amenities	2 524	2 364	940	869	49 675	49 285
Health	9 449	8 844	459	410	15 470	15 245
Recreation, culture and religion	834	723	118	60	13 596	13 502
Education	7 775	7 476	849	531	27 855	27 238
Social protection	3 058	2 698	156	133	30 698	30 780
Transport	3 416	3 229	2 849	2 837	106 452	104 452
Not allocated by purpose ^{(b)(c)}	(901)	(1 287)	11	35	54 014	56 620
Total	37 496	34 739	5 999	5 625	325 242	323 114

General government sector

General public services	2 010	1 868	27	50	2 243	2 259
Public order and safety	3 936	3 561	463	618	9 780	9 447
Economic affairs	836	678	43	25	1 292	1 314
Environmental protection	366	326	47	21	11 903	11 916
Housing and community amenities	992	849	32	15	1 797	1 817
Health	9 529	8 915	457	410	15 441	15 216
Recreation, culture and religion	438	337	32	35	7 335	7 347
Education	7 814	7 511	849	531	27 855	27 238
Social protection	2 717	2 367	38	37	2 630	2 580
Transport	4 049	3 589	2 819	2 782	58 200	57 659
Not allocated by purpose ^{(b)(c)}	(361)	(360)	45	45	125 044	127 501
Total	32 324	29 642	4 851	4 570	263 519	264 294

Notes:

(a) The COFOG framework has replaced the former Government Purpose Classification (GPC) framework under the new ABS GFS Manual. This was implemented for the first time in the 2018-19 Budget. Note 1.7.5 of Budget Paper No.5 of the 2018-19 Budget provides definitions and descriptions of the COFOG.

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

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

4. MAJOR ASSETS AND INVESTMENTS

Introduction

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

Structure

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- 4.2 Depreciation..... 28
- 4.3 Other non-financial assets..... 28

4.1 Total land, buildings, infrastructure, plant and equipment

(\$ million)

<i>Dec 2018</i>	<i>State of Victoria</i>			<i>General government sector</i>		
	<i>Gross carrying amount</i>	<i>Accumulated depreciation</i>	<i>Carrying amount</i>	<i>Gross carrying amount</i>	<i>Accumulated depreciation</i>	<i>Carrying amount</i>
Buildings	55 401	(4 490)	50 912	33 632	(2 847)	30 785
Leased buildings	6 462	(826)	5 636	6 277	(736)	5 541
Land and national parks	91 556	..	91 556	58 572	..	58 572
Infrastructure systems	71 693	(5 597)	66 096	1 735	(513)	1 222
Leased infrastructure systems	4 798	(475)	4 323	..	..	..
Plant, equipment and vehicles	13 190	(5 826)	7 365	6 798	(4 192)	2 606
Leased plant, equipment and vehicles	1 505	(409)	1 097	571	(294)	277
Roads and road infrastructure	42 722	(20 454)	22 268	42 616	(20 443)	22 173
Leased roads and road infrastructure	584	(33)	551	584	(33)	551
Earthworks	8 039	..	8 039	8 039	..	8 039
Cultural assets	5 891	(182)	5 709	5 828	(182)	5 646
Total land, buildings, infrastructure, plant and equipment	301 843	(38 291)	263 552	164 651	(29 240)	135 411

<i>Jun 2018</i>	<i>Gross carrying amount</i>			<i>Gross carrying amount</i>		
	<i>amount</i>	<i>Accumulated depreciation</i>	<i>Carrying amount</i>	<i>amount</i>	<i>Accumulated depreciation</i>	<i>Carrying amount</i>
Buildings	54 340	(3 778)	50 562	32 525	(2 293)	30 232
Leased buildings	6 416	(728)	5 688	6 242	(643)	5 600
Land and national parks	91 486	..	91 486	58 442	..	58 442
Infrastructure systems	68 500	(4 360)	64 140	1 840	(487)	1 353
Leased infrastructure systems	4 801	(436)	4 366	..	..	..
Plant, equipment and vehicles	13 259	(5 533)	7 726	6 561	(4 024)	2 538
Leased plant, equipment and vehicles	1 048	(335)	714	519	(279)	240
Roads and road infrastructure	41 732	(20 140)	21 592	41 627	(20 132)	21 496
Leased roads and road infrastructure	584	(28)	556	584	(28)	556
Earthworks	8 039	..	8 039	8 039	..	8 039
Cultural assets	5 882	(172)	5 709	5 818	(172)	5 646
Total land, buildings, infrastructure, plant and equipment	296 087	(35 510)	260 578	162 198	(28 058)	134 141

4.2 Depreciation

(\$ million)

	State of Victoria		General government sector	
	2018	2017	2018	2017
Buildings	809	822	573	576
Leased buildings	98	70	93	67
Infrastructure systems	708	671	26	17
Leased infrastructure systems	41	41	..	..
Plant, equipment and vehicles	431	436	270	256
Leased plant, equipment and vehicles	16	14	16	14
Roads and road infrastructure	314	306	312	305
Leased roads and road infrastructure	5	5	5	5
Cultural assets	10	10	10	10
Intangible produced assets	105	103	66	63
Total depreciation	2 535	2 478	1 369	1 312

4.3 Other non-financial assets

(\$ million)

	State of Victoria		General government sector	
	Dec 2018	Jun 2018	Dec 2018	Jun 2018
Intangible produced assets	3 244	3 143	2 009	1 946
Accumulated depreciation	(1 771)	(1 700)	(1 063)	(1 010)
Intangible non-produced assets	896	901	119	118
Accumulated amortisation	(284)	(276)	(42)	(39)
Total intangibles	2 084	2 070	1 022	1 015
Investment properties	194	194	186	186
Biological assets	58	58	2	2
Other assets	1 100	679	1 079	669
Total other non-financial assets	3 437	3 001	2 289	1 872

5. FINANCING STATE OPERATIONS

Introduction

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

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

Structure

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5.1 Borrowings

(\$ million)

	State of Victoria		General government sector	
	Dec 2018	Jun 2018	Dec 2018	Jun 2018
Current borrowings				
Domestic borrowings	2 118	4 932	4 127	3 613
Finance lease liabilities	450	469	266	285
Derivative financial instruments	567	337	9	9
Total current borrowings	3 135	5 738	4 403	3 907
Non-current borrowings				
Domestic borrowings	37 214	33 807	19 018	20 002
Foreign currency borrowings	139	133	..	..
Finance lease liabilities	9 604	9 736	9 448	9 490
Derivative financial instruments	473	356	105	107
Total non-current borrowings	47 430	44 032	28 572	29 599
Total borrowings	50 564	49 771	32 974	33 506

5.2 Cash flow information and balances

Reconciliation of cash and cash equivalents

(\$ million)

	State of Victoria		General government sector	
	Dec	Dec	Dec	Dec
	2018	2017	2018	2017
Cash	1 894	1 844	1 522	1 405
Deposits at call	4 876	3 992	3 045	2 587
Cash and cash equivalents	6 770	5 835	4 567	3 992
Bank overdraft	(2)	..	..	..
Balances as per cash flow statement	6 768	5 835	4 567	3 992

Reconciliation of net result to net cash flows from operating activities

(\$ million)

	State of Victoria		General government sector	
	Dec	Dec	Dec	Dec
	2018	2017	2018	2017
Net result	(4 738)	2 070	(189)	868
Non-cash movements				
Depreciation and amortisation	2 556	2 498	1 372	1 314
Revaluation of investments	2 462	(881)	73	(38)
Assets (received)/provided free of charge	(21)	(34)	29	3
Assets not previously/no longer recognised	(1)		(1)	
Revaluation of assets	11	3	1	3
Discount/premium on other financial assets/borrowings	(99)	(110)	1	1
Unrealised (gains)/losses on borrowings	46	(393)		
Discounting of assets and liabilities	(3)		(3)	
Movements included in investing and financing activities				
Net gain/loss from sale of investments	328	(358)	1	(1)
Net gain/loss from sale of non-financial assets	58	(34)	50	(21)
Realised gains/losses on borrowings	8	10		
Movements in assets and liabilities				
Increase/(decrease) in provision for doubtful debts	239	4	241	4
Increase/(decrease) in payables	3 098	803	2 290	(284)
Increase/(decrease) in employee benefits	97	42	121	49
Increase/(decrease) in superannuation	312	294	304	297
Increase/(decrease) in other provisions	3 133	298	23	(286)
(Increase)/decrease in receivables	(463)	(399)	230	121
(Increase)/decrease in other non-financial assets	(429)	(318)	(411)	(295)
Net cash flows from operating activities	6 594	3 497	4 132	1 736

5.3 Advances paid and investments, loans and placements

(\$ million)

	State of Victoria		General government sector	
	Dec	Jun	Dec	Jun
	2018	2018	2018	2018
Current advances paid and investments, loans and placements				
Loans and advances paid	27	29	799	1 875
Equities and managed investment schemes	1 176	1 796	1 132	1 180
Australian dollar term deposits	396	1 361	1 237	1 243
Debt securities	2 686	5 007	3	2
Derivative financial instruments	391	442	9	9
Total current advances paid and investments, loans and placements	4 677	8 635	3 180	4 309
Non-current advances paid and investments, loans and placements				
Loans and advances paid	362	349	8 119	8 144
Equities and managed investment schemes	30 921	30 843	1 027	798
Australian dollar term deposits	2 294	292	526	663
Debt securities	2 437	2 327	27	29
Derivative financial instruments	266	267	3	3
Total non-current advances paid and investments, loans and placements	36 280	34 078	9 703	9 637
Total advances paid and investments, loans and placements	40 957	42 713	12 883	13 947
Represented by:				
Advances paid	389	378	8 918	10 019
Investments, loans and placements	40 568	42 336	3 965	3 928

5.4 Interest expense

(\$ million)

	State of Victoria		General government sector	
	2018	2017	2018	2017
	Interest on interest-bearing liabilities	863	889	594	568
Finance charges on finance leases	430	436	422	424
Discount interest on payables	33	21	17	17
Total interest expense	1 326	1 346	1 033	1 009

5.5 Commitments

Commitments include those operating, capital and other commitments contracted at balance date but not recognised as liabilities, arising from non-cancellable, contractual or statutory sources, and which embody obligations to sacrifice future economic benefits.

Reference to the *2017-18 Financial Report* for the State of Victoria (notes 5.6 and 5.7) should be made for details of commitments as at 30 June 2018.

As at 31 December 2018, the following additional material commitments were recorded for the State of Victoria.

Unless otherwise stated, contract amounts are presented as nominal values.

- In July 2018, the State contracted with Aurecon Jacobs Mott MacDonald joint venture to provide technical advisory services for the Melbourne Airport Rail Link to July 2024, with options to extend. The initial phase of the contracted works to be delivered is estimated at \$55 million.
- In July 2018, Victoria Police entered into a contract with Serco Citizen Services Pty Ltd to provide information technology services for seven years. The total cost of the contract is \$178 million.
- In July 2018, the State entered into a new contract with Lendlease Services Pty Ltd for the provision of management and maintenance services for the communications network and freeway management assets along the Victorian managed motorway network to June 2026. The total cost of the contract is \$66 million.
- In July 2018, the State entered into a contract with CPB Contractors Pty Ltd for the external painting of the steel sections of the West Gate Bridge. The total cost of the contract is \$65 million and is expected to be completed by October 2021.
- In August 2018, the State entered into a contract with Bombardier Transportation Australia Pty Ltd for Stage 4 of the E-Class Trams procurement. The total cost of the contract is \$51 million and is expected to be completed in 2022.
- In August 2018, a contract adjustment of \$397 million was approved for the road network maintenance alliance agreement for the North Eastern Region with Downer EDI Works. The contract remains due for completion in 2020.
- In September 2018, the State entered into a Project Alliance Agreement with CPB Contractors and John Holland Joint Venture, AECOM and Metro Trains Melbourne to deliver the Metro Tunnel – Rail Infrastructure package. The total cost of the contract is \$1.1 billion, and works are expected to be completed by the end of 2025.
- In September 2018, South East Water Corporation entered into a contract with John Holland Pty Ltd, SUEZ Water Pty Ltd and Beca Pty Ltd for the Boneo Water Recycling Plant capacity upgrade – Stage 4. The total outstanding commitment for this is \$106 million and is expected to be completed by 2020 for Stage A and 2022 for Stage B.
- In October 2018, Victoria Police entered into a contract with both SkyTraders Pty Ltd and Starflight Victoria Pty Ltd for the provision of aircraft, aircraft systems and aircraft support services for the fixed and rotary wings respectively for the next 12 years. The total cost of the contract is \$387 million.
- In October 2018, the State entered into a new contract with Downer EDI Works for the provision of maintenance services of road, roadside and structural assets in Western Metropolitan Melbourne to June 2021. The total cost of the contract is \$50 million.
- In December 2018, an increased target budget, by \$200 million, was approved to reflect additional costs associated with design changes as part of the agreement with John Holland as Managing Contractor to execute the Metro Tunnel Early Works.

There was no other material change in commitments for the State during this mid-year reporting period.

6. OTHER ASSETS AND LIABILITIES

Introduction

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

Structure

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6.1 Inventories

(\$ million)

	State of Victoria		General government sector	
	Dec	Jun	Dec	Jun
	2018	2018	2018	2018
At cost				
Raw materials	9	8	8	7
Work in progress	43	19	2	1
Finished goods	74	70	2	3
Consumable stores	222	214	151	149
Land and other assets held as inventory	723	728	14	14
At net realisable value				
Finished goods	1	5	..	..
Consumable stores	6	5	..	..
Total inventories	1 078	1 050	177	175

6.2 Receivables

(\$ million)

	State of Victoria		General government sector	
	Dec	Jun	Dec	Jun
	2018	2018	2018	2018
Contractual				
Sales of goods and services	1 550	1 307	975	682
Accrued investment income	54	50	20	19
Other receivables	2 310	1 569	740	675
Provision for doubtful contractual receivables	(172)	(174)	(108)	(108)
Statutory				
Sales of goods and services	6	5	3	3
Taxes receivables	2 259	3 031	2 330	3 153
Fines and regulatory fees	2 756	2 510	2 756	2 510
GST input tax credits recoverable	1 236	1 197	431	443
Other receivables	22	22	..	..
Provision for doubtful statutory receivables	(1 409)	(1 169)	(1 409)	(1 169)
Other				
Actuarially determined	379	415	..	..
Total receivables	8 989	8 764	5 738	6 208
Represented by:				
Current receivables	7 675	7 552	5 422	5 890
Non-current receivables	1 314	1 212	315	318

6.3 Payables

(\$ million)

	State of Victoria		General government sector	
	Dec 2018	Jun 2018	Dec 2018	Jun 2018
Contractual				
Accounts payable	2 047	2 674	1 341	1 542
Accrued expenses	2 561	3 308	2 083	2 814
Unearned income	16 304	12 170	5 222	2 298
Statutory				
Accrued taxes payable	72	92	49	60
Total payables	20 984	18 243	8 694	6 713
Represented by:				
Current payables	7 967	7 825	4 140	4 856
Non-current payables	13 016	10 418	4 554	1 856

6.4 Superannuation

(\$ million)

	State of Victoria	
	Dec 2018	Jun 2018
Current liability	1 079	1 080
Non-current liability	25 548	24 153
Total superannuation liability	26 627	25 233
Represented by:		
Emergency Services and State Super	25 364	24 037
Other funds	1 263	1 197

6.5 Other provisions

(\$ million)

	<i>State of Victoria</i>		<i>General government sector</i>	
	<i>Dec 2018</i>	<i>Jun 2018</i>	<i>Dec 2018</i>	<i>Jun 2018</i>
Provision for insurance claims				
WorkSafe Victoria	2 316	2 245	..	..
Transport Accident Commission	1 533	1 448	..	..
Victorian Managed Insurance Authority	380	370	..	..
Other agencies	46	36	43	32
Current provision for insurance claims	4 276	4 099	43	32
Other provisions	398	395	309	305
Total current other provisions	4 673	4 493	352	337
Non-current provision for insurance claims				
WorkSafe Victoria	12 235	11 452	..	..
Transport Accident Commission	15 933	13 852	..	..
Victorian Managed Insurance Authority	1 600	1 520	..	..
Other agencies	56	53	56	52
Non-current provision for insurance claims	29 824	26 878	56	52
Other provisions	656	654	646	644
Total non-current other provisions	30 480	27 532	701	697
Total other provisions	35 154	32 025	1 053	1 034

7. RISKS AND CONTINGENCIES

Introduction

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

This section presents information on financial instruments, and contingent assets and liabilities.

7.1 Financial instruments

Note 7.1 Financial instruments in the *2017-18 Financial Report* for the State of Victoria contains a comprehensive disclosure of the State's financial risk management objectives and policies associated with financial instruments.

AASB 9 *Financial Instruments*, which came into effect in 2018-19 (including this financial report) simplifies the classification and measurement of financial assets. Financial assets previously classified as fair value through profit or loss, loans and receivables, held to maturity and available for sale under AASB 139, are now classified as fair value through profit or loss, fair value through other comprehensive income and amortised cost under AASB 9. In addition, AASB 9 replaces the 'incurred losses' approach with the 'expected credit loss' (ECL) model to assess any impairment losses.

The measurement difference between the two standards is not considered to be material for the general government sector.

7.2 Contingent assets and contingent liabilities

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.

Reference should be made to the *2017-18 Financial Report* for the State of Victoria (note 7.2) for details of contingent assets as at 30 June 2018.

There were no material changes in contingent assets for the State during this mid-year reporting period.

Contingent liabilities

Contingent liabilities are:

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

Reference should be made to the *2017-18 Financial Report* for the State of Victoria (note 7.2) for details of contingent liabilities as at 30 June 2018.

The following additional material contingent liabilities have been identified during this mid-year period:

Cladding rectification works – government buildings

The 2014 fire at the Lacrosse apartment building in Melbourne's Docklands, and the Grenfell fire in London in June 2017, highlighted the fire safety risks from the non-compliant use of exterior cladding on buildings. Subsequent investigations, and the February 2019 fire at the Neo200 tower on Spencer Street, Melbourne, have highlighted that dangerous materials are widely used on buildings throughout Victoria.

The Victorian Government Cladding Taskforce is investigating the extent of non-compliant cladding on all buildings statewide.

On behalf of the Cladding Taskforce, the Victorian Building Authority is undertaking a whole of government building audit to assess the extent of non-compliant cladding on all government-owned buildings.

The building audit has identified a number of government-owned buildings that may require rectification. These buildings are being risk-assessed to inform the extent of rectification works required. The expected cost for rectifying the non-compliant cladding is unknown at this time.

Victorian Workcover Authority – claims provision

A matter relating to the level of impairment assessment for an injured worker that had undergone spinal fusion surgery was heard in the Supreme Court on 6 August 2018. On 3 October 2018, the court ruled that the initial medical panel decision be remitted to a newly constituted medical panel for reassessment. WorkSafe has lodged an application to seek leave to appeal this decision.

Should the court rule against WorkSafe, there may be an increase in the outstanding claims liability, the amount of which is unable to be reliably quantified at the time of publication of this report.

There were no other material changes in contingent liabilities for the State during this mid-year reporting period.

8. PUBLIC ACCOUNT

Introduction

This section provides disclosure of information in respect of the Public Account, in accordance with the requirements of the *Financial Management Act, No. 18 of 1994* (FMA).

Structure

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8.1 Consolidated fund receipts and payments

(\$ million)

2017-18		2018-19	
actual to Dec		actual to Dec	revised budget
11 077	Taxation	11 713	24 275
382	Fines and regulatory fees	380	896
9 284	Grants received	10 547	22 880
3 390	Sales of goods and services ^(a)	6 291	9 865
228	Interest received	224	491
471	Dividends, income tax equivalent and rate equivalent receipts	351	963
60	Other receipts ^(a)	322	952
24 892	Total operating activities	29 829	60 322
1 000	Total inflows from investing and financing	1 263	3 656
25 892	Total receipts	31 092	63 978
	Payments to departments		
5 271	Economic Development, Jobs, Transport and Resources	5 712	13 419
6 913	Education and Training	7 487	14 678
1 063	Environment, Land, Water and Planning	1 560	2 975
8 597	Health and Human Services	9 614	18 415
3 753	Justice and Regulation	3 981	8 131
237	Premier and Cabinet	384	822
3 156	Treasury and Finance	3 823	7 761
117	Parliament	112	231
287	Courts	325	735
29 394	Total payments	32 997	67 168
(3 501)	Net receipts/(payments)	(1 905)	(3 190)

Note:

(a) The December 2017 comparative figures have been reclassified to reflect more current information.

8.2 Trust fund statement cash flows

(\$ million)

2017-18		2018-19	
<i>actual to Dec</i>		<i>actual to Dec</i>	<i>revised budget</i>
Cash flows from operating activities			
276	Taxation	299	385
37	Regulatory fees and fines	43	55
7 894	Grants received	8 791	17 128
104	Sale of goods and services ^(a)	170	493
106	Interest received	97	168
12	Dividends received	17	63
1 851	Net transfers from consolidated fund	1 956	3 283
72	Other receipts ^(a)	119	96
10 350	Total receipts	11 491	21 672
(103)	Payments for employees	(136)	(229)
(9)	Superannuation	(11)	(16)
(2)	Interest paid	(4)	(6)
(9 081)	Grants and subsidies	(10 123)	(20 398)
(888)	Goods and services	(1 003)	(1 578)
(10 082)	Total payments	(11 277)	(22 226)
268	Net cash flows from operating activities	214	(555)
Cash flows from investing activities			
(13)	Purchases of property, plant and equipment	(11)	(54)
24	Proceeds from sale of property, plant and equipment	32	52
980	Net proceeds from customer loans	1 072	1 551
(985)	Other investing activities	(1 132)	(1 898)
6	Net cash flows from investing activities	(38)	(348)
Cash flows from financing activities			
(427)	Net proceeds (repayments) from borrowings	(556)	(579)
(427)	Net cash flows from financing activities	(556)	(579)
(152)	Net cash inflow/(outflow)	(380)	(1 481)

Note:

(a) The December 2017 comparative figures have been reclassified to reflect more current information.

8.3 Reconciliation of cash flows to balances held

(\$ million)

	Balances held at 30 Jun 2018	Dec movement YTD	Balances held at 31 Dec 2019
Cash and deposits			
Cash and balances outside of the Public Account	(1)	..	..
Deposits held with the Public Account – specific trusts	697	(97)	600
Other balances held in the Public Account	3 212	(2 599)	612
Total cash and deposits	3 908	(2 696)	1 212
Investments			
Investments held with the Public Account – specific trusts	1 500	..	1 500
Total investments	1 500	..	1 500
Total fund balances	5 409	(2 696)	2 713
Less funds held outside the public account			
Cash	(1)	..	..
Total fund balances held outside the Public Account	(1)	..	..
Total fund balances held in the Public Account ^(a)	5 409	(2 696)	2 713

Note:

(a) See Note 8.4 for details of securities and investments, including amounts held in the Public Account on behalf of trust accounts.

8.4 Details of securities held in the Public Account

(\$ million)

2017-18 actual 31 Dec		2018-19 opening 1 Jul	actual 31 Dec
2 159	Amounts invested on behalf of specific trust accounts ^(a)	2 198	2 101
(730)	General account balances	3 211	612
1 430	Total Public Account ^(a)	5 409	2 713
	Represented by:		
796	Stock, securities, cash and investments ^(a)	3 630	1 780
	Add cash advanced for:		
..	Temporary Advance from the Treasury Corporation of Victoria to the Consolidated Fund pursuant to Section 38 of the <i>Financial Management Act 1994</i>	850	..
633	Advances pursuant to sections 36 and 37 of the <i>Financial Management Act 1994</i>	929	934
1 430	Total Public Account ^(a)	5 409	2 713

Note:

(a) The December 2017 comparative figures have been restated to reflect more current information.

9. OTHER DISCLOSURES

Introduction

This section includes several additional disclosures that assist the understanding of this financial report.

Structure

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9.1 Disaggregated information

Disaggregated operating statement for the six months ended 31 December

(\$ million)

	General government sector		Public non-financial corporations	
	2018	2017	2018	2017
Revenue from transactions				
Taxation revenue	10 945	10 708	..	..
Interest revenue	417	415	63	78
Dividends, income tax equivalent and rate equivalent revenue	330	433	4	5
Sales of goods and services	3 849	3 637	3 108	3 007
Grant revenue	15 801	14 227	2 013	1 766
Other revenue	1 348	1 170	427	417
Total revenue from transactions	32 689	30 591	5 615	5 273
Expenses from transactions				
Employee expenses	12 294	11 296	669	633
Net superannuation interest expense	347	360	..	..
Other superannuation	1 382	1 255	64	60
Depreciation	1 369	1 312	1 145	1 144
Interest expense	1 033	1 009	495	536
Grant expense	5 981	5 064	257	196
Other operating expenses	9 919	9 344	2 946	2 780
Other property expenses	..	..	135	128
Total expenses from transactions	32 324	29 642	5 711	5 477
Net result from transactions – net operating balance	365	950	(95)	(204)
Other economic flows included in net result				
Net gain/(loss) on disposal of non-financial assets	(50)	21	(8)	13
Net gain/(loss) on financial assets or liabilities at fair value	(199)	39	..	1
Share of net profit/(loss) from associates/joint venture entities	..	..	..	38
Other gains/(losses) from other economic flows	(305)	(141)	83	118
Total other economic flows included in net result	(554)	(81)	75	170
Net result	(189)	868	(20)	(34)
Other economic flows – other comprehensive income				
Items that will not be reclassified to net result				
Changes in non-financial assets revaluation surplus	2	(2)	(6)	35
Remeasurement of superannuation defined benefits plans	(1 091)	759	10	4
Other movements in equity	14	(107)	(4)	(55)
Items that may be reclassified subsequently to net result				
Net gain/(loss) on financial assets at fair value	(48)	25	(22)	24
Net gain/(loss) on equity investments in other sector entities at proportional share of the carrying amount of net assets	(1 240)	686	..	..
Total other economic flows – other comprehensive income	(2 362)	1 360	(22)	8
Comprehensive result – total change in net worth	(2 551)	2 229	(42)	(26)
FISCAL AGGREGATES				
Net operating balance	365	950	(95)	(204)
Net acquisition of non-financial assets from transactions				
Purchases of non-financial assets (including change in inventories)	4 939	4 571	1 177	1 020
Less: Sales of non-financial assets	(84)	(96)	(79)	(68)
Less: Depreciation and amortisation	(1 369)	(1 312)	(1 145)	(1 144)
Plus/(less): Other movements in non-financial assets	(1 822)	(1 412)	1 854	1 909
Less: Net acquisition of non-financial assets from transactions	1 664	1 751	1 806	1 717
Net lending/(borrowing)	(1 299)	(801)	(1 901)	(1 921)

<i>Public financial corporations</i>		<i>Inter-sector eliminations</i>		<i>State of Victoria</i>	
2018	2017	2018	2017	2018	2017
..	..	(211)	(184)	10 734	10 524
976	961	(1 117)	(1 118)	339	337
1 811	843	(301)	(414)	1 845	867
2 450	2 291	(1 725)	(1 597)	7 683	7 338
..	..	(2 476)	(1 875)	15 338	14 119
10	12	(29)	..	1 755	1 599
5 247	4 107	(5 859)	(5 189)	37 694	34 783
169	172	(248)	(226)	12 883	11 875
..	..	..	..	347	360
14	14	..	..	1 460	1 328
20	21	..	..	2 535	2 478
916	919	(1 117)	(1 118)	1 326	1 346
485	115	(2 580)	(1 929)	4 142	3 446
3 550	3 282	(1 613)	(1 501)	14 802	13 905
(4)	362	(131)	(490)	..	..
5 150	4 884	(5 689)	(5 264)	37 496	34 739
98	(777)	(170)	76	198	44
..	..	..	..	(58)	34
(2 768)	1 544	..	..	(2 966)	1 583
..	..	..	..	..	38
(416)	514	(1 273)	(120)	(1 912)	371
(3 183)	2 058	(1 273)	(120)	(4 936)	2 026
(3 086)	1 280	(1 443)	(44)	(4 738)	2 070
..	..	(2)	(5)	(6)	27
..	..	..	..	(1 081)	763
..	2	..	..	11	(161)
..	..	..	..	(70)	49
..	..	1 240	(686)	..	..
..	2	1 238	(691)	(1 146)	679
(3 086)	1 282	(206)	(736)	(5 884)	2 749
98	(777)	(170)	76	198	44
40	37	(62)	..	6 094	5 629
..	(1)	..	1	(164)	(164)
(20)	(21)	..	..	(2 535)	(2 478)
..	..	29	..	60	497
19	15	(33)	1	3 455	3 484
78	(792)	(136)	75	(3 258)	(3 439)

Disaggregated balance sheet as at 31 December

(\$ million)

	General government sector		Public non-financial corporations	
	Dec 2018	Jun 2018	Dec 2018	Jun 2018
Assets				
Financial assets				
Cash and deposits	4 567	6 257	1 271	1 419
Advances paid	8 918	10 019	4 267	5 345
Receivables	5 738	6 208	1 790	1 827
Investments, loans and placements	3 965	3 928	1 255	1 281
Loans receivable from non-financial public sector ^(a)	..	..	..	..
Investments accounted for using the equity method	53	53	..	..
Investments in other sector entities	102 040	101 253	..	..
Total financial assets	125 281	127 717	8 582	9 872
Non-financial assets				
Inventories	177	175	901	875
Non-financial assets held for sale	361	389	45	72
Land, buildings, infrastructure, plant and equipment	135 411	134 141	128 032	126 329
Other non-financial assets	2 289	1 872	1 397	1 393
Total non-financial assets	138 238	136 577	130 375	128 670
Total assets	263 519	264 294	138 957	138 542
Liabilities				
Deposits held and advances received	5 491	6 700	4 715	5 787
Payables	8 694	6 713	9 975	10 417
Borrowings	32 974	33 506	16 667	16 444
Employee benefits	7 141	7 020	436	442
Superannuation	26 600	25 205	27	28
Other provisions	1 053	1 034	8 098	8 212
Total liabilities	81 954	80 178	39 918	41 330
Net assets ^(b)	181 565	184 116	99 039	97 212
Accumulated surplus/(deficit)	51 256	52 574	3 253	3 333
Reserves	130 310	131 543	95 787	93 879
Net worth ^(b)	181 565	184 116	99 039	97 212
FISCAL AGGREGATES				
Net financial worth	43 327	47 540	(31 336)	(31 458)
Net financial liabilities	58 713	53 713	31 336	31 458
Net debt	21 015	20 003	14 590	14 187

Notes:

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

(b) The net assets and net worth of the public financial corporations sector incorporates the impact of Treasury Corporation of Victoria's external loan liabilities being reported at market value while the corresponding assets, that is lending to the non-financial public sector, being reported at amortised cost. This mismatch has contributed to the negative net asset position of the sector.

<i>Public financial corporations</i>		<i>Inter-sector eliminations</i>		<i>State of Victoria</i>	
<i>Dec 2018</i>	<i>Jun 2018</i>	<i>Dec 2018</i>	<i>Jun 2018</i>	<i>Dec 2018</i>	<i>Jun 2018</i>
4 915	5 554	(3 983)	(6 736)	6 770	6 494
12	18	(12 807)	(15 005)	389	378
1 997	1 455	(536)	(726)	8 989	8 764
37 280	39 279	(1 932)	(2 151)	40 568	42 336
34 148	33 524	(34 148)	(33 524)	..	..
..	..	..	..	53	53
..	..	(102 040)	(101 253)	..	..
78 352	79 829	(155 446)	(159 394)	56 769	58 024
..	..	..	..	1 078	1 050
..	..	..	..	406	462
109	108	..	..	263 552	260 578
2 064	885	(2 313)	(1 149)	3 437	3 001
2 173	993	(2 313)	(1 149)	268 473	265 090
80 525	80 822	(157 759)	(160 544)	325 242	323 114
5 378	7 644	(13 395)	(17 800)	2 190	2 331
2 961	1 951	(647)	(837)	20 984	18 243
40 433	39 472	(39 510)	(39 652)	50 564	49 771
90	109	..	..	7 668	7 570
..	..	..	..	26 627	25 233
34 003	30 895	(8 000)	(8 115)	35 154	32 025
82 866	80 070	(61 552)	(66 404)	143 186	135 173
(2 341)	751	(96 207)	(94 139)	182 056	187 941
(2 410)	684	20 256	21 534	72 354	78 125
69	67	(116 463)	(115 673)	109 702	109 816
(2 341)	751	(96 207)	(94 139)	182 056	187 941
(4 514)	(241)	(93 894)	(92 990)	(86 417)	(77 149)
4 514	241	(8 146)	(8 262)	86 417	77 149
(30 542)	(31 259)	(35)	(36)	5 027	2 894

Disaggregated cash flow statement for the six months ended 31 December

(\$ million)

	General government sector		Public non-financial corporations	
	2018	2017	2018	2017
Cash flows from operating activities				
Receipts				
Taxes received	11 644	10 999	..	..
Grants	15 805	14 226	2 026	1 785
Sales of goods and services ^(a)	6 922	4 077	3 347	3 267
Interest received	412	416	73	78
Dividends, income tax equivalent and rate equivalent receipts	380	477	4	5
Other receipts	872	909	203	108
Total receipts	36 034	31 104	5 653	5 242
Payments				
Payments for employees	(12 204)	(11 228)	(676)	(638)
Superannuation	(1 425)	(1 318)	(56)	(62)
Interest paid	(1 021)	(990)	(503)	(535)
Grants and subsidies	(6 135)	(5 455)	(34)	(35)
Goods and services ^(a)	(10 703)	(9 984)	(2 319)	(2 049)
Other payments	(414)	(393)	(1 376)	(1 224)
Total payments	(31 902)	(29 368)	(4 963)	(4 544)
Net cash flows from operating activities	4 132	1 736	691	698
Cash flows from investing activities				
Cash flows from investments in non-financial assets				
Purchases of non-financial assets	(4 851)	(4 570)	(1 170)	(1 019)
Sales of non-financial assets	84	96	79	68
Net cash flows from investments in non-financial assets	(4 767)	(4 473)	(1 091)	(951)
Net cash flows from investments in financial assets for policy purposes	886	718	1 062	1 008
Sub-total	(3 881)	(3 756)	(30)	56
Net cash flows from investments in financial assets for liquidity management purposes	(158)	(426)	(1)	(82)
Net cash flows from investing activities	(4 039)	(4 181)	(31)	(25)
Cash flows from financing activities				
Advances received (net)	(1 174)	(937)	(1 080)	(984)
Net borrowings	(573)	1 744	225	390
Deposits received (net)	(35)	101	8	27
Other financing (net)	..	..	37	2
Net cash flows from financing activities	(1 782)	908	(810)	(565)
Net increase/(decrease) in cash and cash equivalents	(1 690)	(1 537)	(150)	108
Cash and cash equivalents at beginning of reporting period	6 257	5 530	1 419	1 153
Cash and cash equivalents at end of the reporting period ^(b)	4 567	3 992	1 268	1 261
FISCAL AGGREGATES				
Net cash flows from operating activities	4 132	1 736	691	698
Dividends paid	..	..	(158)	(228)
Net cash flows from investments in non-financial assets	(4 767)	(4 473)	(1 091)	(951)
Cash surplus/(deficit)	(635)	(2 738)	(559)	(481)

Notes:

(a) These items are inclusive of goods and services tax.

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

<i>Public financial corporations</i>		<i>Inter-sector eliminations</i>		<i>State of Victoria</i>	
2018	2017	2018	2017	2018	2017
..	..	(211)	(184)	11 432	10 815
..	..	(2 531)	(1 893)	15 299	14 118
3 541	3 351	(1 720)	(1 637)	12 090	9 058
866	848	(1 136)	(1 110)	216	231
1 811	843	(351)	(458)	1 845	867
3	166	(70)	42	1 008	1 225
6 222	5 208	(6 019)	(5 240)	41 890	36 314
(187)	(174)	248	226	(12 819)	(11 813)
(14)	(14)	..	..	(1 495)	(1 394)
(915)	(918)	1 140	1 110	(1 299)	(1 334)
(528)	(115)	2 531	1 893	(4 165)	(3 712)
(2 550)	(2 597)	467	458	(15 104)	(14 172)
(28)	(6)	1 404	1 231	(414)	(393)
(4 222)	(3 824)	5 791	4 918	(35 296)	(32 818)
2 000	1 384	(228)	(321)	6 594	3 497
(40)	(37)	62	..	(5 999)	(5 625)
..	1	..	(1)	164	164
(39)	(36)	62	(1)	(5 835)	(5 462)
7	17	(2 006)	(1 759)	(51)	(17)
(33)	(19)	(1 943)	(1 760)	(5 887)	(5 478)
(987)	1 229	401	2 049	(745)	2 772
(1 020)	1 210	(1 542)	290	(6 632)	(2 707)
(13)	(8)	2 164	1 954	(104)	25
653	(184)	148	(2 374)	453	(424)
(2 252)	(2 028)	2 241	1 475	(37)	(424)
(7)	(94)	(30)	93	..	..
(1 619)	(2 315)	4 523	1 149	312	(823)
(639)	279	2 753	1 117	274	(33)
5 554	4 229	(6 736)	(5 043)	6 494	5 868
4 915	4 508	(3 983)	(3 926)	6 768	5 835
2 000	1 384	(228)	(321)	6 594	3 497
(7)	(94)	165	322	..	..
(39)	(36)	62	(1)	(5 835)	(5 462)
1 953	1 253	(1)	..	758	(1 965)

Disaggregated statement of changes in equity as at 31 December

(\$ million)

2018	Accumulated surplus/(deficit)	Contributions by owners	Non-financial assets revaluation surplus	Investment in other sector entities revaluation surplus	Other reserves	Total
General government sector						
Balance at 1 July 2018	52 574	..	64 084	66 351	1 108	184 116
Net result for the year	(189)	..	..	..	..	(189)
Other comprehensive income for the year	(1 130)	..	2	(1 240)	5	(2 362)
Transfer to/(from) accumulated surplus	..	..	..	..	..	..
Dividends paid						
Transactions with owners in their capacity as owners						
Total equity as at 31 December 2018	51 256	..	64 086	65 111	1 113	181 565
PNFC sector						
Balance at 1 July 2018	3 333	59 478	33 851	..	549	97 212
Net result for the year	(20)	..	..	..	..	(20)
Other comprehensive income for the year	(13)	..	(6)	..	(3)	(22)
Transfer to/(from) accumulated surplus	110	..	(110)	..	..	..
Dividends paid	(158)	..	..	..	..	(158)
Transactions with owners in their capacity as owners	..	2 027	..	..	..	2 027
Total equity as at 31 December 2018	3 253	61 505	33 735	..	546	99 039
PFC sector						
Balance at 1 July 2018	684	29	2	..	36	751
Net result for the year	(3 086)	..	..	..	..	(3 086)
Other comprehensive income for the year	(1)	..	..	..	1	..
Transfer to/(from) accumulated surplus						
Dividends paid	(7)	..	..	..	..	(7)
Transactions with owners in their capacity as owners						
Total equity as at 31 December 2018	(2 410)	29	2	..	37	(2 341)
Eliminations	20 256	(61 534)	10 182	(65 111)	..	(96 207)
Total State of Victoria	72 354	..	108 006	..	1 696	182 056

Disaggregated statement of changes in equity as at 31 December (continued)

(\$ million)

2017	Accumulated surplus/(deficit)	Contributions by owners	Non-financial assets revaluation surplus	Investment in other sector entities revaluation surplus	Other reserves	Total
General government sector						
Balance at 1 July 2017 ^(a)	51 464	..	55 320	60 149	1 094	168 027
Net result for the year	868	..	..	..	..	868
Other comprehensive income for the year	633	..	(2)	686	44	1 360
Transfer to/(from) accumulated surplus	..	..	..	..	..	..
Dividends paid						
Transactions with owners in their capacity as owners						
Total equity as at 31 December 2017 ^(a)	52 965	..	55 318	60 835	1 137	170 256
PNFC sector						
Balance at 1 July 2017 ^(b)	3 751	54 902	29 985	..	488	89 126
Net result for the year	(34)	..	..	..	..	(34)
Other comprehensive income for the year ^(b)	(62)	..	35	..	36	8
Transfer to/(from) accumulated surplus	..	26	(26)	..	..	..
Dividends paid	(228)	..	..	..	..	(228)
Transactions with owners in their capacity as owners	..	2 102	..	..	..	2 102
Total equity as at 31 December 2017	3 427	57 030	29 994	..	523	90 974
PFC sector						
Balance at 1 July 2017	143	29	2	..	39	213
Net result for the year	1 280	..	..	..	..	1 280
Other comprehensive income for the year	(2)	..	..	..	3	2
Transfer to/(from) accumulated surplus						
Dividends paid	(94)	..	..	..	..	(94)
Transactions with owners in their capacity as owners						
Total equity as at 31 December 2017	1 327	29	2	..	42	1 400
Eliminations	20 087	(57 059)	10 159	(60 835)	..	(87 648)
Total State of Victoria	77 806	..	95 474	..	1 703	174 983

Notes:

(a) The 1 July 2017 and 31 December 2017 comparative figures have been restated to reflect the reclassification of \$425 million from the non-financial assets revaluation surplus to other reserves relating to accumulated revenue dedicated to the purchase of assets in the National Gallery of Victoria.

(b) The 1 July 2017 and 31 December 2017 comparative figures have been updated to reflect more current information.

9.2 Other gains/(losses) from other economic flows

(\$ million)

	State of Victoria		General Government	
	2018	2017	2018	2017
Net (increase)/decrease in provision for doubtful receivables	(268)	(121)	(266)	(120)
Amortisation of intangible non-produced assets	(21)	(20)	(3)	(2)
Net swap interest revenue/(expense)	(2)	1	..	..
Bad debts written off	(13)	(48)	(9)	(43)
Other gains/(losses)	(1 607)	558	(28)	24
Total other gains/(losses) from other economic flows	(1 912)	371	(305)	(141)

9.3 Controlled entities

Note 9.8 *Controlled entities* in the 2017-18 *Financial Report* for the State of Victoria contains a list of significant controlled entities, which have been consolidated for the purposes of the financial report.

The following are changes from 1 July 2018, of general government sector and public non-financial corporation entities, which have been consolidated for the purposes of the financial report:

General government sector

Department of Health and Human Services

Family Violence Prevention Agency ^(a)

Department of Economic Development, Jobs, Transport and Resources

Commercial Passenger Vehicles Victoria ^(b)

Notes:

(a) The Family Violence Prevention Agency was established under the Prevention of Family Violence Act 2018 and, by Order of the Governor in Council, commenced on 4 October 2018 and will trade as Respect Victoria.

(b) On 2 July 2018, the Taxi Services Commission changed its name to Commercial Passenger Vehicles Victoria in accordance with the Commercial Passenger Vehicle Industry Act 2017.

9.4 Glossary of technical terms

The 2017-18 *Financial Report* for the State of Victoria (Note 9.9) contains a summary of the major technical terms used in this report.

APPENDIX A – GENERAL GOVERNMENT SECTOR QUARTERLY FINANCIAL REPORT

This section includes the comprehensive operating statement, balance sheet and cash flow statement for the past five quarters in accordance with the requirements of the *Financial Management Act 1994*.

Consolidated comprehensive operating statement for the past five quarters (\$ million)

	2017-18			2018-19	
	Dec	Mar	Jun	Sep	Dec
Revenue from transactions					
Taxation revenue	4 986	6 980	5 241	5 896	5 049
Interest revenue	206	202	228	210	206
Dividends, income tax equivalent and rate equivalent revenue	376	85	263	82	248
Sales of goods and services	1 871	1 801	1 901	1 905	1 944
Grant revenue	7 328	8 162	7 538	7 923	7 878
Other revenue	626	566	1 031	573	774
Total revenue from transactions	15 393	17 796	16 202	16 589	16 100
Expenses from transactions					
Employee expenses	5 715	5 698	6 276	6 081	6 213
Net superannuation interest expense	168	176	178	167	180
Other superannuation	657	631	649	671	711
Depreciation	657	666	767	680	690
Interest expense	555	513	570	493	539
Grant expense	2 505	3 346	2 719	2 853	3 127
Other operating expenses	4 741	4 709	5 736	4 812	5 107
Total expenses from transactions	14 998	15 739	16 896	15 757	16 567
Net result from transactions – net operating balance	395	2 057	(694)	832	(467)
Other economic flows included in net result					
Net gain/(loss) on disposal of non-financial assets	22	63	(25)	5	(55)
Net gain/(loss) on financial assets or liabilities at fair value	41	(5)	19	(4)	(195)
Share of net profit/(loss) from associates/joint venture entities	..	(4)	(2)	..	..
Other gains/(losses) from other economic flows	(86)	(78)	(714)	(116)	(190)
Total other economic flows included in net result	(23)	(23)	(722)	(115)	(439)
Net result	371	2 035	(1 417)	718	(906)
Other economic flows – other comprehensive income					
Items that will not be reclassified to net result					
Changes in non-financial assets revaluation surplus	20	66	8 700	16	(13)
Remeasurement of superannuation defined benefits plans	(500)	(263)	(754)	1 213	(2 304)
Other movements in equity	(43)	2	2	14	..
Items that may be reclassified subsequently to net result					
Net gain/(loss) on financial assets at fair value	31	(16)	(10)	(12)	(36)
Net gain/(loss) on equity investments in other sector entities at proportional share of the carrying amount of net assets	686	..	5 515	..	(1 240)
Total other economic flows – other comprehensive income	195	(210)	13 453	1 230	(3 593)
Comprehensive result – total change in net worth	567	1 825	12 036	1 948	(4 499)
KEY FISCAL AGGREGATES					
Net operating balance	395	2 057	(694)	832	(467)
Less: Net acquisition of non-financial assets from transactions	1 468	235	1 237	690	973
Net lending/(borrowing)	(1 073)	1 823	(1 932)	142	(1 440)

Consolidated balance sheet as at the end of the past five quarters
(\$ million)

	2017-18			2018-19	
	Dec	Mar	Jun	Sep	Dec
Assets					
Financial assets					
Cash and deposits	3 992	3 900	6 257	5 940	4 567
Advances paid	11 986	11 095	10 019	9 189	8 918
Receivables	5 807	7 756	6 208	6 400	5 738
Investments, loans and placements	4 159	4 163	3 928	3 940	3 965
Investments accounted for using the equity method	47	44	53	52	53
Investments in other sector entities	95 297	96 575	101 253	102 157	102 040
Total financial assets	121 290	123 533	127 717	127 679	125 281
Non-financial assets					
Inventories	176	176	175	171	177
Non-financial assets held for sale	438	355	389	391	361
Land, buildings, infrastructure, plant and equipment	123 323	123 897	134 141	134 414	135 411
Other non-financial assets	1 763	1 756	1 872	2 411	2 289
Total non-financial assets	125 700	126 184	136 577	137 386	138 238
Total assets	246 990	249 718	264 294	265 065	263 519
Liabilities					
Deposits held and advances received	8 252	7 781	6 700	5 772	5 491
Payables	5 542	5 902	6 713	9 143	8 694
Borrowings	30 995	31 902	33 506	31 974	32 974
Employee benefits	6 555	6 458	7 020	6 893	7 141
Superannuation	24 438	24 714	25 205	24 257	26 600
Other provisions	953	880	1 034	962	1 053
Total liabilities	76 734	77 637	80 178	79 001	81 954
Net assets	170 256	172 080	184 116	186 064	181 565
Accumulated surplus/(deficit)	52 965	54 751	52 574	54 496	51 256
Reserves	117 290	117 329	131 543	131 569	130 310
Net worth	170 256	172 080	184 116	186 064	181 565
FISCAL AGGREGATES					
Net financial worth	44 555	45 896	47 540	48 678	43 327
Net financial liabilities	50 742	50 679	53 713	53 479	58 713
Net debt	19 109	20 524	20 003	18 677	21 015

Consolidated cash flow statement for the past five quarters
(\$ million)

	2017-18			2018-19	
	Dec	Mar	Jun	Sep	Dec
Cash flows from operating activities					
Receipts					
Taxes received	5 508	5 317	6 126	5 994	5 650
Grants	7 325	8 160	7 606	7 927	7 877
Sales of goods and services ^(a)	2 092	1 937	2 004	4 984	1 939
Interest received	205	203	224	209	203
Dividends, income tax equivalent and rate equivalent receipts	420	85	213	82	298
Other receipts	440	240	788	491	381
Total receipts	15 990	15 942	16 960	19 686	16 348
Payments					
Payments for employees	(5 480)	(5 796)	(5 729)	(6 211)	(5 994)
Superannuation	(790)	(794)	(1 091)	(572)	(853)
Interest paid	(515)	(529)	(534)	(514)	(507)
Grants and subsidies	(2 508)	(3 466)	(2 494)	(2 908)	(3 228)
Goods and services ^(a)	(4 805)	(4 544)	(5 203)	(5 694)	(5 009)
Other payments	(185)	(165)	(199)	(211)	(202)
Total payments	(14 282)	(15 294)	(15 250)	(16 110)	(15 793)
Net cash flows from operating activities	1 708	649	1 710	3 577	555
Cash flows from investing activities					
Cash flows from investments in non-financial assets					
Purchases of non-financial assets	(2 689)	(1 949)	(3 286)	(2 139)	(2 712)
Sales of non-financial assets	51	121	166	45	39
Net cash flows from investments in non-financial assets	(2 638)	(1 828)	(3 120)	(2 095)	(2 672)
Net cash flows from investments in financial assets for policy purposes	45	825	3 016	729	156
Sub-total	(2 593)	(1 003)	(104)	(1 365)	(2 516)
Net cash flows from investments in financial assets for liquidity management purposes	(193)	(34)	224	(35)	(123)
Net cash flows from investing activities	(2 786)	(1 037)	120	(1 400)	(2 639)
Cash flows from financing activities					
Advances received (net)	(230)	(648)	(1 075)	(834)	(340)
Net borrowings	1 075	768	1 607	(1 566)	993
Deposits received (net)	79	177	(6)	(94)	59
Net cash flows from financing activities	924	296	526	(2 494)	712
Net increase/(decrease) in cash and cash equivalents	(153)	(92)	2 356	(317)	(1 372)
Cash and cash equivalents at beginning of the reporting period	4 146	3 992	3 900	6 257	5 940
Cash and cash equivalents at end of the reporting period	3 992	3 900	6 257	5 940	4 567
FISCAL AGGREGATES					
Net cash flows from operating activities	1 708	649	1 710	3 577	555
Net cash flows from investments in non-financial assets	(2 638)	(1 828)	(3 120)	(2 095)	(2 672)
Cash surplus/(deficit)	(930)	(1 180)	(1 410)	1 482	(2 117)

Note:

(a) These items are inclusive of goods and services tax.

APPENDIX B – FINANCIAL MANAGEMENT ACT 1994 COMPLIANCE INDEX

The *Financial Management Act 1994* (FMA) requires the Minister to prepare a mid-year financial report and a quarterly financial report for tabling in Parliament. These reports have been prepared in accordance with applicable Australian Accounting Standards and the FMA.

The FMA specifies that these reports must meet certain requirements. The following compliance index explains how these requirements are met, together with appropriate references in this document.

<i>Financial Management Act reference</i>	<i>Requirement</i>	<i>Comments/reference</i>
Section 25(1)	The Minister must prepare a mid-year report for each financial year.	Refer to Chapter 2.
Section 25(2)	The mid-year report: <ul style="list-style-type: none"> (a) must be prepared in the manner and form determined by the Minister, having regard to appropriate financial reporting frameworks; (b) must present fairly the financial position of the State and the Victorian general government sector at midnight on 31 December in the financial year and: <ul style="list-style-type: none"> (i) the transactions on the Public Account; (ii) the transactions of the Victorian general government sector; and (iii) other financial transactions of the State in respect of the period of six months ending on that day. 	<p>Manner is in accordance with Australian Accounting Standards and Ministerial Directions. Form is operating statement, balance sheet, statement of cash flows, statement of changes in equity and accompanying notes. Refer to Chapter 2.</p> <p>Refer to Chapter 2, balance sheet, page 12.</p> <p>Refer to Chapter 2, Note 8, pages 38-40.</p> <p>Refer to Chapter 2, operating statement, page 11, statement of cash flows, page 13 and related notes.</p> <p>Refer to Chapter 2, operating statement, page 11, statement of cash flows, page 13 and related notes.</p>
Section 26(1)	The Minister must prepare a quarterly financial report for each quarter of each financial year.	Refer to Appendix A, pages 51-53.
Section 26(2)	A quarterly financial report comprises: <ul style="list-style-type: none"> (a) a statement of financial performance of the Victorian general government sector for the quarter; (b) a statement of the financial position of the Victorian general government sector at the end of the quarter; (c) a statement of cash flows of the Victorian general government sector for the quarter; and (d) a statement of the accounting policies on which the statements required by paragraphs (a), (b) and (c) are based. 	<p>Refer to Appendix A, operating statement, page 51.</p> <p>Refer to Appendix A, balance sheet, page 52.</p> <p>Refer to Appendix A, statement of cash flows, page 53.</p> <p>Refer to Chapter 2, Note 1, pages 16-18.</p>
Section 26(2A)	A quarterly financial report must be prepared in the manner and form determined by the Minister, having regard to appropriate financial reporting frameworks.	Manner is a financial report for the general government sector. Form is operating statement, balance sheet, statement of cash flows. Refer to Appendix A.
Section 26(2B)	The quarterly financial report for the quarter ending on 31 December in a financial year must include, in addition to the statements referred to in subsection (2)(a) to (d) for that quarter, those statements for the period of six months ending on that 31 December.	Refer to Chapter 2, operating statement, page 11, balance sheet, page 12 and statement of cash flows, page 13.

STYLE CONVENTIONS

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

The notation used in the tables is as follows:

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

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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(incorporating Quarterly Financial Report No. 2)
March 2019
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