Department of Justice and Regulation  
Annual Report 2017-18

Annual Financial Statements



[Report structure 3](#_Toc525290060)

[Declaration in financial statements 5](#_Toc525290061)

[VAGO 6](#_Toc525290062)

[Comprehensive operating statement 8](#_Toc525290063)

[Balance sheet 9](#_Toc525290064)

[Cash flow statement 10](#_Toc525290065)

[Statement of changes in equity 11](#_Toc525290066)

[Notes to the financial statements 12](#_Toc525290067)

[1. About this report 12](#_Toc525290068)

[2. Funding delivery of services 13](#_Toc525290069)

[3. Cost of delivering services 17](#_Toc525290070)

[4. Disaggregated financial information by output 20](#_Toc525290071)

[5. Key assets available to support output delivery 23](#_Toc525290072)

[6. Other assets and liabilities 26](#_Toc525290073)

[7. Financing operations 28](#_Toc525290074)

[8. Risks, contingencies and valuation judgements 33](#_Toc525290075)

[9. Other disclosures 39](#_Toc525290076)

Report structure

The Department of Justice and Regulation (department) has presented its audited general purpose financial statements for the financial year ended 30 June 2018 in the following structure to provide users with information about the department’s stewardship of resources entrusted to it.

Certifications

Declaration in financial statements 96

Independent auditor’s report 97

Financial statements

Comprehensive operating statement 99

Balance sheet 100

Cash flow statement 101

Statement of changes in equity 102

Notes to financial statements

1 About this report 103

The basis on which the financial statements have been prepared and   
compliance with reporting regulations 103

2 Funding delivery of services 104

2.1 Introduction 104

2.2 Summary of compliance with annual parliamentary appropriations 105

2.3 Summary of compliance with special appropriations 108

2.4 Interest income 108

2.5 Grant income 109

2.6 Other income 109

2.7 Annotated income agreements 110

3 Cost of delivering services 111

3.1 Introduction 111

3.2 Employee benefits 111

3.3 Grant expense 114

3.4 Capital asset charge 114

3.5 Supplies and services 115

4 Disaggregated financial information by output 116

4.1 Introduction 116

4.2 Department outputs - descriptions and objectives 116

4.3 Administered items 120

5 Key assets available to support output delivery 122

5.1 Introduction 122

5.2 Property, plant and equipment 122

5.3 Intangible assets 126

5.4 Investments and other financial assets 126

6 Other assets and liabilities 127

6.1 Introduction 127

6.2 Receivables 127

6.3 Payables 128

7 Financing operations 129

7.1 Introduction 129

7.2 Borrowings (finance lease liabilities) 129

7.3 Cash flow information and balances 131

7.4 Trust account balances 132

7.5 Commitments for expenditure 135

8 Risks, contingencies and valuation judgements 137

8.1 Introduction 137

8.2 Financial instruments specific disclosures 137

8.3 Contingent assets and contingent liabilities 141

8.4 Fair value determination 142

9 Other disclosures 145

9.1 Introduction 145

9.2 Ex-gratia expenses 145

9.3 Other economic flows included in net result 145

9.4 Physical asset revaluation surplus (i) 146

9.5 Responsible persons 146

9.6 Remuneration of executives 148

9.7 Related parties 148

9.8 Remuneration of auditors 150

9.9 Australian Accounting Standards issued that are not yet effective 150

9.10 Glossary of technical terms 152

9.11 Style conventions 155

Declaration in financial statements

The attached financial statements for the Department of Justice and Regulation have been prepared in accordance with Direction 5.2 of the Standing Directions of the Minister for Finance under the Financial Management Act 1994, applicable Financial Reporting Directions, Australian Accounting Standards including Interpretations and other mandatory professional reporting requirements.

We further state that, in our opinion, the information set out in the comprehensive operating statement, balance sheet, cash flow statement, statement of changes in equity and notes forming part of the financial statements, presents fairly the financial transactions during the year ended 30 June 2018 and financial position of the department as at 30 June 2018.

At the time of signing, we are not aware of any circumstance which would render any particulars included in the financial statements to be misleading or inaccurate.

We authorise the attached financial statements for issue on 14 September 2018.

**Christopher Breitkreuz**

Chief Finance Officer

Department of Justice and Regulation

Melbourne

14 September 2018

**Greg Wilson**

Secretary

Department of Justice and Regulation

Melbourne

14 September 2018

VAGO

**Independent Auditor’s Report**

To the Secretary of the Department of Justice and Regulation

**Opinion**

I have audited the financial report of the Department of Justice and Regulation (the department) which comprises the:

* balance sheet as at 30 June 2018
* comprehensive operating statement for the year then ended
* cash flow statement for the year then ended
* statement of changes in equity for the year then ended
* notes to the financial statements, including significant accounting policies
* declaration in financial statements.

In my opinion the financial report presents fairly, in all material respects, the financial position of the department as at 30 June 2018 and their financial performance and cash flows for the year then ended in accordance with the financial reporting requirements of Part 7 of the Financial Management Act 1994 and applicable Australian Accounting Standards.

**Basis for Opinion**

I have conducted my audit in accordance with the Audit Act 1994 which incorporates the Australian Auditing Standards. I further describe my responsibilities under that Act and those standards in the Auditor’s Responsibilities for the Audit of the Financial Report section of my report.

My independence is established by the Constitution Act 1975. My staff and I are

independent of the department in accordance with the ethical requirements of the Accounting Professional and Ethical Standards Board’s APES 110 Code of Ethics for Professional Accountants (the Code) that are relevant to my audit of the financial report in Victoria. My staff and I have also fulfilled our other ethical responsibilities in accordance with the Code.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

**Secretary’s responsibilities for the financial report**

The Secretary of the department is responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards and the Financial Management Act 1994, and for such internal control as the Secretary determines is necessary to enable the preparation and fair presentation of a financial report that is free from material misstatement, whether due to fraud or error. In preparing the financial report, the Secretary is responsible for assessing the department’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless it is inappropriate to do so.

**Auditor’s responsibilities for the audit of the financial report**

As required by the Audit Act 1994, my responsibility is to express an opinion on the financial report based on the audit. My objectives for the audit are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected

to influence the economic decisions of users taken on the basis of this financial report. As part of an audit in accordance with the Australian Auditing Standards, I exercise professional judgement and maintain professional scepticism throughout the audit. I also:

* identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
* obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the department’s internal control
* evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Secretary
* conclude on the appropriateness of the Secretary’s use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the department’s ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor’s report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor’s report. However, future events or conditions may cause thedepartment to cease to continue as a going concern.
* evaluate the overall presentation, structure and content of the financial report,

including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

I communicate with the Secretary regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit

MELBOURNE  
17 September 2018

Andrew Greaves  
Auditor-General

Comprehensive operating statement

**For the financial year ended 30 June 2018**

|  | | | | **($ thousand)** |
| --- | --- | --- | --- | --- |
|  |  | **Note** | **2018** | **2017** |
| **Income from transactions** | | | | |
|  | Output appropriations | 2.2 | 6,837,010 | 6,053,549 |
|  | Special appropriations | 2.3 | 654 | 1,188 |
|  | Interest income | 2.4 | 27,608 | 29,284 |
|  | Grant income | 2.5 | 21,308 | 19,222 |
|  | Other income | 2.6 | 70,587 | 63,217 |
| **Total income from transactions** | |  | **6,957,167** | **6,166,460** |
| **Expenses from transactions** | |  |  |  |
|  | Employee benefit expense | 3.2.1 | (961,331) | (803,366) |
|  | Depreciation | 5.2.1 | (118,593) | (97,093) |
|  | Interest expense | 7.2 | (50,676) | (20,229) |
|  | Grant expense | 3.3 | (4,634,117) | (4,243,809) |
|  | Capital asset charge | 3.4 | (169,878) | (151,608) |
|  | Supplies and services | 3.5 | (1,003,109) | (844,894) |
| **Total expenses from transactions** | |  | **(6,937,704)** | **(6,160,999)** |
| **Net result from transactions (net operating balance)** | |  | **19,463** | **5,461** |
| **Other economic flows included in net result** | | | | |
|  | Net gain/(loss) on non-financial assets (i) | 9.3 | 1,956 | 935 |
|  | Net gain/(loss) on financial instruments (ii) | 9.3 | 6,006 | (6,341) |
|  | Other gains/(losses) from other economic flows | 9.3 | 2,399 | (1,598) |
| **Total other economic flows included in net result** | |  | **10,361** | **(7,004)** |
| **Net result** | |  | **29,824** | **(1,543)** |
| **Other economic flows - other comprehensive income** | | | | |
|  | **Items that will not be reclassified to net result** |  |  |  |
|  | Changes in physical asset revaluation surplus (iii) | 9.4 | (48,984) | 45,301 |
| **Total other economic flows - other comprehensive income** | |  | **(48,984)** | **45,301** |
| **Comprehensive result** | |  | **(19,160)** | **43,758** |
| (i) Includes gains/(losses) from impairments and disposals of property, plant and equipment and intangible assets.  (ii) Includes bad and doubtful debts from other economic flows, and gains/(losses) from investments.  (iii) The 2017-18 movement is related to the write-off of buildings previously revalued and a building impairment. | | | | |
| **The above comprehensive operating statement should be read in conjunction with the notes to the financial statements.** | | | | |

Balance sheet

**As at 30 June 2018**

| **($ thousand)** | | | | |
| --- | --- | --- | --- | --- |
|  |  | **Note** | **2018** | **2017** |
| **Assets** | | | | |
| **Financial assets** | | | | |
|  | Cash and deposits | 7.3 | 90,767 | 90,036 |
|  | Receivables | 6.2 | 1,061,645 | 871,273 |
|  | Investments and other financial assets | 5.4 | 246,703 | 334,124 |
| **Total financial assets** | |  | **1,399,115** | **1,295,433** |
| **Non-financial assets** | | | | |
|  | Prepayments |  | 13,821 | 11,456 |
|  | Inventories |  | 10,393 | 8,844 |
|  | Non-financial assets classified as held for sale |  | 377 | 319 |
|  | Property, plant and equipment | 5.2 | 3,315,225 | 2,464,257 |
|  | Intangible assets | 5.3 | 70,499 | 46,077 |
| **Total non-financial assets** | |  | **3,410,315** | **2,530,953** |
| **Total assets** | |  | **4,809,430** | **3,826,386** |
| **Liabilities** | | | | |
|  | Payables | 6.3 | 865,066 | 713,140 |
|  | Borrowings | 7.2 | 651,888 | 192,657 |
|  | Employee benefit provisions | 3.2.2 | 228,763 | 202,337 |
|  | Other provisions |  | 8,213 | 8,250 |
| **Total liabilities** | |  | **1,753,930** | **1,116,384** |
| **Net assets** | |  | **3,055,500** | **2,710,002** |
| **Equity** | | | | |
|  | Accumulated surplus/(deficit) |  | 1,114,608 | 1,084,784 |
|  | Physical asset revaluation surplus | 9.4 | 611,550 | 660,534 |
|  | Contributed capital |  | 1,329,342 | 964,684 |
| **Net worth** | |  | **3,055,500** | **2,710,002** |
| **The above balance sheet should be read in conjunction with the notes to the financial statements.** | | | | |

Cash flow statement

**For the financial year ended 30 June 2018**

| **($ thousand)** | | | | |
| --- | --- | --- | --- | --- |
|  |  | **Note** | **2018** | **2017** |
| **Cash flows from operating activities** | | | | |
|  | **Receipts** |  |  |  |
|  | Receipts from government |  | 6,716,352 | 5,988,484 |
|  | Receipts from other entities |  | 21,308 | 19,222 |
|  | Goods and services tax recovered from Australian Tax Office (i) |  | 182,294 | 101,495 |
|  | Interest received |  | 28,487 | 28,715 |
|  | Dividends received |  | 7,416 | 21,350 |
|  | Other receipts |  | 64,190 | 60,228 |
|  | **Total receipts** |  | **7,020,047** | **6,219,494** |
|  | **Payments** |  |  |  |
|  | Payments of grant expenses |  | (4,634,117) | (4,243,809) |
|  | Payments to suppliers and employees |  | (2,076,410) | (1,703,772) |
|  | Capital asset charge payments |  | (169,878) | (151,608) |
|  | Interest and other costs of finance paid |  | (50,676) | (20,229) |
|  | **Total payments** |  | **(6,931,081)** | **(6,119,418)** |
|  | **Net cash flows from/(used in) operating activities** | 7.3.1 | **88,966** | **100,076** |
| **Cash flows from investing activities** | | | | |
|  | Payments for investments |  | (32,070) | (333,113) |
|  | Proceeds from sale of investments |  | 125,000 | 263,837 |
|  | Purchases of non-financial assets (ii) |  | (223,965) | (176,075) |
|  | Sales of non-financial assets |  | 4,271 | 3,450 |
|  | **Net cash flows from/(used in) investing activities** |  | **(126,764)** | **(241,901)** |
| **Cash flows from financing activities** | | | | |
|  | Cash received from machinery of government changes |  | 0 | 345 |
|  | Cash received from capital appropriations |  | 611,379 | 164,983 |
|  | Capital contribution passed on to agencies within government |  | (53,727) | (29,948) |
|  | Equity transfers within government |  | (192,994) | (141,036) |
|  | Proceeds from borrowings (ii) |  | 0 | 0 |
|  | Repayment of borrowings and finance leases |  | (326,129) | (17,954) |
|  | **Net cash flows from/(used in) financing activities** |  | **38,529** | **(23,610)** |
| **Net increase/(decrease) in cash and cash equivalents** | |  | **731** | **(165,435)** |
| Cash and cash equivalents at beginning of financial year | |  | 90,036 | 255,471 |
| **Cash and cash equivalents at end of financial year** | | 7.3 | **90,767** | **90,036** |
| (i) GST received from ATO is presented on a net basis.  (ii) The 2016-17 comparative has been adjusted to correct non-cash movements relating to finance leased assets.  **The above cash flow statement should be read in conjunction with notes to the financial statements.** | | | | |

Statement of changes in equity

**For the financial year ended 30 June 2018**

| **($ thousand)** | | | | | | |
| --- | --- | --- | --- | --- | --- | --- |
|  |  | **Note** | **Physical asset revaluation surplus** | **Accumulated surplus / (deficit)** | **Contributed capital** | **Total** |
| **Balance at 1 July 2016** | |  | **615,233** | **1,086,327** | **752,937** | **2,454,497** |
|  | Net result for year |  | 0 | (1,543) | 0 | (1,543) |
|  | Other comprehensive income for year |  | 45,301 | 0 | 0 | 45,301 |
|  | Capital appropriations |  | 0 | 0 | 164,984 | 164,984 |
|  | Capital contribution passed onto agencies within Justice Portfolio |  | 0 | 0 | (29,948) | (29,948) |
|  | Equity transfer within government |  | 0 | 0 | (141,527) | (141,527) |
|  | Administrative restructure - net assets received |  | 0 | 0 | 218,238 | 218,238 |
| **Balance at 30 June 2017** | |  | **660,534** | **1,084,784** | **964,684** | **2,710,002** |
|  | Net result for year |  | 0 | 29,824 | 0 | 29,824 |
|  | Other comprehensive income for year |  | (48,984) | 0 | 0 | (48,984) |
|  | Capital appropriations |  | 0 | 0 | 611,379 | 611,379 |
|  | Capital contribution passed onto agencies within Justice Portfolio |  | 0 | 0 | (53,727) | (53,727) |
|  | Equity transfer within government |  | 0 | 0 | (192,994) | (192,994) |
| **Balance at 30 June 2018** | |  | **611,550** | **1,114,608** | **1,329,342** | **3,055,500** |
| **The above statement of changes in equity should be read in conjunction with notes to the financial statements.** | | | | | | |

Notes to the financial statements

1. About this report

The Department of Justice and Regulation (department) is a government department of the State of Victoria, established pursuant to an order made by the Premier under the Public Administration Act 2004. It is an administrative agency acting on behalf of the Crown.

A description of the nature of its operations and its principal activities is included in the report of operations, which does not form part of these financial statements.

Basis of preparation

These financial statements have been prepared on an accruals basis, whereby assets, liabilities, equity, income and expenses are recognised in the reporting period to which they relate, regardless of when cash is received or paid.

Transactions and balances are based on historical costs unless a different measurement basis is specifically disclosed in the note associated with the item measured on a different basis.

The functional and presentation currency is the Australian dollar. Amounts have been rounded to the nearest thousand dollars unless otherwise stated.

Judgements, estimates and assumptions are made in applying Australian Accounting Standards. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and also in future periods that are affected by the revision.

Judgements, assumptions and estimates that have significant effects on the financial statements are disclosed in the notes under the heading ‘significant judgements or estimates’.

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 income and expenses of the department.

Additions to net assets which have been designated as contributions by owners are recognised as contributed capital. Other transfers that are in the nature of contributions to or distributions by owners have also been designated as contributions by owners.

These financial statements cover the Department of Justice and Regulation as an individual reporting entity and include all the controlled activities of the department.

The following agencies have been consolidated into the department’s financial statements pursuant to a determination made by the Minister for Finance under section 53(1)(b) of the Financial Management Act 1994. These agencies are reported in aggregate and are not controlled by the department:

* Office of the Road Safety Camera Commissioner, established under the Road Safety Camera Commissioner Act 2011.
* Business Licensing Authority, established under the Business Licensing Authority Act 1998.
* Post Sentence Authority, established under the Serious Sex Offenders (Detention and Supervision) Amendment (Governance) Act 2017.

Where control of an entity is obtained during the financial period, its results are included in the comprehensive operating statement from the date on which control commenced. Where control ceases during a financial period, the entity’s results are included for that part of the period in which control existed. 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 these financial statements, all material transactions and balances between consolidated entities are eliminated.

Compliance information

These general purpose financial statements have been prepared in accordance with the Financial Management Act 1994 and applicable Australian Accounting Standards, including Interpretations, issued by the Australian Accounting Standards Board. In particular, they are presented in a manner consistent with the requirements of AASB 1049 Whole of Government and General Government Sector Financial Reporting.

Where appropriate, those Australian Accounting Standards’ paragraphs applicable to not-for-profit entities have been applied. Accounting policies selected and applied in these financial statements ensure that the resulting financial information satisfies the concepts of relevance and reliability, thereby ensuring that the substance of the underlying transactions or other events is reported.

2. Funding delivery of services

2.1 Introduction

The department’s key objectives are:

* Ensuring community safety through policing, law enforcement and prevention activities
* Effective management of prisoners and offenders and provision of opportunities for rehabilitation and reparation
* Effective supervision of young offenders through the provision of youth justice services promoting rehabilitation
* A fair and accessible criminal justice system that supports a just society based on the rule of law
* A fair and accessible civil justice system that supports a just society with increased confidence and equality in the Victorian community
* Reduce the impact of, and consequences from, natural disasters and other emergencies on people, infrastructure, the economy and the environment
* A fair market place for Victorian consumers and businesses with responsible and sustainable liquor, gambling and racing sectors

To enable the department to fulfil its objectives and provide outputs as described in note 4, it receives income (predominantly accrual based parliamentary appropriations). The department also receives market based fees for providing advice and other services.

Income is recognised to the extent it is probable the economic benefits will flow to the department and the income can be reliably measured at fair value. Where applicable, amounts disclosed as income are net of returns, allowances, duties and taxes. All amounts of income over which the department does not have control are disclosed as administered income (see note 4.3).

This section provides details on the income we receive to achieve the department’s objectives.

2.2 Summary of compliance with annual parliamentary appropriations

Appropriation is an authority given by the Victorian State Parliament to draw certain sums out of the State’s Consolidated Fund, now or at some future point in time, for the purposes stated, up to the limit of the amount in a particular Act.

Annual appropriations are set out in the annual Appropriation Act and provide for the ordinary annual services of the State Government for a specific financial year. The Act outlines the amount of public money appropriated to each department for the ‘provision of outputs’, ‘additions to net asset base’, ‘payments made on behalf of the State’ and other appropriations specified in the Act for a given financial year.

Output appropriations as shown in the comprehensive operating statement are the appropriations recognised for the ‘provision of outputs’ delivered by the department in a particular financial year.

Capital appropriations as shown in the statement of changes in equity are the appropriations recognised for ‘additions to net asset base’ of the department in a particular financial year.

Appropriations for payments made on behalf of the State as shown in note 4.3 are the appropriations recognised for payments made on behalf of the State in a particular financial year.

Appropriations in relation to the Victorian Law Reform Commission are shown below for completeness, but are not reflected elsewhere within the department’s financial statements.

The amount of appropriation recognised each year depends on the department’s performance in delivering its provision of outputs and additions to net asset base against agreed performance criteria, and the activity in relation to payments on behalf of the State. The amount of appropriation recognised is formally applied and certified by the Treasurer.

In accordance with accrual output-based management procedures, ‘provision of outputs’ and ‘additions to net asset base’ are disclosed as ‘controlled’ activities of the department. ‘Payments made on behalf of the State’ are undertaken on behalf of the State over which the department has no control or discretion and are therefore disclosed as an ‘administered’ activity of the department.

The following table discloses the details of the various annual parliamentary appropriations received by the department for the year.

|  |  |  |  | **($ thousand)** | | | | | | | |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | **Appropriations Act** | | | **Financial Management Act** | | | | **Machinery of government changes** | **Total parliamentary authority** | **Appropriations applied** | **Variance** |  |
|  | **Annual appropriation** | **Advance from Treasurer** | **Section 3(2)** | **Section 29** | **Section 30** | **Section 32** | **Section 35** |  |
| **2018** |  |  |  |  |  |  |  |  |  |  |  |  |
| **Controlled** |  |  |  |  |  |  |  |  |  |  |  |  |
| Provision of outputs | 6,384,511 | 260,168 | 0 | 237,756 | 34,707 | 73,298 | 15,040 | 0 | 7,005,480 | 6,837,010 | 168,470 |  |
| Victorian Law Reform Commission | 691 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 691 | 665 | 26 |  |
|  | 6,385,202 | 260,168 | 0 | 237,756 | 34,707 | 73,298 | 15,040 | 0 | 7,006,171 | 6,837,675 | 168,496 | (i)(iv) |
| Additions to net asset base | 715,504 | 95,390 | 0 | 324 | (34,707) | 92,055 | 7,900 | 0 | 876,466 | 611,379 | 265,087 | (ii)(iv) |
| **Administered** |  |  |  |  |  |  |  |  |  |  |  |  |
| Payments made on behalf of State | 36,001 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 36,001 | 28,976 | 7,025 | (iii) |
| **Total** | **7,136,707** | **355,558** | **0** | **238,080** | **0** | **165,353** | **22,940** | **0** | **7,918,638** | **7,478,030** | **440,608** |  |
| **2017** |  |  |  |  |  |  |  |  |  |  |  |  |
| **Controlled** |  |  |  |  |  |  |  |  |  |  |  |  |
| Provision for outputs | 5,583,419 | 123,093 | 0 | 226,688 | 89,719 | 144,707 | 0 | 37,312 | 6,204,938 | 6,053,549 | 151,389 |  |
| Victorian Law Reform Commission | 694 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 694 | 694 | 0 |  |
|  | 5,584,113 | 123,093 | 0 | 226,688 | 89,719 | 144,707 | 0 | 37,312 | 6,205,632 | 6,054,243 | 151,389 |  |
| Additions to net asset base | 324,411 | 32,220 | 0 | 2,485 | (89,719) | 205,607 | 0 | 1,576 | 476,580 | 164,984 | 311,596 |  |
| **Administered** |  |  |  |  |  |  |  |  |  |  |  |  |
| Payments made on behalf of State | 54,462 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 54,462 | 27,773 | 26,689 |  |
| **Total** | **5,962,986** | **155,313** | **0** | **229,173** | **0** | **350,314** | **0** | **38,888** | **6,736,674** | **6,247,000** | **489,674** |  |

**(i) Controlled - provision of outputs (including Victorian Law Reform Commission)**

The majority of the $168.496 million variance (2017: $151.389 million) relates to rephasing and carryover of output appropriations from 2017-18 to 2018-19.

* The primary drivers of the rephasing and carryover are:
* Victorian Racing Industry Fund (VRIF) Grants - Owing to the size and scope of some of the VRIF’s capital works programs, the timing of certain projects may extend beyond the financial year in which they are approved or initially anticipated to occur. While funds are committed, the precise timing of claims is dependant upon receipt of appropriate documentation from the racing bodies indicating project stages have been completed in line with Ministerial approval, payment is then facilitated. Funds have been rephased into future years to align with the expected payment obligations.
* Community Crime Prevention Grants – The Minister for Police announced outcomes for direct and competitive Youth Crime Prevention grants in June 2017 with the department facilitating a process with key community and government stakeholders to jointly develop the multi-year initiative. Funding agreements for these projects, which are largely of two years duration, were executed with grant recipients in June 2017. This has resulted in a rephase of funds into future years to meet residual payments in line with funding agreements.
* Natural Disaster Resilience Grant Scheme – The department has received funding for the grants under the 2015-17 National Partnership Agreement, which was extended for a further year, in June 2018. Given the timing of this extension, payment of the grants will not commence until July 2018 and as such a carryover has been requested to ensure funds are available to enable payment of grants in 2018-19.
* The New youth justice facility (Cherry Creek) required approval under the Commonwealth Environment Protection and Biodiversity Conservation Act 1999 before work could commence. This approval process caused delays to the project’s timeline, resulting in the request for carryover of funds to ensure funding is available to continue the project in 2018-19.
* Community Safety Statement and Public Safety initiatives - the funding reflects a major investment in Victoria Police to fight crime and ensure that it has the powers and resources it needs to reduce harm in the community and keep Victorians safe. A carryover has been requested to ensure funds are available in 2018-19.

**(ii) Controlled - additions to net asset base (ATNAB)**

* The majority of the $265.087 million variance (2017: $311.596 million) relates to rephasing and carryover of the ATNAB appropriation into 2018-19.
* The primary drivers of the rephasing and carryover are:
* Women’s prison capacity strategy - In 2018-19, Dame Phyllis Frost Centre (DPFC) will deliver a new Mental Health Unit, cellular accommodation, gatehouse and supporting infrastructure. Construction of these buildings have been managed as a program to achieve efficiencies and ensure minimal disruption to prison operation.
* Prison capacity expansion - The scope for the construction of the expansion of Fulham Correctional Centre has been increased to accommodate an increased prisoner population and achieve efficiency gain. The scope increase has resulted in variations in planning works and tendering processes for the additional building constructions.
* Corrections Remand upgrades - Infrastructure hardening and expansion of the emergency response capacity at the Metropolitan Remand Centre (MRC) is complete. Additional improvements to infrastructure at MRC will continue.
* Management of serious offenders - The Barwon Prison 10 Bed Detention Unit was designed to meet legislative requirements. The detention unit will provide options to safely manage serious offenders on detention orders. These works are expected to be completed in 2018-19.
* Increase Prison Capacity - Ravenhall Correctional Centre became operational in November 2017 and accommodates 1,000 prisoners with built capacity for 1,300 prisoners. Carryover was requested into 2018-19 to meet the retained construction risk.
* Critical Infrastructure and Services - Supporting Recent Prison Expansion - The Langi Kal Kal Waste Water Treatment Plant was refined through industry consultation resulting in a change to the practical completion date. The project is forecast for completion in 2018-19.
* Community Safety Statement and Public Safety initiatives - The investment in infrastructure works supports Victoria Police’s capability to provide safe communities and workplaces. A carryover is requested to align the budget to the revised timelines in 2018-19.

**(iii) Administered - payments made on behalf of state**

* The variance of $7.025 million (2017: $26.689 million) is due to an over estimate of amounts paid/payable to other states and jurisdictions for their share of Tattersall’s taxation which is collected in Victoria.

**(iv) Section 30 transfers**

* A transfer from capital to operating funding of $20.000 million has occurred in 2017-18 in accordance with section 30 of the Financial Management Act 1994 to support Victoria Police’s business operations.

2.3 Summary of compliance with special appropriations

A special appropriation is a provision within an Act that provides authority to spend money for a particular purpose. Special appropriations represent a standing authority and remain in force until the relevant legislation providing for the special appropriation is amended or repealed by Parliament.

Income is recognised when the amount appropriated for a specific purpose is due and payable by the department.

The following table discloses the details of compliance with special appropriations:

|  |  |  | **($ thousand)** | |
| --- | --- | --- | --- | --- |
|  | **Authority** | **Purpose** | **Appropriations applied** | |
| **2018** | **2017** |
|  | **Controlled** |  |  |  |
| 1 | Corrections Act 1986 (No. 117/1986), s.104ZW | Compensation to CCS from the WorkCover Authority Fund under the Accident Compensation Act 1985 | 72 | 68 |
| 2 | Emergency Management Act 1986 (Act No. 30/1986), s.32 | Payments to volunteers for work related injuries under the Act | 181 | 230 |
| 3 | Victoria State Emergency Service Act 2005 (Act No. 51/2005), s.52 | Payments to volunteers for work related injuries under the Act | 401 | 311 |
| 4 | Financial Management Act 1994 (No. 18/1994), s.10 | Payments of Commonwealth grants under section 10 of the Financial Management Act 1994 | 0 | 579 |
|  | **Total** |  | **654** | **1,188** |
|  | **Administered** |  |  |  |
| 5 | Melbourne City Link Act 1995  (No. 107/1995), s.14 (4) | Payments to City Link | 1,370 | 2,064 |
| 6 | EastLink Project Act 2004  (No 39/2004), s.26 | Payments to East Link | 1,172 | 1,907 |
| 7 | Crown Proceedings Act 1958  (No. 6232/1958), s.26 | Payments from Crown Proceedings in the Supreme Court of Victoria | 2,490 | 1,470 |
|  | **Total** |  | **5,032** | **5,441** |

2.4 Interest income

|  |  |  | **($ thousand)** |
| --- | --- | --- | --- |
|  |  | **2018** | **2017** |
| Interest from financial assets not at fair value through profit/loss: | | | |
| Interest from deposits and investments | | 1,814 | 5,445 |
| Interest from real estate agent and conveyancer trust accounts | | 25,794 | 23,839 |
| **Total interest income** | | **27,608** | **29,284** |

**Interest income** includes interest received on bank term deposits and other investments. Interest income is recognised using the effective interest method, which allocates interest over the relevant period.

2.5 Grant income

|  |  |  | **($ thousand)** |
| --- | --- | --- | --- |
|  |  | **2018** | **2017** |
| Received from: | | | |
| General government within portfolio | | 7 | 0 |
| General government outside portfolio | | 21,301 | 19,122 |
| Other | | 0 | 100 |
| **Total grant income** | | **21,308** | **19,222** |

**Grant income** arises from transactions in which a party provides goods or assets (or extinguishes a liability) to the department without receiving approximately equal value in return. While grants may result in the provision of some goods or services to the transferring party, they do not provide a claim to receive benefits directly of approximately equal value (and are termed ‘non-reciprocal’ transfers). Receipt and sacrifice of approximately equal value may occur, but only by coincidence. For non-reciprocal grants, the department recognises revenue when the grant is receivable or received.

Grants can be received as general purpose grants, which refers to grants which are not subject to conditions regarding their use. Alternatively, they may be received as specific purpose grants, which are paid for a particular purpose and/or have conditions attached regarding their use.

Some grants are reciprocal in nature (i.e. equal value is given back by the recipient of the grant to the provider). The department recognises income when it has satisfied its performance obligations under the terms of the grant.

2.6 Other income

|  |  |  | **($ thousand)** |
| --- | --- | --- | --- |
|  |  | **2018** | **2017** |
| Fines and fees | | 17,235 | 14,277 |
| Dividends from investments | | 7,416 | 20,991 |
| Income from Residential Tenancies Bond Authority (RTBA) | | 18,700 | 10,500 |
| Income from Victorian Building Authority (VBA) | | 13,950 | 12,354 |
| Other | | 13,286 | 5,095 |
| **Total other income** | | **70,587** | **63,217** |

**Fines and fees** are recognised upon the receipt of cash paid into various trust funds in accordance with their associated legislation.

**Dividends from investments** are recognised when the right to receive payment is established. Dividends represent the income arising from the department’s investments in financial assets.

**Income from RTBA** is recognised upon the receipt of cash paid into the Residential Tenancies Fund by the RTBA in accordance with section 437 of the Residential Tenancies Act 1997.

**Income from VBA** relates to the Domestic Building Fund’s share of the building permit levy, and registration and application fees collected by the VBA under the Building Act 1993.

2.7 Annotated income agreements

The department is permitted under section 29 of the Financial Management Act 1994 to have certain income annotated to the annual appropriation. The income which forms part of a section 29 agreement is recognised by the department and the receipts paid into the consolidated fund as an administered item. At the point of income recognition, section 29 provides for an equivalent amount to be added to the annual appropriation.

The following is a list of annotated income agreements approved by the Treasurer under section 29 of the Financial Management Act 1994:

|  |  |  | **($ thousand)** |
| --- | --- | --- | --- |
|  |  | **2018** | **2017** |
| **User charges, or sales of goods and services** | | | |
|  | Consumer Affairs Victoria publications and conferences | 70 | 10 |
|  | Corrections Victoria prison industries | 15,878 | 14,600 |
|  | Crime Statistics Agency | 254 | 576 |
|  | Emergency alerting system | 13,176 | 11,836 |
|  | Emergency services management | 23,491 | 23,086 |
|  | Fees for legal services | 38,841 | 35,909 |
|  | Gaming and liquor regulation | 696 | 1,244 |
|  | Infringement Court fees | 39,809 | 39,995 |
|  | Public information, education, training and mediation services | 709 | 1,200 |
|  | Registrar of Births, Deaths and Marriages | 6,515 | 6,204 |
|  | Secretariat Legal Education and Board of Examiners | 2,750 | 2,758 |
|  | Victorian Institute of Forensic Medicine services | 11,030 | 11,169 |
|  | Victoria Police policing services and event management | 9,459 | 11,303 |
| **Asset sales** | | | |
|  | Victoria Police asset sales | 324 | 2,485 |
| **Commonwealth specific purpose payments** | | | |
|  | National bushfire mitigation program | 0 | 898 |
|  | National coronial information system | 0 | 800 |
|  | National disaster resilience program | 10,440 | 2,088 |
|  | Provision of fire services | 3,250 | 3,108 |
|  | Victoria legal aid | 61,388 | 59,904 |
| **Total annotated income agreements** | | **238,080** | **229,173** |

3. Cost of delivering services

3.1 Introduction

This note provides an account of the expenses incurred by the department in delivering services and outputs. In note 2, the funds that enable the provision of services were disclosed and in this note the cost associated with provision of services are recorded. Note 4 discloses aggregated information in relation to the income and expenses by output.

3.2 Employee benefits

3.2.1 Employee benefit expense in the comprehensive operating statement

|  |  |  | **($ thousand)** |
| --- | --- | --- | --- |
|  |  | **2018** | **2017** |
| Salary and wages | | 719,502 | 601,930 |
| Superannuation | | 71,020 | 59,490 |
| Annual leave and long service leave | | 96,960 | 81,009 |
| Other on-costs (fringe benefits tax, payroll tax and workcover levy) | | 73,010 | 60,315 |
| Termination benefits | | 839 | 622 |
| **Total employee benefit expense** | | **961,331** | **803,366** |

**Employee benefit expense** includes all costs related to employment including wages and salaries, fringe benefits tax, leave entitlements, termination payments and WorkCover premiums.

The amount recognised in the comprehensive operating statement in relation to superannuation is employer contributions for members of both defined benefit and defined contribution superannuation plans that are paid or payable during the reporting period. The department does not recognise any defined benefit liabilities because it has no legal or constructive obligation to pay future benefits relating to its employees. Instead, the Department of Treasury and Finance discloses in its annual financial statements the net defined benefit cost related to the members of these plans as an administered liability (on behalf of the State as the sponsoring employer).

Termination benefits are payable when employment is terminated before normal retirement date, or when an employee accepts an offer of benefits in exchange for the termination of employment. Termination benefits are recognised when the department is demonstrably committed to terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after the end of the reporting period are discounted to present value.

3.2.2 Employee benefit provisions in the balance sheet

Provision is made for benefits accruing to employees in respect of annual leave and long service leave for services rendered to the reporting date and recorded as an expense during the period the services are delivered.

|  |  |  | **($ thousand)** |
| --- | --- | --- | --- |
|  |  | **2018** | **2017** |
| Current provisions | | | |
| **Annual leave** | | | |
| * Unconditional and expected to settle within 12 months | | 63,126 | 53,170 |
| * Unconditional and expected to settle after 12 months | | 8,801 | 7,828 |
| **Long service leave** | | | |
| * Unconditional and expected to settle within 12 months | | 9,938 | 8,675 |
| * Unconditional and expected to settle after 12 months | | 83,970 | 72,394 |
| **On-costs** | | | |
| * Unconditional and expected to settle within 12 months | | 17,977 | 14,961 |
| * Unconditional and expected to settle after 12 months | | 18,130 | 15,364 |
| **Total current provisions for employee benefits** | | **201,942** | **172,392** |
| **Non-current provisions** | | | |
| * Employee benefits | | 22,705 | 25,188 |
| * Employee on-costs | | 4,116 | 4,757 |
| **Total non-current provisions for employee benefits** | | **26,821** | **29,945** |
| **Total provisions for employee benefits** | | **228,763** | **202,337** |

Reconciliation of movement in employee on-cost provision

|  |  |  | **($ thousand)** |
| --- | --- | --- | --- |
|  |  | **2018** | **2017** |
| Opening balance | | 35,082 | 27,651 |
| Additional provisions recognised | | 24,630 | 21,392 |
| Additions due to transfer in | | 0 | 2,264 |
| Reductions arising from payments/other sacrifices of future economic benefits | | (19,489) | (16,225) |
| **Closing balance** | | **40,223** | **35,082** |
| Current | | 36,107 | 30,325 |
| Non-current | | 4,116 | 4,757 |

**Liabilities for annual leave** are recognised in the provision for employee benefits as current liabilities. Those liabilities that are expected to be settled within 12 months of the reporting period are measured at nominal values. Those liabilities that are not expected to be settled within 12 months are also recognised in the provision for employee benefits as current liabilities, but are measured at present value of the amounts expected to be paid when the liabilities are settled using the remuneration rate expected to apply at the time of settlement.

**Liabilities for long service leave** are recognised in the provision for employee benefits.

**Unconditional long service leave** is disclosed as a current liability, even where the department does not expect to settle the liability within 12 months because it will not have the unconditional right to defer the settlement of the entitlement should an employee take leave within 12 months.

The components of this current long service leave liability are measured at:

* undiscounted value if the department expects to wholly settle within 12 months; or
* present value if the department does not expect to wholly settle within 12 months.

**Conditional long service leave** is disclosed as a non-current liability. There is an unconditional right to defer the settlement of the entitlement until the employee has completed the requisite years of service. This non-current long service leave is measured at present value.

Any gain or loss following revaluation of the present value of non-current long service leave liability is recognised as a transaction, except to the extent that a gain or loss arises due to changes in interest rates for which it is then recognised as an ‘other economic flow’ (refer to note 9.3) in the net result.

**Employee on-costs** such as payroll tax and workers compensation are not employee benefits. They are disclosed separately as a component of the provision for employee benefits when the employment to which they relate has occurred.

**No provision has been made for sick leave** as all sick leave is non-vesting and it is not considered probable that the average sick leave taken in the future will be greater than the benefits accrued in the future. As sick leave is non-vesting, an expense is recognised in the comprehensive operating statement as it is taken.

**Liabilities for wages and salaries** are in payables (note 6.3).

3.2.3 Superannuation contributions

Employees of the department are entitled to receive superannuation benefits and the department contributes to both defined benefit and defined contribution plans. The defined benefit plans provide benefits based on years of service and final average salary.

As noted before, the defined benefit liability is recognised by the Department of Treasury and Finance as an administered liability. However, superannuation contributions paid or payable for the reporting period are included as part of employee benefits expense in the comprehensive operating statement of the department.

|  |  |  |  | **($ thousand)** |
| --- | --- | --- | --- | --- |
|  | **Paid contribution for year** | | **Contribution outstanding at year end** | |
|  | **2018** | **2017** | **2018** | **2017** |
| **Defined benefit plans** | | | | |
| Emergency Services and State Super | 4,547 | 4,408 | 87 | 78 |
| **Defined contribution plans** | | | | |
| VicSuper | 47,324 | 41,082 | 954 | 763 |
| Various other | 17,720 | 12,891 | 388 | 268 |
| **Total** | **69,591** | **58,381** | **1,429** | **1,109** |

The basis for contributions is determined by the various schemes.

3.3 Grant expense

|  |  | **($ thousand)** |
| --- | --- | --- |
|  | **2018** | **2017** |
| Payments to: |  |  |
| Victoria Police | 3,051,625 | 2,766,807 |
| Country Fire Authority | 593,192 | 557,845 |
| Metropolitan Fire and Emergency Services Board | 380,932 | 362,471 |
| Victoria Legal Aid | 171,387 | 151,912 |
| Office of Public Prosecutions | 70,816 | 65,984 |
| Victoria State Emergency Service Authority | 57,765 | 57,237 |
| Court Services Victoria | 23,406 | 21,000 |
| Victorian Commission for Gambling and Liquor Regulation | 37,893 | 36,494 |
| Victorian Institute of Forensic Medicine | 36,771 | 34,918 |
| Emergency Services Telecommunications Authority | 45,324 | 49,692 |
| Victorian Equal Opportunity and Human Rights Commission | 9,428 | 9,201 |
| Sentencing Advisory Council | 2,018 | 1,854 |
| Victorian Responsible Gambling Foundation | 2,417 | 2,058 |
| Other parties | 151,143 | 126,336 |
| **Total grant expenses** | **4,634,117** | **4,243,809** |

**Grant expenses** are contributions of the department’s resources to another party for specific or general purposes where there is no expectation that the amount will be repaid in equal value (either by money, goods or services). Grant expenses are recognised in the reporting period in which they are paid or payable.

3.4 Capital asset charge

|  |  |  | **($ thousand)** |
| --- | --- | --- | --- |
|  |  | **2018** | **2017** |
| Capital asset charge | | 169,878 | 151,608 |

**A capital asset charge** is a charge levied on the written down value of controlled non-current physical assets in a department’s balance sheet. It aims to attribute to the department outputs, a cost of capital used in service delivery. Imposing this charge provides incentives for the department to identify and dispose of underutilised or surplus non-current physical assets.

3.5 Supplies and services

|  |  | **($ thousand)** |
| --- | --- | --- |
|  | **2018** | **2017** |
| Outsourced contracts | 584,345 | 454,686 |
| Contractors, professional services and consultants | 116,832 | 115,892 |
| Accommodation and property services | 73,579 | 59,347 |
| Maintenance | 27,865 | 21,088 |
| Technology services | 61,211 | 52,564 |
| Printing, stationery and other office expenses | 30,939 | 31,195 |
| Other | 108,338 | 110,122 |
| **Total supplies and services** | **1,003,109** | **844,894** |

**Supplies and services** generally represent the day-to-day running costs incurred in normal operations, and are recognised as an expense in the reporting period in which they are incurred.

**Outsourced contracts** relate to expenses paid for outsourced functions of the department.

**Contractors, professional services and consultants** relate to the expenses paid for operational services, specialist professional services, expert analysis and strategic advice.

**Accommodation and property services** relate to the expenses paid for accommodation leases, utilities, cleaning services, fire protection services, security services, storage costs and other services.

**Maintenance** relate to the expenses paid for repairs and maintenance services.

**Technology services** relate to the expenses paid for information and technology services.

**Printing, stationery and other office expenses** relate to expenses paid for stationery, consumables, supplies, external printing, books, acts, regulations, statutory rulings, legal subscriptions, transcripts, newspapers, magazines, journals, media monitoring services, advertising, low value office equipment and other office expenses.

4. Disaggregated financial information by output

4.1 Introduction

This section provides a description of the departmental outputs delivered during the year ended 30 June 2018 along with the objectives of those outputs.

This note disaggregates income that enables the delivery of services (described in note 2) by output and records the allocation of expenses incurred (described in note 3) also by output, which form part of controlled balances of the department.

It also provides information on items administered in connection with these outputs.

The distinction between controlled and administered items is drawn based on whether the department has the ability to deploy the resources in question for its own benefit (controlled items) or whether it does so on behalf of the State (administered). The department remains accountable for transactions involving administered items, but it does not recognise these items in its financial statements.

4.2 Department outputs - descriptions and objectives

Policing and crime prevention

**Description of output:** This output group reports on activities relating to the provision of effective police and law enforcement services that aim to prevent, detect, investigate and prosecute crime, and promote safer road user behaviour. It focuses on activities that enable Victorians to undertake their lawful pursuits confidently, safely and without fear of crime.

**Objectives:** This output group contributes to the department’s objective of ‘ensuring community safety through policing, law enforcement and prevention activities’.

Enforcing and managing correctional orders

**Description of output:** This output group relates to the management of the State’s adult correctional system.

**Objectives:** This output group contributes to the department’s objective of ‘effective management of prisoners and offenders and provision of opportunities for rehabilitation and reparation’.

Youth justice

**Description of output:** This output group promotes opportunities for rehabilitation for young people in the youth justice system and contributes to the reduction of crime in the community by providing a range of services including diversion services, advice to courts, offence related programs, community-based and custodial supervision.

**Objectives:** This output group contributes to the department’s objective of ‘effective supervision of young offenders through the provision of youth justice services promoting rehabilitation’.

Criminal justice services

**Description of output:** This output group relates to the provision of criminal justice services that support legal processes and law reform. Services that support legal processes include legal assistance and education services, prosecution services, community mediation services, support for victims of crime, risk assessments for those working with or caring for children, infringement processing and enforcement activities and the delivery of independent, expert forensic medical services to the justice system. Other services in this output group include legal policy advice to government, law reform, and sentencing advisory services.

**Objectives:** This output group contributes to the department’s objective of ‘a fair and accessible criminal justice system that supports a just society based on the rule of law’.

Civil justice services

**Description of output:** This output group supports the Victorian community through the provision of services relating to: rights and equal opportunity; life event registration and identity protection; and advocacy and guardianship for Victorians with a disability or mental illness.

**Objectives:** This output group contributes to the department’s objective of ‘a fair and accessible civil justice system that supports a just society with increased confidence and equality in the Victorian community.

Emergency management

**Description of output:** This output group supports the delivery of a coordinated, all communities - all emergencies approach to emergency management, focusing on risk mitigation and active partnership with the Victorian community.

**Objectives:** This output group contributes to the department’s objective to ‘reduce the impact of, and consequences from, natural disasters and other emergencies on people, infrastructure, the economy and the environment’.

Industry regulation and support

**Description of output:** This output group relates to harm minimisation through the regulation of the gambling and liquor industries, as well as support and development of the racing sector. This output group also promotes the empowerment of consumers and businesses to know their rights and responsibilities to promote a well-functioning market economy through regulation and support to consumers and businesses. There is a specific focus on the needs of vulnerable and disadvantaged consumers.

**Objectives:** This output group contributes to the department’s objective of ‘a fair market place for Victorian consumers and businesses with responsible and sustainable liquor, gambling and racing sectors’.

Departmental outputs - controlled

| **($ thousand)** | | | | | | | | | | | | | | | | | |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  | **Policing and crime prevention** | | **Enforcing and managing  correctional orders** | | **Youth justice** | | **Criminal justice services** | | **Civil justice services** | | **Emergency management** | | **Industry regulation and support** | | **Departmental total** | |
|  |  | **2018** | **2017** | **2018** | **2017** | **2018** | **2017** | **2018** | **2017** | **2018** | **2017** | **2018** | **2017** | **2018** | **2017** | **2018** | **2017** |
| **Controlled income and expenses for year ended 30 June 2018** | | | | | | | | | | | | | | | | | |
| **Income from transactions** | | | | | | | | | | | | | | | | | |
|  | Output appropriations | 3,078,572 | 2,783,114 | 1,548,217 | 1,289,268 | 152,398 | 44,058 | 627,079 | 570,239 | 104,771 | 97,223 | 1,207,654 | 1,155,851 | 118,319 | 113,796 | 6,837,010 | 6,053,549 |
|  | Special appropriations | 0 | 579 | 73 | 68 | 0 | 0 | 0 | 0 | 0 | 0 | 581 | 541 | 0 | 0 | 654 | 1,188 |
|  | Interest income | 0 | 0 | 0 | 140 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 27,608 | 29,144 | 27,608 | 29,284 |
|  | Grant income | 106 | 1 | 15,090 | 14,191 | 0 | 210 | 2,018 | 20 | 2,942 | 2,392 | 1,103 | 242 | 49 | 2,166 | 21,308 | 19,222 |
|  | Other income | 8 | 6 | 10,525 | 2,696 | 328 | 39 | 520 | 557 | 215 | 248 | 1,112 | 670 | 57,879 | 59,001 | 70,587 | 63,217 |
| **Total income from transactions** | | **3,078,686** | **2,783,700** | **1,573,905** | **1,306,363** | **152,726** | **44,307** | **629,617** | **570,816** | **107,928** | **99,863** | **1,210,450** | **1,157,304** | **203,855** | **204,107** | **6,957,167** | **6,166,460** |
| **Expenses from transactions** | | | | | | | | | | | | | | | | | |
|  | Employee benefit expense | (7,417) | (5,592) | (617,698) | (554,179) | (91,120) | (22,315) | (89,453) | (80,982) | (59,474) | (54,751) | (40,614) | (37,058) | (55,555) | (48,489) | (961,331) | (803,366) |
|  | Depreciation | (16) | (13) | (91,572) | (75,846) | (4,164) | (1,009) | (11,401) | (9,530) | (373) | (545) | (10,767) | (9,831) | (300) | (319) | (118,593) | (97,093) |
|  | Interest expense | 2 | 1 | (50,622) | (20,165) | (72) | (19) | (27) | (61) | 3 | (2) | 42 | 28 | (2) | (11) | (50,676) | (20,229) |
|  | Grant expense | (3,068,463) | (2,775,686) | (8,727) | (13,863) | (682) | (453) | (321,116) | (277,494) | (12,169) | (13,021) | (1,103,597) | (1,056,503) | (119,363) | (106,789) | (4,634,117) | (4,243,809) |
|  | Capital asset charge | 0 | 0 | (151,904) | (133,755) | 0 | (3,024) | (14,491) | (11,486) | 0 | 0 | (3,483) | (3,343) | 0 | 0 | (169,878) | (151,608) |
|  | Supplies and services | (3,633) | (2,328) | (627,633) | (499,750) | (60,302) | (16,524) | (188,877) | (189,794) | (34,685) | (33,681) | (49,191) | (50,929) | (38,788) | (51,888) | (1,003,109) | (844,894) |
| **Total expenses from transactions** | | **(3,079,527)** | **(2,783,618)** | **(1,548,156)** | **(1,297,558)** | **(156,340)** | **(43,344)** | **(625,365)** | **(569,347)** | **(106,698)** | **(102,000)** | **(1,207,610)** | **(1,157,636)** | **(214,008)** | **(207,496)** | **(6,937,704)** | **(6,160,999)** |
| **Net result from transactions (net operating balance)** | | **(841)** | **82** | **25,749** | **8,805** | **(3,614)** | **963** | **4,252** | **1,469** | **1,230** | **(2,137)** | **2,840** | **(332)** | **(10,153)** | **(3,389)** | **19,463** | **5,461** |
| **Other economic flows included in net result** | | | | | | | | | | | | | | | | | |
|  | Net gain/(loss) on non-financial assets | 12 | 5 | 1,069 | 471 | 0 | 0 | 310 | 171 | 94 | 52 | 367 | 182 | 104 | 54 | 1,956 | 935 |
|  | Net gain/(loss) on financial instruments | (9) | 0 | 507 | (5) | 0 | 0 | 0 | 0 | 0 | 0 | 0 | (1) | 5,508 | (6,335) | 6,006 | (6,341) |
|  | Other gains/(losses) from other economic flows | 19 | (34) | 1,456 | (1,239) | 191 | (35) | 271 | (111) | 168 | (157) | 120 | 284 | 174 | (306) | 2,399 | (1,598) |
| **Total other economic flows included in net result** | | **22** | **(29)** | **3,032** | **(773)** | **191** | **(35)** | **581** | **60** | **262** | **(105)** | **487** | **465** | **5,786** | **(6,587)** | **10,361** | **(7,004)** |
| **Net result** | | **(819)** | **53** | **28,781** | **8,032** | **(3,423)** | **928** | **4,833** | **1,529** | **1,492** | **(2,242)** | **3,327** | **133** | **(4,367)** | **(9,976)** | **29,824** | **(1,543)** |
| **Other economic flows - other comprehensive income** | | | | | | | | | | | | | | | | | |
|  | **Items that will not be reclassified to net result** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | Changes in physical asset revaluation surplus | 1 | 1 | (49,306) | 17,086 | 0 | 27,508 | (14) | 503 | (5) | 20 | 342 | 172 | (2) | 11 | (48,984) | 45,301 |
| **Total other economic flows - other  comprehensive income** | | **1** | **1** | **(49,306)** | **17,086** | **0** | **27,508** | **(14)** | **503** | **(5)** | **20** | **342** | **172** | **(2)** | **11** | **(48,984)** | **45,301** |
| **Comprehensive result** | | **(818)** | **54** | **(20,525)** | **25,118** | **(3,423)** | **28,436** | **4,819** | **2,032** | **1,487** | **(2,222)** | **3,669** | **305** | **(4,369)** | **(9,965)** | **(19,160)** | **43,758** |
| Controlled assets and liabilities at 30 June 2018 | | | | | | | | | | | | | | | | | |
| **Assets** | | | | | | | | | | | | | | | | | |
| Financial assets | | 479,704 | 437,521 | 263,083 | 195,253 | 1,218 | 622 | 135,610 | 111,878 | 33,962 | 29,622 | 160,643 | 106,663 | 324,895 | 413,874 | 1,399,115 | 1,295,433 |
| Non-financial assets | | 479 | 295 | 2,958,219 | 2,125,283 | 289,851 | 256,990 | 92,443 | 76,030 | 4,389 | 3,839 | 60,698 | 64,895 | 4,236 | 3,621 | 3,410,315 | 2,530,953 |
| **Total assets** | | **480,183** | **437,816** | **3,221,302** | **2,320,536** | **291,069** | **257,612** | **228,053** | **187,908** | **38,351** | **33,461** | **221,341** | **171,558** | **329,131** | **417,495** | **4,809,430** | **3,826,386** |
| **Liabilities** | | **478,056** | **436,459** | **968,186** | **416,246** | **32,542** | **53,983** | **118,115** | **97,104** | **22,511** | **21,453** | **79,126** | **47,780** | **55,394** | **43,359** | **1,753,930** | **1,116,384** |
| **Total liabilities** | | **478,056** | **436,459** | **968,186** | **416,246** | **32,542** | **53,983** | **118,115** | **97,104** | **22,511** | **21,453** | **79,126** | **47,780** | **55,394** | **43,359** | **1,753,930** | **1,116,384** |
| **Net assets** | | **2,127** | **1,357** | **2,253,116** | **1,904,290** | **258,527** | **203,629** | **109,938** | **90,804** | **15,840** | **12,008** | **142,215** | **123,778** | **273,737** | **374,136** | **3,055,500** | **2,710,002** |

4.3 Administered items

Administered income includes taxes, fees and fines. Administered expenses include payments made on behalf of the State and payments into the consolidated fund. Administered assets include government income earned but yet to be collected. Administered liabilities include government expenses incurred but yet to be paid. Except as otherwise disclosed, administered resources are accounted for on an accrual basis using the same accounting policies adopted for recognition of the departmental items in the financial statements. Both controlled and administered items of the department are consolidated into the financial statements of the State.

The department does not gain control over assets arising from taxes, fines and regulatory fees, consequently no income is recognised in the department’s financial statements. The department collects these amounts on behalf of the State. Accordingly, the amounts are disclosed as income in the schedule of administered items.

Administered (non-controlled) items

For the financial year ended 30 June 2018

|  | **($ thousand)** | | | | | | | | | | | | | | | |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | **Policing and crime prevention** | | **Enforcing and managing correctional orders** | | **Youth justice** | | **Criminal justice services** | | **Civil justice services** | | **Emergency management** | | **Industry regulation and support** | | **Departmental total** | |
|  | **2018** | **2017** | **2018** | **2017** | **2018** | **2017** | **2018** | **2017** | **2018** | **2017** | **2018** | **2017** | **2018** | **2017** | **2018** | **2017** |
| **Administered income from transactions** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Appropriations for payments made on behalf of the State | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 28,976 | 27,773 | 28,976 | 27,773 |
| Special appropriations applied | 0 | 0 | 0 | 0 | 0 | 0 | 2,542 | 3,971 | 2,490 | 1,470 | 0 | 0 | 0 | 0 | 5,032 | 5,441 |
| Sale of goods and services | 2 | 3 | 16,140 | 15,080 | 0 | 0 | 39,848 | 40,095 | 48,396 | 45,127 | 36,715 | 35,030 | 84 | 41 | 141,185 | 135,376 |
| Fines (i) | 0 | 0 | 247 | 265 | 0 | 0 | 763,888 | 668,771 | 0 | 0 | 0 | 0 | 0 | 0 | 764,135 | 669,036 |
| Fees | 2 | 2 | 0 | 0 | 0 | 0 | 310,943 | 303,768 | 10,240 | 10,303 | 0 | 0 | 2,579 | 2,581 | 323,764 | 316,654 |
| Other income | 19 | 12 | 1,684 | 1,381 | 0 | 0 | 29,226 | 23,121 | 186 | 140 | 569 | 481 | 6,431 | 1,063 | 38,115 | 26,198 |
| **Total administered income from transactions** | **23** | **17** | **18,071** | **16,726** | **0** | **0** | **1,146,447** | **1,039,726** | **61,312** | **57,040** | **37,284** | **35,511** | **38,070** | **31,458** | **1,301,207** | **1,180,478** |
| **Administered expenses from transactions** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Payments made on behalf of the State | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | (28,976) | (27,773) | (28,976) | (27,773) |
| Payments into the consolidated fund | (5) | (3) | (31,084) | (29,504) | 0 | 0 | (471,542) | (505,441) | (65,557) | (62,267) | (49,876) | (48,908) | (114) | (41) | (618,178) | (646,164) |
| Other expenses | (15) | (11) | (1,555) | (1,466) | 0 | 0 | (3,165) | (5,492) | (3,419) | (1,606) | (452) | (440) | (127) | (141) | (8,733) | (9,156) |
| **Total administered expenses from transactions** | **(20)** | **(14)** | **(32,639)** | **(30,970)** | **0** | **0** | **(474,707)** | **(510,933)** | **(68,976)** | **(63,873)** | **(50,328)** | **(49,348)** | **(29,217)** | **(27,955)** | **(655,887)** | **(683,093)** |
| **Total administered net result from transactions (net operating balance)** | **3** | **3** | **(14,568)** | **(14,244)** | **0** | **0** | **671,740** | **528,793** | **(7,664)** | **(6,833)** | **(13,044)** | **(13,837)** | **8,853** | **3,503** | **645,320** | **497,385** |
| **Administered other economic flows included in administered net result** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Net gain/(loss) on non-financial assets | (1) | 0 | (1,171) | (49) | 0 | 0 | (48) | (3) | (14) | (1) | 479 | 333 | (7) | (1) | (762) | 279 |
| Net gain/(loss) on financial instruments | 0 | 0 | 0 | 0 | 0 | 0 | (507,060) | (356,518) | 0 | (89) | 0 | 0 | 0 | 0 | (507,060) | (356,607) |
| **Total administered other economic flows** | **(1)** | **0** | **(1,171)** | **(49)** | **0** | **0** | **(507,108)** | **(356,521)** | **(14)** | **(90)** | **479** | **333** | **(7)** | **(1)** | **(507,822)** | **(356,328)** |
| **Total administered comprehensive result** | **2** | **3** | **(15,739)** | **(14,293)** | **0** | **0** | **164,632** | **172,272** | **(7,678)** | **(6,923)** | **(12,565)** | **(13,504)** | **8,846** | **3,502** | **137,498** | **141,057** |
| **Administered financial assets** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Cash and deposits | 53 | 42 | 12,778 | 13,015 | 16 | 17 | 8,186 | 8,516 | 5,603 | 8,358 | 1,578 | 1,644 | 476 | 488 | 28,690 | 32,080 |
| Receivables (i) | 0 | 1 | 0 | 101 | 0 | 0 | 1,418,371 | 1,276,663 | 8,008 | 10,991 | 1,981 | 1,416 | 0 | 10 | 1,428,360 | 1,289,182 |
| Equity investments in other justice portfolio entities | 0 | 0 | 0 | 0 | 0 | 0 | 43,395 | 42,195 | 29 | 29 | 660,405 | 597,621 | 11,098 | 11,098 | 714,927 | 650,943 |
| **Total administered financial assets** | **53** | **43** | **12,778** | **13,116** | **16** | **17** | **1,469,952** | **1,327,374** | **13,640** | **19,378** | **663,964** | **600,681** | **11,574** | **11,596** | **2,171,977** | **1,972,205** |
| **Administered liabilities** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Creditors and accruals | 0 | 0 | 49 | 10 | 0 | 0 | 11 | 281 | 782 | 101 | 0 | 1 | 0 | 0 | 842 | 393 |
| Deposits payable | 49 | 37 | 10,200 | 10,136 | 16 | 17 | 7,075 | 7,301 | 5,965 | 8,661 | 1,458 | 1,443 | 438 | 425 | 25,201 | 28,020 |
| Unearned revenue | 3 | 0 | 242 | 3 | 0 | 0 | 70 | 1 | 992 | 804 | 139 | 1 | 23 | 0 | 1,469 | 809 |
| **Total administered liabilities** | **52** | **37** | **10,491** | **10,149** | **16** | **17** | **7,156** | **7,583** | **7,739** | **9,566** | **1,597** | **1,445** | **461** | **425** | **27,512** | **29,222** |
| **Total administered net assets** | **1** | **6** | **2,287** | **2,967** | **0** | **0** | **1,462,796** | **1,319,791** | **5,901** | **9,812** | **662,367** | **599,236** | **11,113** | **11,171** | **2,144,465** | **1,942,983** |

(i) The department implemented a new infringement management system on 1 January 2018 to coincide with legislative changes made under the Fines Reform Amendments Act 2017. There have been no changes made to how the department accounts for fines in the financial statements. The fines reform has resulted in the department recording additional court related fines and earlier recognition of some court fines, which has resulted in additional fines revenue from 1 January 2018.

5. Key assets available to support output delivery

5.1 Introduction

The department controls assets that are utilised in fulfilling its objectives and conducting its activities. They represent the resources that have been entrusted to the department to be utilised for delivery of these outputs.

5.2 Property, plant and equipment

|  | **($ thousand)** | | | | | |
| --- | --- | --- | --- | --- | --- | --- |
|  | **Gross carrying amount** | | **Accumulated depreciation** | | **Net carrying amount** | |
|  | **2018** | **2017** | **2018** | **2017** | **2018** | **2017** |
| Land at fair value | 281,876 | 280,463 | 0 | 0 | 281,876 | 280,463 |
| Buildings at fair value | 1,391,349 | 1,383,537 | (96,238) | (46,520) | 1,295,111 | 1,337,017 |
| Leased buildings at fair value | 1,158,659 | 414,191 | (38,105) | (12,918) | 1,120,554 | 401,273 |
| Leasehold improvements at fair value | 83,807 | 83,627 | (57,585) | (50,627) | 26,222 | 33,000 |
| Plant and equipment at fair value | 261,613 | 249,735 | (145,134) | (124,243) | 116,479 | 125,492 |
| Leased plant and equipment at fair value | 93,730 | 24,732 | (11,418) | (9,811) | 82,312 | 14,921 |
| Assets under construction at cost | 392,671 | 272,091 | 0 | 0 | 392,671 | 272,091 |
| **Total** | **3,663,705** | **2,708,376** | **(348,480)** | **(244,119)** | **3,315,225** | **2,464,257** |

**Initial recognition:** Items of property, plant and equipment are measured initially at cost. Where an asset is acquired for no or nominal cost, the cost is its fair value at the date of acquisition. Assets transferred as part of a machinery of government change are transferred at their carrying amount.

The costs of property, plant and equipment under construction includes the cost of all materials used in construction, direct labour on the project and an appropriate proportion of variable and fixed overheads.

The cost of leased property, plant and equipment is measured at amounts equal to the fair value of the leased asset or, if lower, the present value of the minimum lease payments, each determined at the inception of the lease. Certain assets acquired under finance leases may form part of a service concession arrangement (public private partnership).

The carrying amount of leased buildings at fair value and leased plant and equipment at fair value has increased due to the capitalisation of the Ravenhall Correctional Centre on 2 November 2017.

**Subsequent measurement:** Property, plant and equipment are subsequently measured at fair value less accumulated depreciation and impairment. Fair value is determined with regard to the asset’s highest and best use (considering legal or physical restrictions imposed on the asset, public announcements or commitments made in relation to the intended use of the asset). Refer to note 8.4 for additional information on fair value determination of property, plant and equipment.

5.2.1 Depreciation and impairment

Depreciation

|  |  | **($ thousand)** |
| --- | --- | --- |
|  | **2018** | **2017** |
| Buildings | 49,871 | 44,097 |
| Leased buildings | 25,058 | 15,326 |
| Leasehold improvements | 6,958 | 6,686 |
| Plant and equipment | 22,727 | 21,301 |
| Leased plant and equipment | 7,029 | 5,102 |
| Software | 6,950 | 4,581 |
| Total | 118,593 | 97,093 |

All property, plant and equipment and intangible assets that have finite useful lives are depreciated. Exceptions to this rule include items under operating leases, assets held for sale, and land.

Depreciation is calculated on a straight line basis, at rates that allocate the asset’s value, less any estimated residual value, over its estimated useful life. Typical estimated useful lives for the different asset classes for current and prior years are included in the table below:

|  | **(Years)** |
| --- | --- |
|  | **Nominal useful life** |
| Buildings (owned and leased) | 25 to 60 |
| Leasehold improvements | 3 to 20 |
| Plant and equipment (owned and leased) | 5 to 21 |
| Software | 2 to 7 |

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

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

Land and other assets with an indefinite useful life are not depreciated. Depreciation is not recognised in respect of these assets because their service potential has not, in any material sense, been consumed during the reporting period.

Impairment

Property, plant and equipment and intangible assets are tested annually for impairment and whenever there is an indication that the asset may be impaired.

The assets concerned are tested as to whether their carrying value exceeds their recoverable amount. Where an asset’s carrying value exceeds its recoverable amount, the difference is written off as an ‘other economic flow’ (refer to note 9.3), except to the extent that it can be debited to an asset revaluation surplus amount applicable to that class of asset (refer to note 9.4).

If there is an indication that there has been a reversal in impairment, the carrying amount shall be increased to its recoverable amount. However this reversal should not increase the asset’s carrying amount above what would have been determined, net of depreciation, if no impairment loss had been recognised in prior years.

The recoverable amount for most assets is measured at the higher of depreciated replacement cost and fair value less costs to sell. Recoverable amount for assets held primarily to generate net cash inflows is measured at the higher of the present value of future cash flows expected to be obtained from the asset and fair value less costs to sell.

5.2.2 Carrying values by ‘purpose’ groups

|  | **($ thousand)** | | | | | |
| --- | --- | --- | --- | --- | --- | --- |
|  | **Public safety and environment** | | **Public administration** | | **Total** | |
|  | **2018** | **2017** | **2018** | **2017** | **2018** | **2017** |
| **Nature based classification** |  |  |  |  |  |  |
| Land at fair value | 281,749 | 280,383 | 127 | 80 | 281,876 | 280,463 |
| Buildings at fair value | 1,295,111 | 1,337,017 | 0 | 0 | 1,295,111 | 1,337,017 |
| Leased buildings at fair value | 1,120,554 | 401,273 | 0 | 0 | 1,120,554 | 401,273 |
| Leasehold improvements at fair value | 25,721 | 32,721 | 501 | 279 | 26,222 | 33,000 |
| Plant and equipment at fair value | 116,432 | 125,464 | 47 | 28 | 116,479 | 125,492 |
| Leased plant and equipment at fair value | 81,450 | 14,354 | 862 | 567 | 82,312 | 14,921 |
| Assets under construction at cost | 391,268 | 271,352 | 1,403 | 739 | 392,671 | 272,091 |
| **Total** | **3,312,285** | **2,462,564** | **2,940** | **1,693** | **3,315,225** | **2,464,257** |

5.2.3 Reconciliation of movements in carrying amount of property, plant and equipment

| **($ thousand)** | | | | | | | | |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **2018** | **Land at  fair value** | **Buildings at fair value** | **Leased buildings  at fair value** | **Leasehold improvements  at fair value** | **Plant & equipment  at fair value** | **Leased plant & equipment at fair value** | **Assets under construction  at cost** | **Total** |
| Opening balance | 280,463 | 1,337,017 | 401,273 | 33,000 | 125,492 | 14,921 | 272,091 | 2,464,257 |
| Additions | 1,413 | 4,093 | 709,942 | 180 | 13,542 | 76,979 | 213,843 | 1,019,992 |
| Disposals | 0 | 0 | 0 | 0 | (9) | (2,306) | 0 | (2,315) |
| Transfers out of assets under construction | 0 | 58,737 | 34,526 | 0 | 0 | 0 | (93,263) | 0 |
| Reclassification between classes | 0 | 129 | (129) | 0 | 0 | 0 | 0 | 0 |
| Reclassification to / from intangible assets | 0 | 0 | 0 | 0 | 560 | 0 | 0 | 560 |
| Revaluation (i) | 0 | (45,836) | 0 | 0 | 0 | 0 | 0 | (45,836) |
| Impairment (i) | 0 | (3,490) | 0 | 0 | 0 | 0 | 0 | (3,490) |
| Fair value of assets received free of charge or for nominal consideration | 0 | 0 | 0 | 0 | 173 | 124 | 0 | 297 |
| Fair value of assets provided free of charge or for nominal consideration | 0 | (4,921) | 0 | 0 | 0 | 0 | 0 | (4,921) |
| Depreciation | 0 | (49,871) | (25,058) | (6,958) | (22,727) | (7,029) | 0 | (111,643) |
| Transfers to disposal group held for sale | 0 | 0 | 0 | 0 | 0 | (377) | 0 | (377) |
| Net transfers contributed capital | 0 | (747) | 0 | 0 | (552) | 0 | 0 | (1,299) |
| Closing balance | 281,876 | 1,295,111 | 1,120,554 | 26,222 | 116,479 | 82,312 | 392,671 | 3,315,225 |

1. This movement includes a realignment of prior year assets under construction and a building impairment.

| **($ thousand)** | | | | | | | | |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **2017** | **Land at  fair value** | **Buildings at  fair value** | **Leased buildings at fair value** | **Leasehold improvements  at fair value** | **Plant & equipment at fair value** | **Leased plant & equipment at fair value** | **Assets under construction at cost** | **Total** |
| Opening balance | 148,195 | 1,035,250 | 488,961 | 28,677 | 139,447 | 12,822 | 280,143 | 2,133,495 |
| Additions | 888 | 4,081 | 13,993 | 81 | 7,018 | 7,792 | 126,929 | 160,782 |
| Disposals | 0 | 0 | 0 | 0 | (45) | (2,470) | 0 | (2,515) |
| Transfers out of assets under construction | 0 | 134,851 | 0 | 11,305 | 23 | 0 | (146,179) | 0 |
| Reclassification between classes | 0 | 86,337 | (86,355) | (363) | (376) | 0 | 757 | 0 |
| Revaluation | 45,301 | 0 | 0 | 0 | 0 | 0 | 0 | 45,301 |
| Machinery of government transfer in | 86,079 | 120,595 | 0 | 0 | 786 | 1,790 | 10,441 | 219,691 |
| Fair value of assets received free of charge or for nominal consideration | 0 | 0 | 0 | 0 | 0 | 193 | 0 | 193 |
| Fair value of assets provided free of charge or for nominal consideration | 0 | 0 | 0 | 0 | (13) | 0 | 0 | (13) |
| Depreciation | 0 | (44,097) | (15,326) | (6,686) | (21,301) | (5,102) | 0 | (92,512) |
| Transfers to disposal group held for sale | 0 | 0 | 0 | 0 | 0 | (104) | 0 | (104) |
| Net transfers contributed capital | 0 | 0 | 0 | (14) | (47) | 0 | 0 | (61) |
| **Closing balance** | **280,463** | **1,337,017** | **401,273** | **33,000** | **125,492** | **14,921** | **272,091** | **2,464,257** |

5.3 Intangible assets

|  |  | **($ thousand)** |
| --- | --- | --- |
|  | **2018** | **2017** |
| **Gross carrying amount** |  |  |
| Opening balance | 112,824 | 73,971 |
| Additions (i) | 31,932 | 38,853 |
| Reclassification to / from property, plant and equipment | (560) | 0 |
| Closing balance | 144,196 | 112,824 |
| **Accumulated depreciation** |  |  |
| Opening balance | (66,747) | (62,166) |
| Depreciation (ii) | (6,950) | (4,581) |
| Closing balance | (73,697) | (66,747) |
| Net book value at end of financial year | 70,499 | 46,077 |

(i) Intangible assets reported include both intangible assets under construction and capitalised intangible assets.

(ii) The consumption of intangible assets is included in the depreciation expense line item in the comprehensive operating statement.

**Initial recognition**

**Purchased intangible assets** are initially recognised at cost.

An **internally generated intangible asset** arising from development is recognised if, and only if, all of the following are demonstrated:

* the technical feasibility of completing the intangible asset so that it will be available for use or sale;
* an intention to complete the intangible asset and use or sell it;
* the ability to use or sell the intangible asset;
* the intangible asset will generate probable future economic benefits;
* the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
* the ability to measure reliably the expenditure attributable to the intangible asset during its development.

**Subsequent measurement**

Intangible assets with finite useful lives are carried at cost less accumulated depreciation and impairment. Refer to note 5.2.1 for information on depreciation and impairment.

**Significant intangible assets**

The department implemented the Victorian Infringements, Enforcement and Warrants System (VIEW) on 1 January 2018 at a value of $37.783 million. VIEW replaces the legacy Victorian Infringement Management System (VIMS) and is capable of providing improved verification, processing and monitoring of infringements and Courts fines. VIEW supports new enforcement arrangements under the Fines Reform Act 2014 for the 130 external agencies and 19 State Government users of the system.

5.4 Investments and other financial assets

|  |  |  | **($ thousand)** |
| --- | --- | --- | --- |
|  |  | **2018** | **2017** |
| **Current investments and other financial assets** | |  |  |
| Term deposits > 3 months (i) | | 24,654 | 100,000 |
| **Total current investments and other financial assets** | | **24,654** | **100,000** |
| **Non-current investments and other financial assets** | |  |  |
| Managed investment schemes (ii) | |  |  |
| Multi-strategy funds | | 222,049 | 234,124 |
| **Total non-current investments and other financial assets** | | **222,049** | **234,124** |
| **Total investments and other financial assets** | | **246,703** | **334,124** |

(i) Term deposits under ‘investments and other financial assets’ class include only term deposits with maturity greater than 3 months.

(ii) The department designated all its managed investment schemes at fair value through profit or loss.

6. Other assets and liabilities

6.1 Introduction

This note sets out those assets and liabilities that arose from the department’s controlled operations.

6.2 Receivables

|  |  | **($ thousand)** |
| --- | --- | --- |
|  | **2018** | **2017** |
| **Contractual** |  |  |
| Advance to Metropolitan Fire and Emergency Services Board | 1,189 | 1,427 |
| Accrued interest income (i) | 2,214 | 3,157 |
| Other receivables (i) | 14,339 | 6,793 |
| Provision for doubtful contractual receivables | (771) | (1,279) |
| **Total contractual receivables** | **16,971** | **10,098** |
| **Statutory** |  |  |
| Amounts owing from Victorian Government | 1,008,359 | 835,395 |
| GST input tax credit recoverable | 36,315 | 25,780 |
| **Total statutory receivables** | **1,044,674** | **861,175** |
| **Total receivables** | **1,061,645** | **871,273** |
| Represented by |  |  |
| Current receivables | 868,569 | 675,602 |
| Non-current receivables | 193,076 | 195,671 |

(i) The 2016-17 comparative has been adjusted to reclassify a receivable from accrued interest income to other receivables.

**Contractual receivables** arise from an agreement between the department and another party. They are classified as financial instruments and categorised as ‘loans and receivables’. They are initially recognised at fair value plus any directly attributable transaction costs, and are subsequently measured at amortised cost using the effective interest method, less any impairment.

The average credit period for other receivables is 30 days. Overdue receivable balances are immaterial and no interest is charged on these balances. The department does not hold any collateral as security nor credit enhancements relating to its receivables. No terms have been renegotiated to prevent a receivable from being past due or impaired. Receivables are stated at their carrying amounts.

**Statutory receivables** do not arise from contracts and are recognised and measured similarly to contractual receivables (except for impairment), but are not classified as financial instruments. Amounts owing from the Victorian Government represent funding for all commitments incurred and are drawn from the Consolidated Fund as the commitments fall due.

| **Movement in the provision for doubtful contractual receivables** |  | **($ thousand)** |
| --- | --- | --- |
|  | **2018** | **2017** |
| **Balance at beginning of year** | **1,279** | **1,279** |
| Reversal of unused provision recognised in net result | (26) | 0 |
| Reversal of provision for receivables written off during the year as uncollectible | (482) | 0 |
| **Balance at end of year** | **771** | **1,279** |

**Bad and doubtful contractual receivables:** Contractual receivables are assessed for bad and doubtful debts on a regular basis. A provision for doubtful contractual receivables is recognised when there is objective evidence that the debts may not be collected. Bad debts are written off when identified. Bad debts written off by mutual consent are classified as a transaction expense. Bad debts unilaterally written off are classified as other economic flows in the net result. Any increase or decrease in the provision for doubtful contractual receivables are classified as other economic flows in the net result.

6.3 Payables

|  |  | **($ thousand)** |
| --- | --- | --- |
|  | **2018** | **2017** |
| **Contractual** |  |  |
| Trade creditors and other payables | 259,601 | 196,857 |
| Accrued capital works | 56,991 | 21,151 |
| Salaries and wages | 19,279 | 14,908 |
| **Total contractual payables** | **335,871** | **232,916** |
| **Statutory** |  |  |
| Pay as you go (PAYG) tax withheld | 3,167 | 2,920 |
| Payroll tax | 3,898 | 4,628 |
| Fringe benefits tax | 135 | 212 |
| Amounts payable to government agencies | 521,995 | 472,464 |
| **Total statutory payables** | **529,195** | **480,224** |
| **Total payables** | **865,066** | **713,140** |
| Represented by |  |  |
| Current payables | 699,263 | 548,534 |
| Non-current payables | 165,803 | 164,606 |

**Contractual payables** arise from an agreement between the department and another party. They are classified as financial instruments and measured at amortised cost.

The average credit period for trade creditors and other payables is 30 days.

**Statutory payables** do not arise from contracts and are recognised and measured similarly to contractual payables, but are not classified as financial instruments.

7. Financing operations

7.1 Introduction

This note provides information on the sources of finance utilised by the department during its operations, along with interest expenses (the cost of borrowings) and other information related to financing activities of the department.

This note includes disclosures of balances that are financial instruments (such as borrowings and cash balances). Notes 8.2 provides additional disclosures.

7.2 Borrowings (finance lease liabilities)

The department’s borrowings consists only of its finance lease liabilities. Finance leases are effectively secured by the leased assets, as the rights to the leased assets revert to the lessor in the event of default. Borrowings are classified as financial instruments and are measured at amortised cost.

At the commencement of the lease term, finance leases liabilities are recognised at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payment, each determined at the inception of the lease. Minimum finance lease payments are apportioned between the reduction of the outstanding lease liability and the periodic finance expense (interest expense) which is calculated using the interest rate implicit in the lease and charged directly to the comprehensive operating statement.

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

**Commissioned public private partnerships (PPP):** In December 2003, the State entered into a PPP arrangement with Victorian Correctional Infrastructure Partnership Pty Ltd (VCIP) for the design, construction and maintenance of two prisons, Marngoneet Correctional Centre and Metropolitan Remand Centre. This contract ends in 2031.

In September 2014, the State entered into a PPP arrangement with GEO Consortium for the design, construction, operation and maintenance of Ravenhall Correctional Centre. This contract ends in 2042.

The portion of total payments relating to the department’s right to use the prison assets under these contracts are accounted for as finance lease liabilities. The payments relating to the ongoing maintenance and operation of the prisons are expensed. Refer to note 7.5 for commitments for expenditure for PPPs.

**Other leasing arrangements:** The other finance leases relate to vehicles with lease terms of up to five years.

Finance lease liabilities payable

| **($ thousand)** | | | | | |
| --- | --- | --- | --- | --- | --- |
|  |  | **Minimum future lease payments** | | **Present value of minimum future lease payments** | |
|  |  | **2018** | **2017** | **2018** | **2017** |
| **Commissioned PPP related finance lease liabilities payable** | | | | | |
|  | Not longer than 1 year | 77,201 | 26,283 | 12,521 | 6,588 |
|  | Longer than 1 year but not longer than 5 years | 314,272 | 110,496 | 61,971 | 32,107 |
|  | Longer than 5 years | 1,224,454 | 292,420 | 561,420 | 139,067 |
|  |  | 1,615,927 | 429,199 | 635,912 | 177,762 |
| **Other finance lease liabilities payable** | | | | | |
|  | Not longer than 1 year | 8,826 | 7,890 | 8,455 | 7,495 |
|  | Longer than 1 year but not longer than 5 years | 7,717 | 7,643 | 7,521 | 7,400 |
|  | Longer than 5 years | 0 | 0 | 0 | 0 |
|  |  | 16,543 | 15,533 | 15,976 | 14,895 |
|  |  | 1,632,470 | 444,732 | 651,888 | 192,657 |
| **Minimum future lease payments** (i) | | | | | |
|  | Less future finance charges | (980,582) | (252,075) | 0 | 0 |
| **Present value of minimum lease payments** | | 651,888 | 192,657 | 651,888 | 192,657 |
| Included in the financial statements as: | | | | | |
|  | Current borrowings lease liabilities |  |  | 20,976 | 14,083 |
|  | Non-current borrowing lease liabilities |  |  | 630,912 | 178,574 |
|  |  |  |  | 651,888 | 192,657 |

(i) Minimum future lease payments include the aggregate of all lease payments and any guaranteed residual.

Interest expense

|  |  |  | **($ thousand)** |
| --- | --- | --- | --- |
|  |  | **2018** | **2017** |
| Interest on finance leases | | | |
| For PPP arrangements | | 50,453 | 19,931 |
| For non-PPP arrangements | | 223 | 298 |
| **Total interest expense** | | **50,676** | **20,229** |

7.3 Cash flow information and balances

For the purposes of the cash flow statement and balance sheet, cash includes cash on hand and in banks, net of outstanding bank overdrafts, and investments in term deposits of less than three months. Most of this cash is held in trusts as shown below.

|  |  | **($ thousand)** |
| --- | --- | --- |
|  | **2018** | **2017** |
| Cash (i) | (1,427) | (1,020) |
| Cash and deposits held in trust (ii) |  |  |
| Crime prevention and victims’ aid fund | 41 | 41 |
| Domestic builders fund | 2,442 | 21,409 |
| Victorian property fund | 28,286 | 19,797 |
| Correctional enterprises working account | 12,616 | 12,992 |
| Motor car traders’ guarantee fund | 1,635 | 4,059 |
| National gambling research trust | 0 | 434 |
| Sex work regulation fund | 1,251 | 1,335 |
| Residential tenancies fund | 3,213 | 1,257 |
| Inter-departmental transfer fund | 2,472 | 0 |
| Treasury trust fund | 38,945 | 28,037 |
| Victorian consumer law fund | 1,293 | 1,695 |
| Balance as per cash flow statement and balance sheet | 90,767 | 90,036 |

(i) Due to the State of Victoria’s investment policy and government funding arrangements, government departments generally do not hold a large cash reserve in their bank accounts. Cash received by a department from the generation of revenue is generally paid into the State’s bank account, known as the Public Account. Similarly, any departmental expenditure, including those in the form of cheques drawn by the department for the payment of goods and services to its suppliers and creditors are made via the Public Account. The process is such that, the Public Account would remit to the department the cash required for the amount drawn on the cheques. This remittance by the Public Account occurs upon the presentation of the cheques by the department’s suppliers or creditors.

The above funding arrangements often result in departments having a shortfall in the cash at bank required for payment of unpresented cheques at the reporting date. At 30 June 2018, cash at bank included the amount of a shortfall for the payment of unpresented cheques of $1.488 million (2017: $1.058 million).

(ii) Funds held in trust are quarantined for use specifically for the purposes under which each trust fund has been established.

7.3.1 Reconciliation of net result for the period to cash flow from operating activities

|  |  | **($ thousand)** |
| --- | --- | --- |
|  | **2018** | **2017** |
| **Net result for the period** | 29,824 | (1,543) |
| **Non-cash movements** |  |  |
| Net (gain)/loss on disposal of non-current assets | (1,956) | (935) |
| Depreciation of non-current assets | 118,593 | 97,093 |
| Resources (received)/provided free of charge or for nominal consideration | (175) | 12 |
| Net (gain)/loss on financial instruments | (6,006) | 6,341 |
| Net (gain)/loss from revaluation of provisions | (2,399) | 1,598 |
| **Movements in assets and liabilities** |  |  |
| Decrease/(increase) in receivables | (189,874) | (111,441) |
| Decrease/(increase) in prepayments | (2,366) | 2,917 |
| Decrease/(increase) in inventories | (1,549) | (1,448) |
| Increase/(decrease) in payables | 116,086 | 91,332 |
| Increase/(decrease) in provisions | 28,788 | 16,150 |
| **Net cash flows from/(used in) operating activities** | **88,966** | **100,076** |

7.4 Trust account balances

Trust account balances relating to trust accounts controlled and/or administered by the department

| **($ thousand)** | | | | | | | | |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Cash and deposits, and investments** | **2018** | | | | **2017** | | | |
| **Opening balance as at 1 July 2017** | **Total  receipts** | **Total  payments** | **Closing balance as at  30 June 2018** | **Opening balance as at 1 July 2016** | **Total  receipts** | **Total  payments** | **Closing balance as at 30 June 2017** |
| **Controlled trusts** (i) |  |  |  |  |  |  |  |  |
| **Crime prevention and victims’ aid fund** Established under the Confiscation Act 1997 to hold monies in accordance with section 134 of that Act. | 41 | 0 | 0 | **41** | 41 | 0 | 0 | **41** |
| **Domestic builders fund** Established under the Domestic Building Contracts Act 1995 to hold monies in accordance with section 124 of that Act. | 21,409 | 14,663 | 14,876 | **21,196** | 21,760 | 13,213 | 13,564 | **21,409** |
| **Victorian property fund**  Established under the Estate Agents Act 1980 to hold monies in accordance with sections 73 and 75 of that Act. | 318,514 | 46,283 | 151,852 | **212,945** | 422,617 | 48,572 | 152,675 | **318,514** |
| **Correctional enterprises working account** Established under the Financial Management Act 1994 as a working account for Correctional Enterprises. | 12,992 | 15,992 | 16,368 | **12,616** | 8,986 | 17,083 | 13,077 | **12,992** |
| **Motor car traders’ guarantee fund** Established under the Motor Car Traders Act 1986 to hold monies in accordance with section 74 of that Act. | 4,059 | 3,515 | 3,039 | **4,535** | 2,941 | 3,637 | 2,519 | **4,059** |
| **National gambling  research trust** Established under a memorandum of understanding between the State and Federal Governments to hold funds for a multi-jurisdictional group to perform national gambling research. | 434 | 0 | 434 | **0** | 648 | 2 | 216 | **434** |
| **Sex work regulation fund** Established under the Sex Work Act 1994 to hold monies in accordance with section 66 of that Act. | 1,335 | 1,313 | 1,397 | **1,251** | 1,056 | 1,660 | 1,381 | **1,335** |
| **Residential tenancies fund** Established under the Residential Tenancies Act 1997 to hold monies in accordance with sections 492 and 493 of that Act. | 36,665 | 37,088 | 33,150 | **40,603** | 37,096 | 29,082 | 29,513 | **36,665** |
| **Vehicle lease trust account** Established under the Financial Management Act 1994 to process the sales of VicFleet motor vehicles. | 0 | 2,167 | 2,167 | **0** | 0 | 1,052 | 1,052 | **0** |
| **Inter-departmental  transfer fund** Established under the Financial Management Act 1994 to hold monies in relation to inter-departmental transfers. | 0 | 3,771 | 1,299 | **2,472** | 0 | 0 | 0 | **0** |
| **Treasury trust fund** Established under the Financial Management Act 1994 for the receipt and disbursement of unclaimed monies and other funds held in trust. | 28,037 | 30,508 | 19,600 | **38,945** | 31,146 | 24,392 | 27,501 | **28,037** |
| **Victorian consumer law fund** Established under the Australian Consumer Law and Fair Trading Act 2012 to hold monies in accordance with section 134 and Part 6.2 of that Act. | 1,695 | 2,802 | 204 | **4,293** | 1,390 | 405 | 100 | **1,695** |
| **Total controlled trusts** | **425,181** | **158,102** | **244,386** | **338,897** | **527,681** | **139,098** | **241,598** | **425,181** |

(i) Trust account balances include cash and deposits (note 7.3) and investments (note 5.4).

| **($ thousand)** | | | | | | | | |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Cash and deposits, and investments** | **2018** | | | | **2017** | | | |
| **Opening balance as at 1 July 2017** | **Total  receipts** | **Total  payments** | **Closing balance as at 30 June 2018** | **Opening balance as at 1 July 2016** | **Total  receipts** | **Total  payments** | **Closing balance as at 30 June 2017** |
| **Administered trusts** |  |  |  |  |  |  |  |  |
| **Asset confiscation office retained monies trust** Established under the Financial Management Act 1994 for the Asset Confiscation Office. | 10,904 | 6,031 | 5,979 | **10,956** | 14,185 | 6,504 | 9,785 | **10,904** |
| **Domestic Building Dispute Resolution Victoria Trust Fund** Established under the Building Legislation Amendment (Consumer Protection) Act 2016 to hold monies in accordance with that Act. | 0 | 26 | 0 | **26** | 0 | 0 | 0 | **0** |
| **Victorian government solicitor’s trust** Established under the Financial Management Act 1994 for the Victorian Government Solicitors Office. | 8,244 | 129,507 | 132,162 | **5,589** | 37,957 | 65,915 | 95,628 | **8,244** |
| **Departmental suspense** Established under the Financial Management Act 1994 as a working account for the department. | 3,167 | 531 | 816 | **2,882** | 3,913 | 145 | 891 | **3,167** |
| **Revenue suspense** Established under the Financial Management Act 1994 to temporarily hold monies pending correct identification of receipts. | 12 | 5 | 0 | **17** | 11 | 1 | 0 | **12** |
| **Treasury trust fund** Established under the Financial Management Act 1994 for the receipt and disbursement of unclaimed monies and other funds held in trust. | 7,622 | 786 | 825 | **7,583** | 7,598 | 698 | 674 | **7,622** |
| **Public service commuter club** Established under the Financial Management Act 1994 for the Public Service Commuter Club. | (408) | 2,251 | 2,426 | **(583)** | (240) | 1,956 | 2,124 | **(408)** |
| **Sundry deposits** Established under the Financial Management Act 1994 to hold term deposits for the Victorian Government Solicitors Office. | 30 | 0 | 30 | **0** | 29 | 1 | 0 | **30** |
| **Total administered trusts** | **29,571** | **139,137** | **142,238** | **26,470** | **63,453** | **75,220** | **109,102** | **29,571** |

Third party funds under management

Third party funds under management are funds held in trust for certain clients. They are not used for government purposes and therefore are not included in the department’s financial statements. Any earnings on the funds held pending distribution are also applied to the trust funds under management as appropriate.

| **($ thousand)** | | |
| --- | --- | --- |
|  | **2018** | **2017** |
| **Prisoner private monies** |  |  |
| Cash | 5,610 | 5,800 |
| Amounts owing to prisoners | (5,610) | (5,800) |
|  | 0 | 0 |
| **Prisoner compensation quarantine** |  |  |
| Cash | 325 | 252 |
| Amounts owing to prisoners | (325) | (252) |
|  | 0 | 0 |

7.5 Commitments for expenditure

Commitments for future expenditure include operating and capital commitments arising from contracts. These commitments are recorded below at their nominal value and inclusive of GST. Where it is considered appropriate and provides additional relevant information to users, the net present values of significant individual projects are stated. These future expenditures cease to be disclosed as commitments once the related liabilities are recognised in the balance sheet.

7.5.1 Total commitments payable

|  |  |  |  | **($ thousand)** |
| --- | --- | --- | --- | --- |
| **Nominal values** | **Less than  1 year** | **1 to 5 years** | **More than  5 years** | **Total** |
| **2018** |  |  |  |  |
| PPP commitments (note 7.5.2) | 377,485 | 1,657,404 | 9,322,187 | 11,357,076 |
| Capital expenditure commitments | 214,899 | 37,874 | 0 | 252,773 |
| Intangible assets commitments | 6,067 | 0 | 0 | 6,067 |
| Operating lease commitments | 50,153 | 152,468 | 65,859 | 268,480 |
| Other commitments | 415,380 | 531,365 | 42,742 | 989,487 |
| **Total commitments (inclusive of GST)** | **1,063,984** | **2,379,111** | **9,430,788** | **12,873,883** |
| **2017** |  |  |  |  |
| PPP commitments (note 7.5.2) (i) | 686,285 | 1,752,866 | 10,620,949 | 13,060,100 |
| Capital expenditure commitments | 65,154 | 13,906 | 0 | 79,060 |
| Intangible assets commitments | 21,486 | 0 | 0 | 21,486 |
| Operating lease commitments | 40,654 | 145,014 | 30,900 | 216,568 |
| Other commitments (i) | 351,088 | 297,408 | 38,503 | 686,999 |
| **Total commitments (inclusive of GST)** (i) | **1,164,667** | **2,209,194** | **10,690,352** | **14,064,213** |

(i) The 2016-17 comparative has been adjusted due to the reclassification of Port Phillip Prison and Hopkins Correctional Centre as PPPs to align with Partnership Victoria’s definition of a PPP.

7.5.2 PPP commitments

The department sometimes enters into arrangements with private sector participants to design and construct or upgrade assets used to provide public services. These arrangements usually include the provision of operational and maintenance services for a specified period of time. These arrangements are often referred to as PPPs.

Under these arrangements, the department pays the operator over the arrangement period, subject to specified performance criteria being met. At the date of commitment to the principal provisions of the arrangement, these estimated periodic payments are allocated between a component related to the design and construction or upgrading of the asset and components related to the ongoing operation and maintenance of the asset. The former component is accounted for as a lease payment in accordance with the leases accounting policy. The remaining components are accounted for as commitments for operating costs, which are expensed in the comprehensive operating statement as they are incurred.

PPP commitments

| **($ thousand)** | | | | | | |
| --- | --- | --- | --- | --- | --- | --- |
|  | **2018** | | | **2017** | | |
|  | **Minimum lease payments** | **Other commitments** | **Total commitments** | **Minimum lease payments** | **Other commitments** | **Total commitments** |
|  | **Discounted value** | **Present  value** | **Nominal value** | **Discounted value** | **Present  value** | **Nominal value** |
| **Commissioned PPPs** (i)(ii)(iii) |  |  |  |  |  |  |
| Private prisons |  | 6,537,386 | 11,357,076 |  | 3,426,047 | 5,600,280 |
|  |  | 6,537,386 | 11,357,076 |  | 3,426,047 | 5,600,280 |
| **Uncommissioned PPPs** (iv)(v) |  |  |  |  |  |  |
| Private prisons |  |  |  | 791,623 | 2,954,781 | 7,459,820 |
|  |  | 0 | 0 |  | 2,954,781 | 7,459,820 |
| **Total PPP commitments** (i) |  | **6,537,386** | **11,357,076** |  | **6,380,828** | **13,060,100** |

(i) The 2016-17 comparative has been adjusted due to the reclassification of Port Phillip Prison and Hopkins Correctional Centre as PPPs to align with Partnership Victoria’s definition of a PPP.

(ii) The present values of the minimum lease payments for commissioned PPPs are recognised on the balance sheet and are not disclosed as commitments.

(iii) Refer to note 7.2 for further details on the commissioned PPPs.

(iv) The discounted values of the minimum lease payments for uncommissioned PPPs have been discounted to the expected dates of commissioning and the present values of other commitments have been discounted to 30 June of the respective financial years.

(v) Ravenhall Correctional Centre became a commissioned PPP in November 2017.

8. Risks, contingencies and valuation judgements

8.1 Introduction

This note sets out financial instrument specific information (including exposures to financial risks) as well as those items that are contingent in nature or require a higher level of judgement to be applied, which for the department related mainly to fair value determination.

8.2 Financial instruments specific disclosures

Financial instruments arise out of contractual agreements that give rise to a financial asset of one entity and a financial liability or equity instrument of another entity. Due to the nature of the department’s activities, certain financial assets and financial liabilities arise under statute rather than a contract (for example taxes, fines and penalties). Such assets and liabilities do not meet the definition of financial instruments in AASB 132 Financial Instruments: Presentation.

8.2.1 Categories of financial instruments held by the department

**Loans and receivables and cash** are financial instrument assets with fixed and determinable payments that are not quoted on an active market. These assets and liabilities are initially recognised at fair value plus any directly attributable transaction costs. Subsequent to initial measurement, loans and receivables are measured at amortised cost using the effective interest method (and for assets, less any impairment). The department recognises the following assets in this category:

* cash
* term deposits
* receivables (excluding statutory receivables)

**Financial assets at fair value through profit or loss** are designated as such upon initial recognition. Financial instrument assets are designated at fair value through profit or loss on the basis that the financial assets form part of a group of financial assets that are managed based on their fair values and have their performance evaluated in accordance with documented risk management and investment strategies. Financial instruments at fair value through profit or loss are initially measured at fair value. Attributable transaction costs are expensed as incurred. Subsequently, any changes in fair value are recognised in the net result as other economic flows. The department categorised its managed investment schemes in this category.

**Financial liabilities at amortised cost** are initially recognised on the date they are originated. They are initially measured at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, these financial instruments are measured at amortised cost with any difference between the initial recognised amount and the redemption value being recognised in profit and loss over the period of the interest bearing liability, using the effective interest rate method. The department recognises the following liabilities in this category:

* payables (excluding statutory payables)
* borrowings

**Derecognition of financial assets**: A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when:

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

Where the department has neither transferred nor retained substantially all the risks and rewards nor transferred control, the asset is recognised to the extent of the department’s continuing involvement in the asset.

**Impairment of financial assets**: At the end of each reporting period, the department assesses whether there is objective evidence that a financial asset or group of financial assets is impaired. All financial instrument assets, except those measured at fair value through profit or loss, are subject to annual review for impairment.

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

**Derecognition of financial liabilities**: A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires.

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

8.2.2 Net holding gain/(loss) on financial instruments by category (i)

|  |  |  | **($ thousand)** |
| --- | --- | --- | --- |
| **2018** | **Net holding gain/(loss)** | **Total interest income / (expense)** | **Total** |
| **Contractual financial assets** |  |  |  |
| Designated at fair value through profit or loss | 5,508 | 0 | 5,508 |
| Loans and receivables | 498 | 1,814 | 2,312 |
| **Total contractual financial assets** | **6,006** | **1,814** | **7,820** |
| **Contractual financial liabilities** |  |  |  |
| At amortised cost | 0 | 50,676 | 50,676 |
| **Total contractual financial liabilities** | **0** | **50,676** | **50,676** |

|  |  |  | **($ thousand)** |
| --- | --- | --- | --- |
| **2017** | **Net holding  gain/(loss)** | **Total interest income / (expense)** | **Total** |
| **Contractual financial assets** |  |  |  |
| Designated at fair value through profit or loss | (6,332) | 0 | (6,332) |
| Loans and receivables | (9) | 5,445 | 5,436 |
| **Total contractual financial assets** | **(6,341)** | **5,445** | **(896)** |
| **Contractual financial liabilities** |  |  |  |
| At amortised cost | 0 | 20,229 | 20,229 |
| **Total contractual financial liabilities** | **0** | **20,229** | **20,229** |

(i) Amounts disclosed in this table exclude holding gains and losses related to statutory financial assets and liabilities.

The net holding gains or losses disclosed above are determined as follows:

for financial asset designated at fair value through profit or loss, the net gain or loss is calculated by taking the movement in the fair value of the financial asset;

for loans and receivables, and cash, the net gain or loss is calculated by taking the movement in the fair value of the asset, the interest income, plus or minus foreign exchange gains or losses arising from revaluation of the financial assets, and minus any impairment recognised in the net result; and

for financial liabilities measured at amortised cost, the net gain or loss is calculated by taking the interest expense, plus or minus foreign exchange gains or losses arising from the revaluation of financial liabilities measured at amortised cost.

8.2.3 Financial risk management objective and policies

The department’s main financial risks include credit risk, liquidity risk and market risk such as interest rate risk, equity price risk and foreign currency risk. The department manages these financial risks in accordance with its financial risk management policy.

Financial instruments: credit risk

Credit risks arise from the contractual financial assets of the department, which comprises cash and deposits, contractual receivables and investments and other contractual financial assets. The department’s exposure to credit risk arises from the potential default of a counterparty on their contractual obligations resulting in financial loss to the department. Credit risk is measured at fair value and is monitored on a regular basis.

Credit risk associated with the department’s contractual financial assets is minimal because its cash and deposits and the majority of its contractual receivables are with financial institutions and government agencies. Credit risk in relation to receivables is also monitored by management by reviewing the ageing of receivables on a monthly basis. Credit risk in relation to the department’s investments and other contractual financial assets is managed by Treasury Corporation Victoria and the Victorian Funds Management Corporation.

The department does not engage in hedging for its contractual financial assets.

Provision of impairment for contractual financial assets is recognised when there is objective evidence that the department will not be able to collect on a receivable. Objective evidence includes financial difficulties of the debtor, default payments, debts which are more than 60 days overdue, and changes in debtor credit ratings.

The carrying amount of contractual financial assets recorded in the financial statements, net of any allowances for losses, represents the department’s maximum exposure to credit risk without taking account of the value of any collateral obtained.

There has been no material change to the department’s credit risk profile in 2017-18.

Financial instruments: liquidity risk

Liquidity risk arises when the department is unable to meet its financial obligations as they fall due. The department operates under the government’s fair payments policy of settling financial obligations within 30 days and in the event of a dispute, making payments within 30 days from the date of resolution.

The department’s maximum exposure to liquidity risk is the carrying amounts of financial liabilities as disclosed in the balance sheet. The exposure to liquidity risk is deemed insignificant based on prior periods’ data and current assessment of risk.

Financial instruments: market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. The department’s exposures to market risk are insignificant and primarily through interest rate risk and equity price risk, with only minimal exposure to foreign currency risk.

Interest rate risk

Fair value interest rate risk is the risk that the fair value of a financial instrument will fluctuate because of changes in market interest rates. The department does not hold any interest bearing financial instruments that are measured at fair value, and therefore has no exposure to fair value interest rate risk.

Cash flow interest rate risk is the risk that future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The department has minimal exposure to cash flow interest rate risks through its cash and deposits that are at floating rate.

Interest rate exposures are insignificant and arise predominantly from assets bearing variable interest rates.

The carrying amounts of financial assets and financial liabilities that are exposed to interest rates are set out in the following table.

Interest rate exposure of financial instruments (i)

| **($ thousand)** | | | | | | |
| --- | --- | --- | --- | --- | --- | --- |
| **2018** | **Weighted average interest rate %** | | **Carrying amount** | **Fixed interest rate** | **Variable interest rate** | **Non-interest bearing** |
| **Financial assets** | | | | | | |
| Cash and deposits | | 1.95% | 90,767 | 19,560 | 2,531 | 68,676 |
| Receivables | | | | | | |
| Advance to Metropolitan Fire and Emergency Services Board | |  | 1,189 | 0 | 0 | 1,189 |
| Accrued interest income | | 0.99% | 2,214 | 2,214 | 0 | 0 |
| Other receivables | |  | 13,568 | 0 | 0 | 13,568 |
| Investments and other contractual financial assets | | | | | | |
| Term deposits > 3 months | | 2.04% | 24,654 | 24,654 | 0 | 0 |
| Managed investment schemes | |  | 222,049 | 0 | 0 | 222,049 |
| **Total financial assets** | |  | **354,441** | **46,428** | **2,531** | **305,482** |
| **Financial liabilities** | |  |  |  |  |  |
| Payables | |  |  |  |  |  |
| Trade creditors and other payables | |  | 259,601 | 0 | 0 | 259,601 |
| Accrued capital works | |  | 56,991 | 0 | 0 | 56,991 |
| Salaries and wages | |  | 19,279 | 0 | 0 | 19,279 |
| Borrowings | |  |  |  |  |  |
| Finance lease liabilities | | 9.30% | 651,888 | 651,888 | 0 | 0 |
| **Total financial liabilities** | |  | **987,759** | **651,888** | **0** | **335,871** |

| **($ thousand)** | | | | | | |
| --- | --- | --- | --- | --- | --- | --- |
| **2017** | **Weighted average  interest rate %** | | **Carrying amount** | **Fixed interest rate** | **Variable interest rate** | **Non-interest bearing** |
| **Financial assets** | | | | | | |
| Cash and deposits | | 1.61% | 90,036 | 30,754 | 1,025 | 58,257 |
| Receivables | | | | | | |
| Advance to Metropolitan Fire and Emergency Services Board | |  | 1,427 | 0 | 0 | 1,427 |
| Accrued interest income (ii) | | 1.62% | 3,157 | 3,157 | 0 | 0 |
| Other receivables (ii) | |  | 5,514 | 0 | 0 | 5,514 |
| Investments and other contractual financial assets | | | | | | |
| Term deposits > 3 months | | 2.01% | 100,000 | 100,000 | 0 | 0 |
| Managed investment schemes | |  | 234,124 | 0 | 0 | 234,124 |
| **Total financial assets** | |  | **434,258** | **133,911** | **1,025** | **299,322** |
| **Financial liabilities** | | | | | | |
| Payables | | | | | | |
| Trade creditors and other payables | |  | 196,857 | 0 | 0 | 196,857 |
| Accrued capital works | |  | 21,151 | 0 | 0 | 21,151 |
| Salaries and wages | |  | 14,908 | 0 | 0 | 14,908 |
| Borrowings | |  |  |  |  |  |
| - Finance lease liabilities | | 8.03% | 192,657 | 192,657 | 0 | 0 |
| **Total financial liabilities** | |  | **425,573** | **192,657** | **0** | **232,916** |

(i) Amounts disclosed in this table exclude statutory amounts (e.g. amounts owing from Victorian Government and GST input tax credit recoverable).

(ii) The 2016-17 comparative has been adjusted to reclassify a receivable from accrued interest income to other receivables.

Equity price risk

The department is exposed to equity price risk through its managed investment schemes. The department appointed the Victorian Funds Management Corporation to manage its investment portfolio in accordance with the Investment Risk Management Plan approved by the Treasurer.

Foreign currency risk

The department is not exposed to significant foreign currency risk through its payables relating to purchases of supplies from overseas. This is because of a limited amount of purchases denominated in foreign currencies and a short timeframe between commitment and settlement.

Market risk sensitivity

Taking into account past performance and future expectations, the department believes the following movements are reasonably possible over the next 12 months.

|  |  |  |  |  | **($ thousand)** |
| --- | --- | --- | --- | --- | --- |
|  | **Carrying amount** | **Interest rate risk** | | **Other price risk** | |
| **Net result  +1%** | **Net result  -1%** | **Net result  +10%** | **Net result  -10%** |
| **2018** |  |  |  |  |  |
| Cash and deposits | 2,531 | 25 | (25) | 0 | 0 |
| Managed investment schemes | 222,049 | 0 | 0 | 22,205 | (22,205) |
| **Total** | **224,580** | **25** | **(25)** | **22,205** | **(22,205)** |
| **2017** |  |  |  |  |  |
| Cash and deposits | 1,025 | 10 | (10) | 0 | 0 |
| Managed investment schemes | 234,124 | 0 | 0 | 23,412 | (23,412) |
| **Total** | **235,149** | **10** | **(10)** | **23,412** | **(23,412)** |

8.3 Contingent assets and contingent liabilities

Contingent assets and contingent liabilities are not recognised in the balance sheet, but are disclosed in this note and, if quantifiable, are measured at nominal value. Contingent assets and contingent liabilities are presented inclusive of GST.

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

Quantifiable contingent assets

|  |  | **($ thousand)** |
| --- | --- | --- |
|  | **2018** | **2017** |
| Legal proceedings and disputes | 59 | 540 |
| **Total** | **59** | **540** |

Contingent liabilities

Contingent liabilities are:

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

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

Non-quantifiable contingent liabilities

Native title

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

National redress scheme - sexual abuse of children in institutions

On 13 June 2018, the National Redress Scheme for Institutional Child Sexual Abuse (Commonwealth Powers) Act 2018 (Vic) commenced. The Act refers powers to the Commonwealth Parliament to ensure that Victorian institutions can participate in the National Redress Scheme. The National Redress Scheme commenced on 1 July 2018 and will run for 10 years. The Scheme will deliver a financial payment of up to $150 000, access to psychological counselling and an apology from the responsible institution to eligible survivors of institutional child abuse. This implements a recommendation of the Victorian Parliamentary Inquiry Betrayal of Trust report and the Royal Commission into Institutional Responses to Child Sexual Abuse.

The Government has set aside funding over the next ten years for redress. If a survivor is eligible for redress payments, funding will be made available. Due to the historical nature of the abuse in question, the precise number of eligible survivors of abuse is difficult to estimate. Consequently, the exact financial implications of Victoria’s participation remain uncertain.

Quantifiable contingent liabilities

|  |  | **($ thousand)** |
| --- | --- | --- |
|  | **2018** | **2017** |
| Legal proceedings and disputes (i) | 91,315 | 2,004 |
| Make good leased premises | 6,853 | 2,192 |
| Land contamination rectification | 0 | 80 |
| **Total** | **98,168** | **4,276** |

(i) A previously unquantifiable contingent liability has become quantifiable.

8.4 Fair value determination

This note sets out information on how the department determined fair value for financial reporting purposes. Fair value is the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date.

The following assets are carried at fair value:

* financial assets at fair value through profit or loss
* property, plant and equipment
* non-financial assets classified as held for sale

Fair value hierarchy

All assets, except leased assets, that are measured at fair value are categorised within the following fair value hierarchy based on the lowest level input that is significant to their fair value measurement as a whole.

* Level 1 - quoted (unadjusted) market prices in active markets for identical assets;
* Level 2 - valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable; and
* Level 3 - valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable. Changes in unobservable values will result in changes to the asset carrying values.

The department determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

The department monitors changes in the fair value of each asset through relevant data sources to determine whether revaluation is required.

8.4.1 Fair value determination for financial assets at fair value through profit or loss

The department’s managed investment schemes are carried at their fair values and are categorised within level 2 of the fair value hierarchy. These investments are revalued each month by the Victorian Funds Management Corporation.

There have been no transfers between levels during the period.

8.4.2 Fair value determination for property, plant and equipment

The department’s property, plant and equipment are carried at their fair values.

Independent valuations in 2015-16

An independent valuation of the department’s land, buildings, leased buildings and artwork was performed by the Valuer-General in 2015-16. The Valuer General used external independent valuers to perform the valuations of the department’s land which was performed by G. M. Brien & Associates Pty Ltd, buildings which was performed by Napier & Blakeley Pty Ltd, and artwork which was performed by the Dominion Group. The effective date of the valuation is 30 June 2016.

Managerial revaluation of land in 2016-17

Each asset class must be valued with sufficient regularity to ensure that the carrying amount of an asset does not materially differ from its fair value at the reporting date. The department uses annual indices supplied by the Valuer-General’s Office to determine the movements in its land and building values. Indices are based on post code. As a result of applying these indices it was determined that a material (greater than 10%) movement in the department’s land values had occurred in 2016-17. To ensure that the land values reflected their fair values, a managerial revaluation was performed based on the Valuer-General’s indices. The effective date of the land valuation is 30 June 2017.

Heritage buildings

The department holds heritage listed buildings which cannot be modified or disposed of without formal ministerial approval. Heritage buildings are valued using the depreciated replacement cost method. The replacement cost relates to the costs to replace the current service capacity of the asset. This cost generally represents the replacement cost of the building after applying depreciation rates on a useful life basis. However, for some heritage and iconic assets, the cost may be the reproduction cost rather than the replacement cost if those assets’ service potential could only be replaced by reproducing them with the same materials. Economic obsolescence has also been factored into the depreciated replacement cost calculation. As depreciation adjustments are considered as significant unobservable inputs in nature, heritage buildings are classified within level 3 of the fair value hierarchy.

The department held $5.055 million (2017: $5.314 million) of heritage buildings as at 30 June 2018.

Non-specialised land, non-specialised buildings and artworks

Non-specialised land, non-specialised buildings and artworks are valued using the market approach. Under this valuation method, the assets are compared to recent comparable sales or sales of comparable assets which are considered to have nominal or no added improvement value.

For non-specialised land and non-specialised buildings, independent valuations are performed to determine the fair value using the market approach. Valuation of the assets are determined by analysing comparable sales and allowing for share, size, topography, location and other relevant factors specific to the asset being valued. From the sales analysed, an appropriate rate per square metre is applied to the subject asset.

For artwork, valuation of the assets is determined by a comparison to similar examples of the artist’s work in existence throughout Australia and overseas, and research on prices paid for similar examples offered at auction or through art galleries in recent years.

To the extent that non-specialised land, non-specialised buildings and artworks do not contain significant unobservable adjustments, these assets are classified within level 2 of the fair value hierarchy.

As a managerial revaluation of the department’s land occurred in 2016-17 based on the Valuer-General Victoria’s indices which are unobservable inputs, non-specialised land has been classified within level 3 of the fair value hierarchy.

The department held $6.419 million (2017: $6.419 million) of non-specialised land, no non-specialised buildings, and $0.027 million (2017: $0.027 million) of artwork as at 30 June 2018.

Specialised land and specialised buildings

Specialised land is valued using the market approach, adjusted for a community service obligation (CSO) that reflects the specialised nature of the land being valued. The CSO adjustment is a reflection of the valuer’s assessment of the impact of restrictions associated with an asset to the extent that is also equally applicable to market participants. This approach is in light of the highest and best use consideration required for fair value measurement, and takes into account the use of the asset that is physically possible, legally permissible, and financially feasible. As adjustments of CSO are considered as significant unobservable inputs, specialised land would be classified within level 3 of the fair value hierarchy.

Specialised buildings are valued using the depreciated replacement cost method. As depreciation adjustments are considered as significant unobservable inputs in nature, specialised buildings are classified within level 3 of the fair value hierarchy.

The department held $275.457 million (2017: $274.044 million) of specialised land, $2,410.610 million (2017: $1,732.976 million) of specialised buildings as at 30 June 2018.

Plant and equipment

Plant and equipment is held at fair value. When plant and equipment is specialised in use, such that it is rarely sold other than as part of a going concern, fair value is determined using the depreciated replacement cost method. As depreciation adjustments are considered as significant unobservable inputs in nature, plant and equipment are classified within level 3 of the fair value hierarchy.

There were no changes in valuation techniques throughout the period to 30 June 2018.

For all assets measured at fair value, the current use is considered the highest and best use.

8.4.3 Fair value determination for non-financial assets classified as held for sale

The department’s non-financial assets classified as held for sale are carried at their fair values. Leased vehicles held for sale were valued using the techniques referred to in note 8.4.2 for plant and equipment. The fair value hierarchy does not apply to leased assets.

9. Other disclosures

9.1 Introduction

This note includes additional material disclosures required by accounting standards or otherwise for the understanding of this financial report.

9.2 Ex-gratia expenses

|  |  | **($ thousand)** |
| --- | --- | --- |
|  | **2018** | **2017** |
| Compensation for economic loss | 505 | 0 |
| **Total ex-gratia expenses** (i) | **505** | **0** |

(i) Ex-gratia expenses fall under other supplies and services in note 3.5.

9.3 Other economic flows included in net result

Other economic flows are changes in the volume or value of an asset or liability that do not result from transactions.

|  |  | **($ thousand)** |
| --- | --- | --- |
|  | **2018** | **2017** |
| **Net gain/(loss) on non-financial assets** |  |  |
| Net gain/(loss) on disposal of property, plant and equipment | 1,956 | 935 |
| **Total net gain/(loss) on non-financial assets** | **1,956** | **935** |
| **Net gain/(loss) on financial instruments** |  |  |
| Impairment of loans and receivables (i) | 507 | 0 |
| Bad debts written off by unilateral agreement | (9) | (9) |
| Net gain/(loss) on disposal and revaluation of managed investment schemes | 5,508 | (6,332) |
| **Total net gain/(loss) on financial instruments** | **6,006** | **(6,341)** |
| **Other gains/(losses) from other economic flows** |  |  |
| Net gain/(loss) from revaluation of long service leave liability (ii) | 2,410 | (2,936) |
| Net gain/(loss) from revaluation of other provisions (iii) | (11) | 1,338 |
| **Total other gains/(losses) from other economic flows** | **2,399** | **(1,598)** |

(i) Includes (increase)/decrease in provision for doubtful debts.

(ii) Revaluation gain/(loss) due to changes in bond rates.

(iii) Revaluation gain/(loss) due to changes in bond rates and actuarial assumptions.

9.4 Physical asset revaluation surplus (i)

|  |  | **($ thousand)** |
| --- | --- | --- |
|  | **2018** | **2017** |
| **Land** |  |  |
| Balance at beginning of financial year | 138,636 | 93,335 |
| Revaluation increment/(decrement) | 341 | 45,301 |
| **Balance at end of financial year** | **138,977** | **138,636** |
| **Buildings** |  |  |
| Balance at beginning of financial year | 521,896 | 521,896 |
| Revaluation increment/(decrement) (ii) | (49,325) | 0 |
| **Balance at end of financial year** | **472,571** | **521,896** |
| **Artwork** |  |  |
| Balance at beginning of financial year | 2 | 2 |
| Revaluation increment/(decrement) | 0 | 0 |
| **Balance at end of financial year** | **2** | **2** |
| **Total balance at beginning of financial year** | **660,534** | **615,233** |
| **Total balance at end of financial year** | **611,550** | **660,534** |
| **Net change** | **(48,984)** | **45,301** |

(i) The physical asset revaluation surplus arises from the revaluation of land, buildings and artwork.

(ii) This movement includes a realignment of prior year assets under construction and a building impairment.

9.5 Responsible persons

In accordance with the Ministerial Directions issued by the Minister for Finance under the Financial Management Act 1994, the following disclosures are made regarding responsible persons for the reporting period.

Names

The people who held the positions of Ministers and Accountable Officers in the department are as follows:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Attorney-General | The Hon. Martin Pakula, MP | 1 July 2017 | to | 30 June 2018 |
| Acting Attorney-General | The Hon. Lisa Neville, MP | 23 September 2017 | to | 8 October 2017 |
|  | The Hon. Lisa Neville, MP | 22 December 2017 | to | 7 January 2018 |
|  | The Hon. Lisa Neville, MP | 23 January 2018 | to | 31 January 2018 |
|  | The Hon. Gayle Tierney, MP | 13 May 2018 | to | 19 May 2018 |
|  | The Hon. Gayle Tierney, MP | 22 June 2018 | to | 25 June 2018 |
|  | The Hon. Marlene Kairouz, MP | 26 June 2018 | to | 30 June 2018 |
| Minister for Consumer Affairs,  Gaming and Liquor Regulation | The Hon. Marlene Kairouz, MP | 1 July 2017 | to | 30 June 2018 |
| Acting Minister for Consumer Affairs, Gaming and Liquor Regulation | The Hon. James Merlino, MP | 18 July 2017 | to | 28 July 2017 |
| The Hon. Jaala Pulford, MP | 5 December 2017 | to | 11 December 2017 |
| The Hon. Lisa Neville, MP | 25 December 2017 | to | 9 January 2018 |
| The Hon. Martin Pakula, MP | 10 January 2018 | to | 14 January 2018 |
| The Hon. Martin Pakula, MP | 5 February 2018 | to | 17 February 2018 |
| The Hon. Martin Pakula, MP | 3 April 2018 | to | 5 April 2018 |
| The Hon. Liliana D’Ambrosio | 6 April 2018 | to | 8 April 2018 |
| The Hon. John Eren, MP | 9 April 2018 | to | 10 April 2018 |
| The Hon. Jaala Pulford, MP | 11 April 2018 | to | 17 April 2018 |
| Minister for Corrections | The Hon. Gayle Tierney, MP | 1 July 2017 | to | 30 June 2018 |
| Acting Minister for Corrections | The Hon. Martin Pakula, MP | 8 July 2017 | to | 17 July 2017 |
| The Hon. Lisa Neville, MP | 29 September 2017 | to | 4 October 2017 |
| The Hon. Lisa Neville, MP | 20 December 2017 | to | 9 January 2018 |
| The Hon. Martin Pakula, MP | 10 January 2018 | to | 14 January 2018 |
| The Hon. Jenny Mikakos, MP | 26 January 2018 | to | 5 February 2018 |
| The Hon. James Merlino, MP | 10 March 2018 | to | 14 March 2018 |
| The Hon. Jenny Mikakos, MP | 26 June 2018 | to | 30 June 2018 |
| Minister for Emergency Services | The Hon. James Merlino, MP | 1 July 2017 | to | 30 June 2018 |
| Acting Minister for Emergency Services | The Hon. Gayle Tierney, MP | 23 September 2017 | to | 8 October 2017 |
| The Hon. Gayle Tierney, MP | 31 March 2018 | to | 8 April 2018 |
| Minister for Police | The Hon. Lisa Neville, MP | 1 July 2017 | to | 30 June 2018 |
| Acting Minister for Police | The Hon. Richard Wynne, MP | 1 July 2017 | to | 3 July 2017 |
|  | The Hon. Martin Pakula, MP | 18 July 2017 | to | 2 August 2017 |
|  | The Hon. James Merlino, MP | 2 November 2017 | to | 10 November 2017 |
|  | The Hon. Martin Pakula, MP | 10 January 2018 | to | 14 January 2018 |
|  | The Hon. Gayle Tierney, MP | 15 January 2018 | to | 22 January 2018 |
|  | The Hon. Martin Pakula, MP | 5 April 2018 | to | 9 April 2018 |
|  | The Hon. James Merlino, MP | 23 June 2018 | to | 30 June 2018 |
| Minister for Racing | The Hon. Martin Pakula, MP | 1 July 2017 | to | 30 June 2018 |
| Acting Minister for Racing | The Hon. Lisa Neville, MP | 23 September 2017 | to | 8 October 2017 |
|  | The Hon. Lisa Neville, MP | 22 December 2017 | to | 7 January 2018 |
|  | The Hon. Lisa Neville, MP | 23 January 2018 | to | 31 January 2018 |
|  | The Hon. Gayle Tierney, MP | 13 May 2018 | to | 19 May 2018 |
|  | The Hon. Gayle Tierney, MP | 22 June 2018 | to | 25 June 2018 |
|  | The Hon. Marlene Kairouz, MP | 26 June 2018 | to | 30 June 2018 |
| Minister for Families and Children | The Hon. Jenny Mikakos, MP | 1 July 2017 | to | 30 June 2018 |
| Acting Minister for Families and Children | The Hon. Jill Hennessy, MP | 15 July 2017 | to | 30 July 2017 |
| The Hon. Jill Hennessy, MP | 2 December 2017 | to | 10 December 2017 |
| The Hon. Martin Foley, MP | 8 January 2018 | to | 14 January 2018 |
| The Hon. Jill Hennessy, MP | 15 January 2018 | to | 19 January 2018 |
| The Hon. Jill Hennessy, MP | 5 April 2018 | to | 8 April 2018 |
| Secretary | Greg Wilson | 1 July 2017 | to | 30 June 2018 |
| Acting Secretary | Julia Griffith | 9 July 2017 | to | 15 July 2017 |
|  | Julia Griffith | 15 August 2017 | to | 30 August 2017 |
|  | Donald Speagle | 27 December 2017 | to | 14 January 2018 |
|  | Julia Griffith | 15 January 2018 | to | 31 January 2018 |

Remuneration

Remuneration received or receivable by the Accountable Officer (Secretary) in connection with the management of the department during the reporting period was in the range: $520,000 - $529,000 ($530,000 - $539,999 in 2016-17).

9.6 Remuneration of executives

The number of executive officers, other than Ministers and the Accountable Officer, and their total remuneration during the reporting period are shown in the table below. Total annualised employee equivalents provides a measure of full time equivalent executive officers over the reporting period.

Remuneration comprises employee benefits in all forms of consideration paid, payable or provided by the entity, or on behalf of the entity, in exchange for services rendered, and is disclosed in the following categories.

**Short-term employee benefits** include amounts such as wages, salaries, paid annual leave and non-monetary benefits such as motor vehicle allowances.

**Post-employment benefits** include superannuation entitlements.

**Other long-term benefits** include long service leave and other long term benefits.

**Termination benefits** include termination of employment payments, such as severance packages.

Several factors affected total remuneration payable to executives over the year. A number of employment contracts were completed and renegotiated and a number of executive officers retired or resigned. This had an impact on remuneration figures for the termination benefits category. Additional roles were created to assist with key government initiatives, for example youth justice and corrections reforms. In addition, a number of executive roles which were vacant in the previous reporting period were filled during the course of the year with pro-rata remuneration accordingly included in the short-term employee benefits category.

|  |  | **($ thousand)** |
| --- | --- | --- |
| **Remuneration of executive officers** (i)(ii) **(including key management personnel disclosed in note 9.7)** | **2018** | **2017** |
| Short-term employee benefits (iii) | 16,313 | 14,491 |
| Post-employment benefits | 1,397 | 1,202 |
| Other long-term benefits (iii) | 516 | 639 |
| Termination benefits | 687 | 768 |
| **Total remuneration** (iii) | **18,913** | **17,100** |
| **Total number of executives** | **87** | **69** |
| **Total annualised employee equivalents** (iv) | **73.1** | **63.7** |

(i) Includes seven executive officers from the Victorian Government Solicitor’s Office.

(ii) Includes persons who meet the definition of key management personnel (KMP) of the department under AASB 124 Related Party Disclosures and are also reported within the related parties note disclosure (note 9.7).

(iii) The 2016-17 comparative figures have changed due to clarification of the financial reporting requirements.

(iv) The total annualised employee equivalent is based on the time fraction worked over the reporting period.

A reconciliation is provided in the report of operations between the number of executive officers disclosed in the above table and the number of executive officers disclosed in the report of operations.

9.7 Related parties

Related parties of the department include:

* all key management personnel and their close family members and personal business interests (controlled entities, joint ventures and entities they have significant influence over);
* all cabinet ministers and their close family members; and
* all departments and public sector entities that are controlled and consolidated into the whole of state consolidated financial statements.

All related party transactions have been entered into on an arm’s length basis.

**Key management personnel** of the department includes:

* Portfolio Ministers (refer to note 9.5)
* Secretary, Greg Wilson
* Deputy Secretary Civil Justice, Donald Speagle
* Deputy Secretary Criminal Justice Strategy and Coordination, Kylie Kilgour
* Deputy Secretary Criminal Law Policy and Operations, Ryan Phillips
* Deputy Secretary Youth Justice, Julia Griffith
* Lead Deputy Secretary Police, Emergency Management and Corrections (from 3 April 2018), Tony Bates
* Deputy Secretary Police and Crime Prevention (from 10 July 2017), Kate Houghton
* Acting Deputy Secretary Emergency Management, Marisa De Cicco
* Deputy Secretary Regulation, Simon Cohen
* Deputy Secretary Service Strategy Reform, Carolyn Gale
* Deputy Secretary Finance Infrastructure and Governance, Shaun Condron
* Corrections Victoria Commissioner (from 1 June 2018), Emma Cassar
* Corrections Victoria Commissioner (until 11 January 2018), Jan Shuard
* Acting Corrections Victoria Commissioner (from 20 December 2017 to 31 May 2018), Rod Wise
* Emergency Management Commissioner, Craig Lapsley
* Road Safety Camera Commissioner, John Voyage
* Chairperson Business Licensing Authority, Nicole Marshall
* Chief Administrative Officer Post Sentence Authority, Bree Oliver
* Executive Director Infringement Management and Enforcement Services (until 8 June 2018), Brendan Facey
* Acting Executive Director Infringement Management and Enforcement Services, Emma Catford
* Executive Director People and Culture, Miya Chiba
* Executive Director Liquor, Gaming and Racing, Catherine Carr
* Executive Director North West Metropolitan Area, Peter Ewer
* Acting Executive Director North West Metropolitan Area, Alison Wills
* Executive Director West Area, Leanne Barnes
* Executive Director North Area, Jodi Henderson
* Executive Director South Area, Gabrielle Levine
* Executive Director Police and Crime Prevention (until 27 August 2017), Camille Kingston
* Director Office of the Secretary, Andreas Mansour
* Director Built Environment and Business Sustainability, Justin Sawyers
* Chief Information Officer (from 5 February 2018), Paul Virgo
* Chief Information Officer (until 13 October 2017), Michael Cornelius
* Acting Chief information Officer (from 18 September 2017 to 31 January 2018), Richard Wittmack
* Chief Procurement Officer, Phillip Chalkley
* Chief Finance Officer, Christopher Breitkreuz

The compensation detailed below excludes the salaries and benefits of Portfolio Ministers. The Ministers’ remuneration and allowances are set by the Parliamentary Salaries and Superannuation Act 1968 and are reported within the Department of Parliamentary Services’ Financial Report.

|  |  | **($ thousand)** |
| --- | --- | --- |
| **Compensation of KMPs** (i) | **2018** | **2017** |
| Short-term employee benefits (ii) | 7,020 | 6,419 |
| Post-employment benefits | 552 | 491 |
| Other long-term benefits (ii) | 222 | 312 |
| Termination benefits | 301 | 370 |
| **Total** (ii) | **8,095** | **7,592** |

(i) KMPs, excluding the Ministers and Accountable Officer, are also reported in the disclosure of remuneration of executive officers (note 9.6).

(ii) The 2016-17 comparative figures have changed due to clarification of the financial reporting requirements.

Transactions and balances with key management personnel and other related parties

Given the breadth and depth of State government activities, related parties transact with the Victorian public sector in a manner consistent with other members of the public e.g. stamp duty and other government fees and charges. Further employment of processes within the Victorian public sector occur on terms and conditions consistent with the Public Administration Act 2004 and Codes of Conduct and Standards issued by the Victorian Public Sector Commission. Procurement processes occur on terms and conditions consistent with the Victorian Government Procurement Board requirements.

Outside of normal citizen type transactions with the department, there were no related party transactions that involved key management personnel, their close family members and their personal business interests. No provision has been required, nor any expense recognised, for impairment of receivables from related parties.

The department receives income from government such as the appropriations shown in note 2.2, and income from government-related-entities such as grant income as shown in note 2.5, and other income as shown in note 2.6. The department pays government-related-entities grants as shown in note 3.3, the capital asset charge as shown in note 3.4, some of the technology services as shown in note 3.5 and for payments into the consolidated fund as shown in note 4.3.

9.8 Remuneration of auditors

|  |  | **($ thousand)** |
| --- | --- | --- |
|  | **2018** | **2017** |
| **Victorian Auditor-General’s Office** |  |  |
| Audit of the financial statements | 339 | 331 |
| **Total remuneration of auditors** | **339** | **331** |

9.9 Australian Accounting Standards issued that are not yet effective

Certain new Australian Accounting Standards (AAS) have been published that are not mandatory for the 30 June 2018 reporting period. The Department of Treasury and Finance (DTF) assesses the impact of these new standards and advises the department of their applicability and early adoption where applicable.

As at 30 June 2018, the following standards that are applicable to the department had been issued but were not mandatory for the financial year ending 30 June 2018. Standards that are not applicable to the department have been omitted. The department has not early adopted these standards.

| **Standard** | **Summary** | **Applicable  for annual reporting periods beginning after** | **Impact** |
| --- | --- | --- | --- |
| AASB 9 Financial Instruments | The key changes include the simplified requirements for the classification and measurement of financial assets, a new hedging accounting model and a revised impairment loss model to recognise expected impairment losses earlier, as opposed to the current approach that recognises impairment only when incurred. | 1 January 2018 | The assessment has identified that the amendments are likely to result in earlier recognition of impairment losses and at more regular intervals. The initial application of AASB 9 is not expected to significantly impact the financial positon however there will be a change to the way financial instruments are classified and new disclosure requirements. |
| AASB 15 Revenue from Contracts with Customers | The core principle of AASB 15 requires an entity to recognise revenue when the entity satisfies a performance obligation by transferring a promised good or service to a customer. | 1 January 2019 (for not-for-profit entities) | The changes in revenue recognition requirements in AASB 15 may result in changes to the timing and amount of revenue recorded in the financial statements. The Standard will also require additional disclosures on service revenue and contract modifications. |
| AASB 16 Leases | The key changes introduced by AASB 16 include the recognition of operating leases (which are currently not recognised) on balance sheet. | 1 January 2019 | The assessment has indicated that most operating leases, with the exception of short term and low value leases will come on to the balance sheet and will be recognised as right of use assets with a corresponding lease liability. In the operating statement, the operating lease expense will be replaced by depreciation expense of the asset and an interest charge. There will be no change for lessors as the classification of operating and finance leases remains unchanged. |
| AASB 1058 Income of  Not-for-Profit Entities | AASB 1058 standard will replace the majority of income recognition in relation to government grants and other types of contributions requirements relating to public sector not-for-profit entities, previously in AASB 1004 Contributions. The restructure of administrative arrangement will remain under AASB 1004 and will be restricted to government entities and contributions by owners in a public sector context. AASB 1058 establishes principles for transactions that are not within the scope of AASB 15, where the consideration to acquire an asset is significantly less than fair value to enable not-for-profit entities to further their objective. | 1 January 2019 | The current revenue recognition for grants is to recognise revenue up front upon receipt of the funds. This may change under AASB 1058, as capital grants for the construction of assets will need to be deferred. Income will be recognised over time, upon completion and satisfaction of performance obligations for assets being constructed, or income will be recognised at a point in time for acquisition of assets. The revenue recognition for operating grants will need to be analysed to establish whether the requirements under other applicable standards need to be considered for recognition of liabilities (which will have the effect of deferring the income associated with these grants). Only after that analysis would it be possible to conclude whether there are any changes to operating grants. The impact on current revenue recognition of the changes is the phasing and timing of revenue recorded in the profit and loss statement. |
| AASB 1059 Service Concession Arrangements: Grantor | This standard applies to arrangements that involve an operator providing a public service on behalf of a public sector grantor. It involves the use of a service concession asset and where the operator manages at least some of the public service at its own direction. An arrangement within the scope of this standard typically involves an operator constructing the asset used to provide the public service or upgrading the assets and operating and maintaining the assets for a specified period of time. The department has Social Infrastructure PPPs, that require the government to make payments to the operator upon commencement of services:   * Operator finances and constructs the infrastructure; and * State pays unitary service payments over the term. | 1 January 2019 | For an arrangement to be in scope of AASB 1059 all of the following requirements are to be satisfied:   * Operator is providing public services using a service concession asset; * Operator manages at ‘least some’ of public services under its own discretion; * The State controls/regulates: what services are to be provided; to whom; and at what price;   State controls any significant residual interest in the asset.  If the arrangement does not satisfy all the above requirements the recognition will fall under the requirements of another applicable accounting standard. Currently the social infrastructure PPPs are only recognised on the balance sheet at commercial acceptance. The arrangement will need to be progressively recognised as and when the asset is being constructed. This will have the impact of progressively recognising the financial liability and corresponding asset as the asset is being constructed. |

9.10 Glossary of technical terms

The following is a summary of the major technical terms used in this report.

**Administered item** generally refers to a department lacking the capacity to benefit from that item in the pursuit of the entity’s objectives and to deny or regulate the access of others to that benefit.

**Amortisation** is the expense that results from the consumption, extraction or use over time of a non-produced physical or intangible asset. This expense is classified as an other economic flow.

**Borrowings** refers to interest bearing liabilities mainly raised from public borrowings raised through the Treasury Corporation of Victoria, finance leases and other interest-bearing arrangements. Borrowings also include non-interest bearing advances from government that are acquired for policy purposes.

**Commitments** include those operating, capital and other outsourcing commitments arising from non-cancellable contractual or statutory sources.

**Comprehensive result** is the amount included in the operating statement representing total change in net worth other than transactions with owners.

**Controlled item** generally refers to the capacity of a department to benefit from that item in the pursuit of the entity’s objectives and to deny or regulate the access of others to that benefit.

**Current grants** are amounts payable or receivable for current purposes for which no economic benefits of equal value are receivable or payable in return.

**Depreciation** is an expense that arises from the consumption through wear or time of a produced physical or intangible asset. This expense is classified as a ‘transaction’ and so reduces the ‘net result from transactions’.

**Effective interest method** is used to calculate the amortised cost of a financial asset or liability and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument, or, where appropriate, a shorter period.

**Employee benefits expenses** include all costs related to employment including wages and salaries, fringe benefits tax, leave entitlements, redundancy payments and superannuation contributions.

**Ex-gratia expenses** mean the voluntary payment of money or other non-monetary benefit (e.g. a write off) that is not made either to acquire goods, services or other benefits for the entity or to meet a legal liability, or to settle or resolve a possible legal liability or claim against the entity.

**Financial asset** is any asset that is:

* cash;
* an equity instrument of another entity;
* a contractual right: to receive cash or another financial asset from another entity; or to exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity; or
* a contract that will or may be settled in the entity’s own equity instruments and is: a non-derivative for which the entity is or may be obliged to receive a variable number of the entity’s own equity instruments; or a derivative that will or may be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the entity’s own equity instruments.

**Financial instrument** is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. Financial assets or liabilities that are not contractual (such as statutory receivables or payables that arise as a result of statutory requirements imposed by governments) are not financial instruments.

**Financial liability** is any liability that is:

* a contractual obligation: to deliver cash or another financial asset to another entity; or to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the entity; or
* a contract that will or may be settled in the entity’s own equity instruments and is: a non-derivative for which the entity is or may be obliged to deliver a variable number of the entity’s own equity instruments; or a derivative that will or may be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the entity’s own equity instruments. For this purpose, the entity’s own equity instruments do not include instruments that are themselves contracts for the future receipt or delivery of the entity’s own equity instruments.

**Financial statements** comprises:

* a comprehensive operating statement for the period;
* a balance sheet as at the end of the period;
* a cash flow statement for the period;
* a statement of changes in equity for the period;
* notes, comprising a summary of significant accounting policies and other explanatory information;
* comparative information in respect of the preceding period as specified in paragraph 38 of AASB 101 Presentation of Financial Statements; and
* a statement of financial position as at the beginning of the preceding period when an entity applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements, or when it reclassifies items in its financial statements in accordance with paragraph 41 of AASB 101.

**Grant expenses and other transfers** are transactions in which one unit provides goods, services, assets (or extinguishes a liability) or labour to another unit without receiving approximately equal value in return. Grants can be either operating or capital in nature.

While grants to governments may result in the provision of some goods or services to the transferor, they do not give the transferor a claim to receive directly benefits of approximately equal value. For this reason, grants are referred to by the AASB as involuntary transfers and are termed non-reciprocal transfers. Receipt and sacrifice of approximately equal value may occur, but only by coincidence. For example, governments are not obliged to provide commensurate benefits, in the form of goods or services, to particular taxpayers in return for their taxes.

Grants can be paid as general purpose grants which refer to grants that are not subject to conditions regarding their use. Alternatively, they may be paid as specific purpose grants which are paid for a particular purpose and/or have conditions attached regarding their use.

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

**Interest expense** represents costs incurred in connection with borrowings and includes the interest component of finance lease repayments.

**Interest income** includes interest received on bank term deposits, interest from investments, and other interest received.

**Leases** are rights to use an asset for an agreed period of time in exchange for payment. Leases are classified at their inception as either operating or finance leases based on the economic substance of the agreement so as to reflect the risks and rewards incidental to ownership. Leases of property, plant and equipment are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership from the lessor to the lessee. All other leases are classified as operating leases.

**Net result** is a measure of financial performance of the operations for the period. It is the net result of items of income, gains and expenses (including losses) recognised for the period, excluding those that are classified as ‘other economic flows - other comprehensive income’.

**Net result from transactions or net operating balance** is a key fiscal aggregate and is income from transactions minus expenses from transactions. It is a summary measure of the ongoing sustainability of operations. It excludes gains and losses resulting from changes in price levels and other changes in the volume of assets. It is the component of the change in net worth that is due to transactions and can be attributed directly to government policies.

**Net worth** is calculated as assets less liabilities, which is an economic measure of wealth.

**Non-financial assets** are all assets that are not financial assets . It includes inventories, land, buildings, plant and equipment, cultural and heritage assets and intangible assets.

**Non-produced assets** are assets needed for production that have not themselves been produced. They include land, subsoil assets, and certain intangible assets such as patents.

**Other economic flows included in net result** are changes in the volume or value of an asset or liability that do not result from transactions. In simple terms, other economic flows are changes arising from market remeasurements. They include gains and losses from disposals, revaluations and impairments of non-financial physical and intangible assets; and fair value changes of financial instruments.

**Other economic flows - other comprehensive income** comprises items (including reclassification adjustments) that are not recognised in net result as required or permitted by other Australian Accounting Standards. They include changes in physical asset revaluation surplus.

**Payables** include short and long-term trade debt and accounts payable, grants and interest payable.

**Produced assets** include buildings, plant and equipment, inventories, cultivated assets and certain intangible assets. Intangible produced assets may include computer software, and research and development costs (which does not include the start-up costs associated with capital projects).

**Receivables** include amounts owing from government through appropriation receivable, short and long-term trade credit and accounts receivable, accrued investment income, grants, taxes and interest receivable.

**Sales of goods and services** refers to income from the direct provision of goods and services and includes fees and charges for services rendered, sales of goods and services, fees from regulatory services, and work done as an agent for private enterprises. User charges includes sale of goods and services income.

**Supplies and services** generally represent cost of goods sold and the day-to-day running costs, including maintenance costs, incurred in the normal operations of the department.

**Taxation income** represents income received from the State’s taxpayers and includes: gambling taxes levied mainly on private lotteries, electronic gaming machines, casino operations and racing; and other taxes, including licence fees.

**Transactions** are those economic flows that are considered to arise as a result of policy decisions, usually an interaction between two entities by mutual agreement. They also include flows within an entity such as depreciation where the owner is simultaneously acting as the owner of the depreciating asset and as the consumer of the service provided by the asset. Taxation is regarded as mutually agreed interactions between the government and taxpayers. Transactions can be in kind (e.g. assets provided/given free of charge or for nominal consideration) or where the final consideration is cash. In simple terms, transactions arise from the policy decisions of the government.

9.11 Style conventions

Figures in the tables and 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:

(xxx.x) negative numbers

201x year period

201x-1x year period

The financial statements and notes are presented based on the illustration for a government department in the 2017-18 Model Report for Victorian Government Departments.