Report structure

The Department of Justice and Community Safety (department) has presented its audited general purpose financial statements for the financial year ended 30 June 2020 in the following structure to provide users with information about the department's stewardship of resources entrusted to it.

Certifications

Financial statements

Notes to the financial statements

Declaration in financial statements

The attached financial statements for the Department of Justice and Community Safety have been prepared in accordance with Direction 5.2 of the Standing Directions of the Assistant Treasurer 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 2020 and financial position of the department as at 30 June 2020.

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 23 October 2020.

Lynda Rogers
Chief Finance Officer
Department of Justice and Community Safety

Melbourne
23 October 2020

Rebecca Falkingham
Secretary
Department of Justice and Community Safety

Melbourne
23 October 2020

VAGO

Victorian Auditor-General's Office

Independent Auditor's Report

To the Secretary of the Department of Justice and Community Safety

Opinion	I have audited the financial report of the Department of Justice and Community Safety (the department) which comprises the: • balance sheet as at 30 June 2020 • comprehensive operating statement for the year then ended • statement of changes in equity for the year then ended • cash flow statement 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 2020 and its 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.
Key audit matters	Key audit matters are those matters that, in my professional judgement, were of most significance in my audit of the financial report of the current period. These matters were addressed in the context of my audit of the financial report as a whole, and in forming my opinion thereon, and I do not provide a separate opinion on these matters.

Key audit matter	How I addressed the matter
Administered fines and fees income, and receivables Refer to Note 4.3 *Administered Items*	

Administered fines and fees income: $815.91 million
Administered receivables: $104.86 million
I considered this to be a key audit matter because:
• administered fines and fees income, and receivables balances are financially significant.
• the Victorian Infringement Enforcement Warrant (VIEW) system is the key system supporting the administered fines and fees business process. The system:
  ○ was previously not able to provide all required financial reporting information for 2017–18 and 2018–19. A degree of management judgements and estimates was required in accounting for fees and fines income for these periods. In developing VIEW financial reporting functionality in 2019-20, management identified material prior period errors in fines and fees income
  ○ is highly automated and complex. Information technology general controls (ITGCs), automated controls and automated calculations are significant to the financial reporting process.
• the model used to estimate the impairment provision for doubtful receivables:
  ○ involves management judgements and is underpinned by various assumptions
  ○ contained a significant prior period error.
• a significant amount of debt aged over five years, fully provided for as impaired, was written off as uncollectable at 30 June 2020.
• AASB 101 *Presentation of Financial Statements* and AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors* both require extensive financial report disclosures in addressing the correction of prior period errors.
• services outsourced to third-party providers are critical to the financial reporting process.
	My key audit procedures included:
	• gaining an understanding of the end to end business process for administered fines and fees.
	• gaining an understanding of work performed by internal audit and reperforming where necessary.
	• testing the operating effectiveness of key controls including ITGCs over the VIEW system.
	• testing the completeness and accuracy of VIEW system financial data used for financial reporting.
	• assessing the accuracy and validity of fines and fees income by:
	  ○ recalculating the income for a selection of infringements
	  ○ verifying a selection of infringements to underlying source documents and information
	  ○ performing an analysis by establishing expected income based on approved rates and fines volumes.
	• evaluating the reasonableness of the impairment provision for doubtful debts by assessing the:
	  ○ appropriateness of the model used to calculate the impairment provision
	  ○ accuracy and completeness of data inputs to the model
	  ○ reasonableness of key judgements and assumptions made by management in estimating the impairment provision.
	• assessing methodology for estimating uncollectable debts written off at 30 June 2020.
	• testing the appropriateness of, accounting for and disclosures of prior period errors by:
	  ○ gaining an understanding of the nature and cause of the errors
	  ○ assessing the calculation performed by management to determine the financial impact to prior reporting periods
	  ○ assessing the financial report disclosures against the requirements of Australian Accounting Standards.
	• considering the services outsourced to third-party providers by:
	  ○ assessing the scope of work, independence and professional competence of the service auditor

	○ evaluating the independent auditor's ASAE 3402 *Assurance Report on Controls at a Service Organisation* ○ testing management's key monitoring controls over outsourced service providers. • engaging data analytics experts to assist me with above procedures where necessary.
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 our 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.

Auditor's responsibilities for the audit of the financial report (continued)

- 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 the department 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.

From the matters communicated with the Secretary, I determine those matters that were of most significance in the audit of the financial report of the current period and are therefore key audit matters. I describe these matters in the auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, I determine that a matter should not be communicated in the auditor's report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

MELBOURNE
27 October 2020

Andrew Greaves
Auditor-General

Comprehensive operating statement

For the financial year ended 30 June 2020

($ thousand)

	Note	2020	2019
Income from transactions			
Output appropriations	2.2	8,329,480	7,570,300
Special appropriations	2.3	3,503	3,400
Interest income	2.4	12,928	23,582
Grant income	2.5	39,373	31,950
Other income	2.6	72,073	89,216
Total income from transactions		**8,457,357**	**7,718,448**
Expenses from transactions			
Employee benefit expense	3.2.1	(1,131,153)	(1,062,836)
Depreciation and amortisation [(i)]	5.2.1	(170,768)	(136,052)
Interest expense [(i)]	7.2	(55,606)	(63,749)
Grant expense	3.3	(5,693,183)	(5,043,501)
Capital asset charge	3.4	(213,899)	(185,884)
Supplies and services [(i)]	3.5	(1,199,157)	(1,159,762)
Total expenses from transactions [(i)]		**(8,463,766)**	**(7,651,784)**
Net result from transactions (net operating balance) [(i)]		**(6,409)**	**66,664**
Other economic flows included in net result			
Net gain/(loss) on non-financial assets [(ii)]	9.3	2,309	(19,291)
Net gain/(loss) on financial instruments [(iii)]	9.3	(9,057)	(60,811)
Other gains/(losses) from other economic flows	9.3	(5,623)	(12,440)
Total other economic flows included in net result		**(12,371)**	**(92,542)**
Net result [(i)]		**(18,780)**	**(25,878)**
Other economic flows – other comprehensive income			
Items that will not be reclassified to net result			
Changes in physical asset revaluation surplus	9.4	300,280	0
Total other economic flows – other comprehensive income		**300,280**	**0**
Comprehensive result [(i)]		**281,500**	**(25,878)**

(i) The 2018–19 comparative figures have been restated to reflect the adoption of AASB 1059 *Service concession arrangements: grantors*.
(ii) Includes gains/(losses) from impairments and disposals of property, plant and equipment and intangible assets.
(iii) Includes bad and doubtful debts from other economic flows, and gains/(losses) from investments.

The above comprehensive operating statement should be read in conjunction with the notes to the financial statements.

Balance sheet

As at 30 June 2020

($ thousand)

	Note	2020	2019
Assets			
Financial assets			
Cash and deposits	7.5	170,202	161,083
Receivables	6.2	1,400,096	1,120,685
Investments and other financial assets	5.4	203,213	205,629
Total financial assets		**1,773,511**	**1,487,397**
Non-financial assets			
Prepayments		4,789	27,284
Inventories		16,495	9,341
Non-financial assets classified as held for sale		541	519
Property, plant and equipment [i]	5.2	3,972,067	3,549,605
Intangible assets	5.3	64,391	57,417
Total non-financial assets [i]		**4,058,283**	**3,644,166**
Total assets [i]		**5,831,794**	**5,131,563**
Liabilities			
Payables	6.3	1,156,491	876,391
Borrowings [i]	7.2	691,497	699,417
Employee benefit provisions	3.2.2	297,664	270,315
Other provisions		15,995	10,911
Total liabilities [i]		**2,161,647**	**1,857,034**
Net assets [i]		**3,670,147**	**3,274,529**
Equity			
Accumulated surplus/(deficit) [i]		1,067,298	1,087,446
Physical asset revaluation surplus	9.4	911,830	611,550
Contributed capital		1,691,019	1,575,533
Net worth [i]		**3,670,147**	**3,274,529**

(i) The 2018–19 comparative figures have been restated to reflect the adoption of AASB 1059 *Service concession arrangements: grantors*.

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 2020

($ thousand)

	Note	2020	2019
Cash flows from operating activities			
Receipts			
Receipts from government		8,227,333	7,511,288
Receipts from other entities		39,373	31,950
Goods and services tax recovered from Australian Tax Office [(i)]		140,104	151,893
Interest received		14,310	23,806
Dividends received		10,154	14,061
Other receipts		102,479	59,651
Total receipts		**8,533,753**	**7,792,649**
Payments			
Payments of grant expenses		(5,693,183)	(5,043,501)
Payments to suppliers and employees [(ii)]		(2,367,034)	(2,343,828)
Capital asset charge payments		(213,899)	(185,884)
Interest and other costs of finance paid [(ii)]		(55,606)	(63,749)
Total payments [(ii)]		**(8,329,722)**	**(7,636,962)**
Net cash flows from/(used in) operating activities [(ii)]	7.5.1	**204,031**	**155,687**
Cash flows from investing activities			
Payments for investments		(10,154)	(14,061)
Proceeds from sale of investments		5,000	52,654
Purchases of non-financial assets		(264,303)	(354,065)
Sales of non-financial assets		5,509	5,206
Net cash flows from/(used in) investing activities		**(263,948)**	**(310,266)**
Cash flows from financing activities			
Cash received from machinery of government changes		231	0
Cash received from capital appropriations		230,763	340,045
Capital contribution passed on to agencies within portfolio		(68,082)	(49,962)
Equity transfers within government		(54,422)	(43,779)
Repayment of borrowings [(ii)]		(39,454)	(21,409)
Net cash flows from/(used in) financing activities [(ii)]		**69,036**	**224,895**
Net increase/(decrease) in cash and cash equivalents		**9,119**	**70,316**
Cash and cash equivalents at beginning of financial year		**161,083**	**90,767**
Cash and cash equivalents at end of financial year	7.5	**170,202**	**161,083**

(i) Goods and services tax recovered from the Australian Tax Office is presented on a net basis.
(ii) The 2018–19 comparative figures have been restated to reflect the adoption of AASB 1059 *Service concession arrangements: grantors*.

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 2020

($ thousand)

	Note	Accumulated surplus / (deficit)	Physical asset revaluation surplus	Contributed capital	Total
Balance at 1 July 2018		**1,113,497**	**611,550**	**1,329,342**	**3,054,389**
Change in accounting policy (due to AASB 1059)		(173)	0	0	(173)
Restated balance at 1 July 2018		**1,113,324**	**611,550**	**1,329,342**	**3,054,216**
Net result for year [(i)]		(25,878)	0	0	(25,878)
Capital appropriations		0	0	340,045	340,045
Capital contribution passed onto agencies within portfolio		0	0	(49,962)	(49,962)
Equity transfer within government		0	0	(43,779)	(43,779)
Capital contribution transferred from machinery of government changes		0	0	(113)	(113)
Balance at 30 June 2019 [(i)]		**1,087,446**	**611,550**	**1,575,533**	**3,274,529**
Balance at 1 July 2019		**1,087,446**	**611,550**	**1,575,533**	**3,274,529**
Change in accounting policy (due to AASB 16)		(1,368)	0	0	(1,368)
Restated balance at 1 July 2019		**1,086,078**	**611,550**	**1,575,533**	**3,273,161**
Net result for year		(18,780)	0	0	(18,780)
Other comprehensive income for year		0	300,280	0	300,280
Capital appropriations		0	0	230,763	230,763
Capital contribution passed onto agencies within portfolio		0	0	(68,082)	(68,082)
Equity transfer within government		0	0	(48,952)	(48,952)
Capital contribution received from machinery of government changes		0	0	1,757	1,757
Balance at 30 June 2020		**1,067,298**	**911,830**	**1,691,019**	**3,670,147**

(i) The 2018–19 comparative figures have been restated to reflect the adoption of AASB 1059 *Service concession arrangements: grantors*.

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 Community Safety (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 Community Safety as an individual reporting entity and include all the controlled activities of the department.

The following agencies have been aggregated into the department's financial statements under section 53(1)(b) of the *Financial Management Act 1994*. These agencies are reported in aggregate and are not controlled by the department:

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

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 marketplace for Victorian consumers and businesses with responsible and sustainable liquor and gambling 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). Income that funds the delivery of the department's services are accounted for consistently with the requirements of the relevant accounting standards disclosed in the following notes.

2.1.1 Revenue from contracts with customers

Revenue recognised under AASB 15 *Revenue from contracts with customers* is measured based on the consideration specified in the contract with the customer. The revenue is recognised when the department transfers control of a good or service to the customer, i.e. when the performance obligations for the sale of the goods or services to the customer are satisfied. Revenue from the sale of goods are recognised when the goods are delivered and have been accepted by the customer at their premises. Revenue from the rendering of services is recognised at a point in time when the performance obligation is satisfied when the service is completed, and over time when the customer simultaneously receives and consumes the services as it is provided.

Revenue under the department's previous accounting policy for 30 June 2019 for the sale of goods was recognised when:

- the department no longer had any of the significant risks and rewards of ownership of the goods transferred to the buyer
- the department no longer had continuing managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;
- the amount of revenue, and the costs incurred or to be incurred in respect of the transactions, could be reliably measured; and
- it was probable that the economic benefits associated with the transaction would flow to the department.

Revenue from the supply of services was recognised by reference to the stage of completion of the services performed, when the stage of completion and the transaction amounts could be reliably measured, and the economic benefits associated with the transactions would flow to the department.

There has been no impact from the change in recognition of income upon the application of AASB 15.

2.1.2 Income of not-for-profit entities

Income recognised under AASB 1058 *Income of not-for-profit entities*, which do not have sufficiently specific obligations or that are not enforceable, is recognised when the department has an unconditional right to receive cash which usually coincides with receipt of cash.

Income under the department's previous accounting policy for 30 June 2019 that arose from transactions in which a party provided goods or assets (or extinguished a liability) to the department without receiving approximately equal value in return was recognised upon receipt of those items.

There has been no impact from the change in recognition of income upon the application of AASB 1058.

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. Output appropriations are recognised under AASB 1058 *Income of not-for-profit entities*.

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. Capital appropriations are recognised under AASB 1004 *Contributions*.

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 for payments made on behalf of the State are recognised under AASB 1058.

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. Appropriations in relation to the Victorian Law Reform Commission are recognised under AASB 1058.

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							
	Annual appropriation	Advance from Treasurer	Section 3(2)	Section 29	Section 30	Section 32	Section 35	Machinery of government changes	Total parliamentary authority	Appropriations applied	Variance
2020											
Controlled											
Provision of outputs	7,511,613	343,204	0	268,017	301,189	69,893	0	16,209	8,510,125	8,329,480	180,645 (i)(v)
Victorian Law Reform Commission	699	0	0	0	0	0	0	0	699	670	29 (ii)
	7,512,312	343,204	0	268,017	301,189	69,893	0	16,209	8,510,824	8,330,150	180,674
Additions to net asset base	889,262	31,465	0	193	(301,189)	217,506	0	922	838,159	230,763	607,396 (iii)(v)
Administered											
Payments made on behalf of State	36,001	234,147	0	0	0	0	0	0	270,148	266,941	3,207 (iv)
Total	**8,437,575**	**608,816**	**0**	**268,210**	**0**	**287,399**	**0**	**17,131**	**9,619,131**	**8,827,854**	**791,277**
2019											
Controlled											
Provision for outputs	7,118,852	210,574	0	250,734	35,688	96,317	0	(21,479)	7,690,686	7,570,300	120,386
Victorian Law Reform Commission	662	0	0	0	0	0	0	0	662	662	0
	7,119,514	210,574	0	250,734	35,688	96,317	0	(21,479)	7,691,348	7,570,962	120,386
Additions to net asset base	471,381	80,324	0	362	(35,688)	176,841	0	0	693,220	340,045	353,175
Administered											
Payments made on behalf of State	36,001	0	0	0	0	0	0	0	36,001	36,000	1
Total	**7,626,896**	**290,898**	**0**	**251,096**	**0**	**273,158**	**0**	**(21,479)**	**8,420,569**	**7,947,007**	**473,562**

(i) **Controlled – provision of outputs**

The majority of the $180.645 million variance (2019: $120.386 million) relates to rephasing of output appropriations from 2019–20 into 2020–21 and future years.

The primary drivers of the rephases are:

- Melbourne CBD security measures initiative – The initiative funding was announced in the 2018–19 Budget to progress further security measures including bollards and other protective measures, which was introduced in 2017–18 under the Melbourne's CBD Protective Security Works Program. Due to the Coronavirus (COVID-19) pandemic, works have been rescheduled and has impacted on the delivery of the program in 2019–20. A rephase was required to align budgets with the revised project timelines.

- Establishment of the Maribyrnong Residential Facility initiative – Funding was redirected and rephased from 2019–20 into 2020–21 for the establishment of the Maribyrnong Residential Facility, to help slow the spread of coronavirus (COVID-19). The facility provides short-term accommodation for men exiting the prison system, with all residents assessed for risk and 24/7 security and supervision provided on site.
- Establishing a National Disability Insurance Scheme (NDIS) worker screen service initiative – The initiative was announced in the 2019–20 Budget to establish a NDIS worker screening unit to check that existing or prospective NDIS workers do not pose a risk to people with disability and approved supplementation to support the Working with Children Check unit. A rephase from 2019–20 into 2020–21 was to align funding with the revised project deliverable timelines.
- Community Safety Statement and Public Safety – Police Response 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 is required from 2019–20 into 2020–21.

(ii) **Controlled – Victorian Law Reform Commission**

The variance mainly relates to the adoption of the accounting standard AASB 16 *Leases*.

(iii) **Controlled – additions to net asset base (ATNAB)**

The majority of the $607.396 million variance (2019: $353.175 million) relates to rephasing and carryover of ATNAB appropriation from 2019–20 into 2020–21 and future years.

The primary drivers of the rephasing and carryover are:

- Chisholm Road prison project – This project will support a safe, secure and well-equipped prison system to meet forecast demand. The extended procurement process due to the revised scope to expand the number of beds and the subsequent delay in executing the contract and construction commencement has resulted in a funding rephase from 2019–20 into 2020–21. The rephase will ensure that the department can continue with the deliverables in 2020–21.
- New Youth Justice Facility (Cherry Creek) – The Victorian Government is building a new youth justice centre at Cherry Creek. Since it was announced in the 2017–18 State Budget, Government has revised the scale and design of the new centre, to deliver a more specialised facility that focuses on children and young people's rehabilitation and safe and effective supervision. The new 140-bed facility will now be a smaller, more specialised and contemporary facility which will house males aged 15–18. The Parkville and Malmsbury sites will be retained, resulting in an interim three-precinct approach to accommodate children and young people in custody in Victoria. The revision of the new facility requires funding rephase and carryover, in order to align the budget to project milestones.
- Men's prison system capacity – The initiative was announced in the 2019–20 Budget to increase capacity and supporting infrastructure across the men's prison system, including additional beds and infrastructure at existing prisons. Due to the change in the procurement approach for the modular cells, a rephase was requested to align the budget to the revised timelines.
- Essential Services to Manage Growth in Prison – The works in 2020–21 at Barwon and Dame Phyllis Frost Centre will provide essential infrastructure and services to meet the needs of the expanded prison system. This includes upgraded security, health services, food preparation facilities and expanded program capacity across these prisons to support prisoner, staff and community safety. Subsequently, a rephase was requested to align the budget to the revised timelines, to enable the department to continue with the required deliverables and to deliver scope changes associated with program efficiencies.
- Future Emergency Alert – The Emergency Alert project is managed by Victoria on behalf of all other states and territories. Due to the unexpected delays in the establishment phase activities being partially impacted by the coronavirus (COVID-19) pandemic, a rephase and carryover of funding was required to align the budget with the revised program.
- Expanding Community Correctional Services to Meet Demand – The initiative was announced in the 2015–16 Budget to expand Community Correctional Services (CCS) across the State to meet forecast demand in the number of offenders receiving a Community Correction Order. Due to unexpected delays mainly in site identification, a rephase was required to align the budget with the revised timelines.
- Community Safety Statement and Public Safety – Police response initiatives – The investment in infrastructure works supports Victoria Police's capability to provide safe communities. A carryover into 2020–21 is required to align the budget to the revised timelines.

(iv) **Administered – Payments made on behalf of state**

The variance mainly relates to lower than expected lottery taxes collected on behalf of other jurisdictions, which are driven by lottery sales.

(v) **Section 30 transfers**

A transfer from capital to operating funding of $301.189 million has occurred in 2019–20 in accordance with section 30 of the *Financial Management Act 1994* mainly to support fire-fighting related activities and 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	
			2020	2019
	Controlled			
1	*Corrections Act 1986 (No. 117/1986), s.104ZW*	Compensation from the WorkCover Authority Fund under the *Accident Compensation Act 1985*	49	157
2	*Emergency Management Act 1986 (No. 30/1986), s.32*	Payments to volunteers for work related injuries under the Act	1,164	189
3	*Victoria State Emergency Service Act 2005 (No. 51/2005), s.52*	Payments to volunteers for work related injuries under the Act	485	972
4	*National Redress Scheme for Institutional Child Sexual Abuse (Commonwealth Powers) Act 2018 (No. 21/2018), s.11*	Costs of administering the State's participation in the National Redress Scheme	1,689	2,082
5	*Ombudsman Act 1973 (No. 8414/1973), s.5*	Salary and allowances payable to the Ombudsman	116	0
	Total		**3,503**	**3,400**
	Administered			
6	*Melbourne City Link Act 1995 (No. 107/1995), s.14(4)*	Payments to City Link	812	939
7	*EastLink Project Act 2004 (No. 39/2004), s.26*	Payments to East Link	997	1,058
8	*Crown Proceedings Act 1958 (No. 6232/1958), s.26*	Payments from Crown Proceedings in the Supreme Court of Victoria	13,399	16,497
9	*National Redress Scheme for Institutional Child Sexual Abuse (Commonwealth Powers) Act 2018 (No. 21/2018), s.11*	Payments to the Commonwealth for the funding contribution that the State is liable to pay under section 149 of the National Redress Act.	19,745	3,862
10	*National Redress Scheme for Institutional Child Sexual Abuse (Commonwealth Powers) Act 2018 (No. 21/2018), s.11*	Payments for support services, including the provision of counselling and psychological services within the meaning of section 52(1)(b) of the National Redress Act.	1,559	529
11	*Inquiries Act 2014 (No. 67/2014), s.11*	Costs incurred by the Royal Commission into the Management of Police Informants	0	7,500
	Total		**36,512**	**30,385**

2.4 Interest income

		($ thousand)
	2020	2019
Interest from financial assets at amortised cost:		
• Interest from deposits and investments	622	1,273
• Interest from real estate agent and conveyancer trust accounts	12,306	22,309
Total interest income	**12,928**	**23,582**

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)
	2020	2019
Income recognised as income of not-for-profit entities		
• Specific purpose grants	39,373	31,950
Total grant income	**39,373**	**31,950**

The department receives specific purpose grants, which are paid for a particular purpose and/or have conditions attached regarding their use. However the grant agreements do not contain sufficiently specific performance obligations and therefore the grant income is recognised in accordance with AASB 1058 when the department has an unconditional right to receive cash.

2.6 Other income

		($ thousand)
	2020	2019
Fines and fees	14,245	15,221
Dividends from investments	10,154	14,061
Income from Residential Tenancies Bond Authority (RTBA)	15,000	15,400
Income from Victorian Building Authority (VBA)	19,167	17,058
Other	13,507	27,476
Total other income	**72,073**	**89,216**

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.

The administered income, from the sales of goods and services, is recognised under either AASB 15 *Revenue from contracts with customers* or AASB 1058 *Income of not-for-profit entities*. Where the administered income falls under AASB 15, the income is recognised on the delivery of the goods and/or services. Where the administered income falls under AASB 1058, the income is recognised when the department has an unconditional right to receive cash.

At the point of recognition of the administered income, section 29 provides for an equivalent amount to be added to the annual appropriation. The annual appropriation is recognised under AASB 1058.

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

		($ thousand)
	2020	**2019**
User charges, or sales of goods and services		
Consumer Affairs Victoria publications and conferences	76	76
Corrections Victoria prison industries	27,516	22,586
Crime Statistics Agency	8	47
Emergency alerting system	17,141	22,436
Emergency services management	24,119	23,903
Gaming and liquor regulation	581	748
Independent Broad-based Anti-corruption Commission services	567	0
Infringement Court fees	23,209	25,159
Legal services	53,206	45,998
Public information, education, training and mediation services	511	1,312
Registrar of Births, Deaths and Marriages services	6,102	6,718
Victorian Legal Admissions Board services [(i)]	159	3,029
Victorian Institute of Forensic Medicine services	13,299	13,177
Victorian Ombudsman services	214	0
Victoria Police policing services and event management	25,478	18,611
Asset sales		
Victoria Police asset sales	193	362
Commonwealth specific purpose payments		
Family advocacy and support services	1,641	1,240
Legal assistance services and community legal centres	68,308	61,130
National coronial information system	400	400
Prepared communities	0	800
Preparing Australia package	2,000	0
Provision of fire services	3,482	3,364
Total annotated income agreements	**268,210**	**251,096**

(i) Previously shown as Secretariat Legal Education and Board of Examiners.

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.

3.1.1 Impacts of the coronavirus (COVID-19) pandemic on expenses

The coronavirus (COVID-19) pandemic has increased the department's expenses by $58.044 million in 2019–20. These additional costs are reflected primarily under employee benefits (note 3.2), grant expense (note 3.3) and supplies and services (note 3.5). Further impacts from the coronavirus (COVID-19) pandemic will be reflected in the 2020–21 annual financial statements.

3.2 Employee benefits

3.2.1 Employee benefit expense in the comprehensive operating statement

($ thousand)

	2020	2019
Salary and wages	850,116	791,823
Superannuation	87,847	78,321
Annual leave and long service leave	97,467	107,909
Other on-costs (fringe benefits tax, payroll tax and workcover levy)	93,912	82,434
Termination benefits	1,811	2,349
Total employee benefit expense	**1,131,153**	**1,062,836**

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.

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)

	2020	2019
Current provisions		
Annual leave		
• Unconditional and expected to settle within 12 months	81,032	69,139
• Unconditional and expected to settle after 12 months	11,688	9,883
Long service leave		
• Unconditional and expected to settle within 12 months	13,275	10,831
• Unconditional and expected to settle after 12 months	103,502	98,302
On-costs		
• Unconditional and expected to settle within 12 months	23,763	20,725
• Unconditional and expected to settle after 12 months	24,156	22,144
Total current provisions for employee benefits	**257,416**	**231,024**
Non-current provisions		
Employee benefits	33,740	32,990
Employee on-costs	6,508	6,301
Total non-current provisions for employee benefits	**40,248**	**39,291**
Total provisions for employee benefits	**297,664**	**270,315**

Reconciliation of movement in employee on-cost provision

		($ thousand)
	2020	**2019**
Opening balance	49,170	40,223
Additional provisions recognised	27,868	25,428
Additions due to transfer in	244	94
Reductions arising from payments/other sacrifices of future economic benefits	(22,855)	(16,575)
Closing balance	54,427	49,170
Current	47,919	42,869
Non-current	6,508	6,301

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 a conditional 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.

The basis for contributions is determined by the various schemes.

($ thousand)

	Paid contribution for year		Contribution outstanding at year end	
	2020	2019	2020	2019
Defined benefit plans				
• Emergency Services and State Super	4,152	4,362	108	96
Defined contribution plans				
• VicSuper	52,262	49,868	3,999	1,180
• Various other	25,040	22,267	2,286	548
Total	**81,454**	**76,497**	**6,393**	**1,824**

3.3 Grant expense

($ thousand)

	2020	2019
Payments to:		
• Victoria Police	3,718,489	3,362,390
• Country Fire Authority	790,787	619,023
• Metropolitan Fire and Emergency Services Board	461,793	417,287
• Victoria Legal Aid	215,489	188,083
• Emergency Services Telecommunications Authority	102,016	50,505
• Office of Public Prosecutions	83,771	79,762
• Victoria State Emergency Service Authority	61,424	60,675
• Victorian Institute of Forensic Medicine	45,939	41,486
• Victorian Commission for Gambling and Liquor Regulation	38,492	43,394
• Court Services Victoria	22,033	23,396
• Victorian Equal Opportunity and Human Rights Commission	8,499	9,197
• Independent Broad-based Anti-corruption Commission	8,185	0
• Victorian Responsible Gambling Foundation	4,764	2,912
• Victorian Ombudsman	4,641	0
• Sentencing Advisory Council	1,925	1,777
• Victorian Inspectorate	1,024	0
• Other parties	123,912	143,614
Total grant expenses	**5,693,183**	**5,043,501**

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)
	2020	2019
Capital asset charge	213,899	185,884

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)
	2020	2019
Outsourced contracts [(i)]	713,218	695,646
Contractors, professional services and consultants	104,840	106,951
Accommodation and property services	88,613	88,151
Maintenance	30,818	26,346
Technology services	112,561	78,750
Printing, stationery and other office expenses	33,860	33,560
Other	115,247	130,358
Total supplies and services [(i)]	**1,199,157**	**1,159,762**

(i) The 2018–19 comparative figures have been restated to reflect the adoption of AASB 1059 *Service concession arrangements: grantors*.

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 short-term 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 and includes leases of low value assets.

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 2020 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 services

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. 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 and gambling sectors'.

Departmental outputs – controlled

($ thousand)

	Policing and crime prevention		Enforcing and managing correctional orders		Youth justice services		Criminal justice services		Civil justice services [i]		Emergency management		Industry regulation and support		Departmental total	
	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019
Controlled income and expenses for year ended 30 June 2020																
Income from transactions																
Output appropriations	3,760,322	3,402,098	1,828,182	1,762,541	239,492	225,241	732,024	642,549	138,694	114,777	1,546,580	1,314,652	84,186	108,442	8,329,480	7,570,300
Special appropriations	0	0	49	157	0	0	1,689	2,082	116	0	1,649	1,161	0	0	3,503	3,400
Interest income	0	0	86	405	0	0	0	0	0	0	0	0	12,842	23,177	12,928	23,582
Grant income	24	139	16,064	15,714	587	792	13,768	3,512	5,735	3,750	342	7,994	2,853	49	39,373	31,950
Other income	3	3	60	3,538	410	673	1,214	1,183	424	35	11,235	16,750	58,727	67,034	72,073	89,216
Total income from transactions	**3,760,349**	**3,402,240**	**1,844,441**	**1,782,355**	**240,489**	**226,706**	**748,695**	**649,326**	**144,969**	**118,562**	**1,559,806**	**1,340,557**	**158,608**	**198,702**	**8,457,357**	**7,718,448**
Expenses from transactions																
Employee benefit expense	(10,315)	(10,886)	(683,041)	(663,566)	(127,507)	(118,434)	(131,802)	(101,314)	(73,861)	(67,520)	(50,567)	(43,356)	(54,060)	(57,760)	(1,131,153)	(1,062,836)
Depreciation and amortisation [ii]	(282)	(36)	(130,878)	(105,463)	(6,294)	(4,969)	(13,874)	(15,621)	(4,830)	(1,601)	(13,428)	(7,885)	(1,182)	(477)	(170,768)	(136,052)
Interest expense [ii]	(44)	1	(53,445)	(63,632)	(331)	(74)	(580)	(23)	(203)	(11)	(832)	4	(171)	(14)	(55,606)	(63,749)
Grant expense	(3,743,932)	(3,380,747)	(15,915)	(4,853)	(5,832)	(1,431)	(383,606)	(353,811)	(27,624)	(12,284)	(1,438,162)	(1,178,878)	(78,112)	(111,497)	(5,693,183)	(5,043,501)
Capital asset charge	0	0	(180,853)	(158,225)	(20,929)	(14,852)	(9,449)	(10,279)	(124)	0	(2,544)	(2,528)	0	0	(213,899)	(185,884)
Supplies and services [ii]	(3,919)	(8,364)	(758,542)	(739,323)	(78,841)	(84,835)	(200,839)	(184,761)	(48,810)	(41,173)	(72,788)	(61,450)	(35,418)	(39,856)	(1,199,157)	(1,159,762)
Total expenses from transactions [ii]	**(3,758,492)**	**(3,400,032)**	**(1,822,674)**	**(1,735,062)**	**(239,734)**	**(224,595)**	**(740,150)**	**(665,809)**	**(155,452)**	**(122,589)**	**(1,578,321)**	**(1,294,093)**	**(168,943)**	**(209,604)**	**(8,463,766)**	**(7,651,784)**
Net result from transactions (net operating balance) [ii]	**1,857**	**2,208**	**21,767**	**47,293**	**755**	**2,111**	**8,545**	**(16,483)**	**(10,483)**	**(4,027)**	**(18,515)**	**46,464**	**(10,335)**	**(10,902)**	**(6,409)**	**66,664**
Other economic flows included in net result																
Net gain/(loss) on non-financial assets	26	11	1,209	826	159	102	341	(20,640)	100	67	381	268	93	75	2,309	(19,291)
Net gain/(loss) on financial instruments	(10)	(3)	(373)	(59,003)	(171)	47	(416)	(24)	(48)	4	(422)	619	(7,617)	(2,451)	(9,057)	(60,811)
Other gains/(losses) from other economic flows	(64)	(87)	(2,961)	(6,459)	(390)	(797)	(849)	(1,805)	(162)	(529)	(933)	(2,094)	(264)	(669)	(5,623)	(12,440)
Total other economic flows included in net result	**(48)**	**(79)**	**(2,125)**	**(64,636)**	**(402)**	**(648)**	**(924)**	**(22,469)**	**(110)**	**(458)**	**(974)**	**(1,207)**	**(7,788)**	**(3,045)**	**(12,371)**	**(92,542)**
Net result [ii]	**1,809**	**2,129**	**19,642**	**(17,343)**	**353**	**1,463**	**7,621**	**(38,952)**	**(10,593)**	**(4,485)**	**(19,489)**	**45,257**	**(18,123)**	**(13,947)**	**(18,780)**	**(25,878)**
Other economic flows – other comprehensive income																
Items that will not be reclassified to net result																
Changes in physical asset revaluation surplus	6	1	271,018	93	28,226	(61)	452	(9)	9	(5)	567	(15)	2	(4)	300,280	0
Total other economic flows – other comprehensive income	**6**	**1**	**271,018**	**93**	**28,226**	**(61)**	**452**	**(9)**	**9**	**(5)**	**567**	**(15)**	**2**	**(4)**	**300,280**	**0**
Comprehensive result [ii]	**1,815**	**2,130**	**290,660**	**(17,250)**	**28,579**	**1,402**	**8,073**	**(38,961)**	**(10,584)**	**(4,490)**	**(18,922)**	**45,242**	**(18,121)**	**(13,951)**	**281,500**	**(25,878)**
Controlled assets and liabilities at 30 June 2020																
Assets																
Financial assets	590,114	465,316	330,826	289,327	19,602	14,495	172,669	148,526	69,956	34,584	295,871	227,882	294,473	307,267	1,773,511	1,487,397
Non-financial assets [ii]	1,229	1,305	3,393,506	3,041,537	467,556	407,788	79,372	71,381	29,443	30,243	83,767	87,270	3,410	4,642	4,058,283	3,644,166
Total assets [ii]	**591,343**	**466,621**	**3,724,332**	**3,330,864**	**487,158**	**422,283**	**252,041**	**219,907**	**99,399**	**64,827**	**379,638**	**315,152**	**297,883**	**311,909**	**5,831,794**	**5,131,563**
Liabilities [ii]	588,881	471,517	1,121,889	1,061,744	51,534	51,770	148,847	112,064	65,624	28,196	142,932	87,818	41,940	43,925	2,161,647	1,857,034
Total liabilities [ii]	**588,881**	**471,517**	**1,121,889**	**1,061,744**	**51,534**	**51,770**	**148,847**	**112,064**	**65,624**	**28,196**	**142,932**	**87,818**	**41,940**	**43,925**	**2,161,647**	**1,857,034**
Net assets [ii]	**2,462**	**(4,896)**	**2,602,443**	**2,269,120**	**435,624**	**370,513**	**103,194**	**107,843**	**33,775**	**36,631**	**236,706**	**227,334**	**255,943**	**267,984**	**3,670,147**	**3,274,529**

(i) This output includes amounts relating to the Public Interest Monitor, Local Government Inspectorate and the Office of the Victorian Information Commissioner which transferred from the Department of Premier and Cabinet to the Department of Justice and Community Safety for financial purposes on 1 May 2020, as a result of a machinery of government change. Refer to note 4.4.

(ii) The 2018–19 comparative figures have been restated to reflect the adoption of AASB 1059 *Service concession arrangements: grantors*.

4.3 Administered items

In addition to the specific departmental operations which are controlled and included in the financial statements (comprehensive operating statement, balance sheet, cash flow statement and statement of changes in equity), the department administers or manages, but does not control, certain resources and activities on behalf of the State. The department is accountable for the transactions involving those administered resources, but does not have the discretion to deploy the resources for its own benefit or for the achievement of its objectives. Accordingly, transactions and balances relating to these administered resources are not recognised as departmental income, expenses, assets or liabilities within the body of the financial statements, but are disclosed separately in this note.

Except as otherwise disclosed, administered transactions are accounted for on an accrual basis using the same accounting policies adopted for recognition of the departmental items in the financial statements.

Administered (non-controlled) items
For the financial year ended 30 June 2020

($ thousand)

	Policing and crime prevention		Enforcing and managing correctional orders		Youth justice services		Criminal justice services [i]		Civil justice services		Emergency management [ii]		Industry regulation and support		Departmental total [i]	
	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019
Administered income from transactions																
Appropriations for payments made on behalf of the State	0	0	0	0	0	0	0	0	0	0	228,147	0	38,794	36,000	266,941	36,000
Special appropriations	0	0	0	0	0	0	23,113	13,888	13,399	16,497	0	0	0	0	36,512	30,385
Sale of goods and services [i]	0	47	27,525	22,702	1	0	23,210	24,881	59,717	55,999	41,262	46,339	76	76	151,791	150,044
Fines [i]	0	0	256	330	0	0	606,926	522,841	0	0	0	0	3	0	607,185	523,171
Fees [i]	2	3	0	0	0	0	208,984	153,949	9,669	11,298	0	0	2,099	2,189	220,754	167,439
Other income [i]	49	28	2,374	2,064	294	263	29,363	26,055	204	170	703	666	171	187	33,158	29,433
Total administered income from transactions [i]	**51**	**78**	**30,155**	**25,096**	**295**	**263**	**891,596**	**741,614**	**82,989**	**83,964**	**270,112**	**47,005**	**41,143**	**38,452**	**1,316,341**	**936,472**
Administered expenses from transactions																
Payments made on behalf of the State	0	0	0	0	0	0	0	0	0	0	0	0	(38,794)	(36,000)	(38,794)	(36,000)
Payments into the consolidated fund	0	(47)	(54,974)	(42,264)	34	69	(447,998)	(454,720)	(75,247)	(72,283)	(50,606)	(56,481)	(76)	(73)	(628,867)	(625,799)
Other expenses [i]	(25)	(20)	(1,154)	(1,742)	(148)	(181)	(42,876)	(29,965)	(13,507)	(15,833)	(220,419)	(476)	(86)	(133)	(278,215)	(48,350)
Total administered expenses from transactions [i]	**(25)**	**(67)**	**(56,128)**	**(44,006)**	**(114)**	**(112)**	**(490,874)**	**(484,685)**	**(88,754)**	**(88,116)**	**(271,025)**	**(56,957)**	**(38,956)**	**(36,206)**	**(945,876)**	**(710,149)**
Total administered net result from transactions (net operating balance) [i]	**26**	**11**	**(25,973)**	**(18,910)**	**181**	**151**	**400,722**	**256,929**	**(5,765)**	**(4,152)**	**(913)**	**(9,952)**	**2,187**	**2,246**	**370,465**	**226,323**
Administered other economic flows included in administered net result																
Net gain/(loss) on non-financial assets	0	0	(62)	(2,607)	(34)	(69)	(97)	(179)	0	(3)	(41)	(30)	0	(3)	(234)	(2,891)
Net gain/(loss) on financial instruments and statutory receivables [i]	3	(3)	0	0	0	0	(387,212)	(304,751)	(13)	22	1,109	(825)	0	0	(386,113)	(305,557)
Total administered other economic flows [i]	**3**	**(3)**	**(62)**	**(2,607)**	**(34)**	**(69)**	**(387,309)**	**(304,930)**	**(13)**	**19**	**1,068**	**(855)**	**0**	**(3)**	**(386,347)**	**(308,448)**
Total administered comprehensive result [i]	**29**	**8**	**(26,035)**	**(21,517)**	**147**	**82**	**13,413**	**(48,001)**	**(5,778)**	**(4,133)**	**155**	**(10,807)**	**2,187**	**2,243**	**(15,882)**	**(82,125)**
As at 30 June 2020																
Administered assets																
Cash and deposits	87	51	12,897	12,120	532	478	6,499	8,953	41,680	54,647	202,817	1,236	355	381	264,867	77,866
Receivables [i]	0	23	3	2	0	0	104,857	105,794	14,665	14,787	1,261	9,873	0	0	120,786	130,479
Equity investments in other justice portfolio entities	0	0	0	0	0	0	43,395	43,395	29	29	755,815	714,041	0	0	799,239	757,465
Total administered assets [i]	**87**	**74**	**12,900**	**12,122**	**532**	**478**	**154,751**	**158,142**	**56,374**	**69,463**	**959,893**	**725,150**	**355**	**381**	**1,184,892**	**965,810**
Administered liabilities																
Creditors and accruals	0	0	0	2	0	0	5,823	4,954	14,702	410	67,569	0	0	0	88,094	5,366
Deposits payable	75	52	10,343	10,126	458	481	6,925	7,632	39,431	55,041	1,078	1,246	307	379	58,617	74,957
Provisions	0	0	0	0	0	0	0	0	0	0	125,835	0	0	0	125,835	0
Unearned revenue	7	0	304	7	40	1	85	1	987	638	96	2	23	1	1,542	650
Total administered liabilities	**82**	**52**	**10,647**	**10,135**	**498**	**482**	**12,833**	**12,587**	**55,120**	**56,089**	**194,578**	**1,248**	**330**	**380**	**274,088**	**80,973**
Total administered net assets [i]	**5**	**22**	**2,253**	**1,987**	**34**	**(4)**	**141,918**	**145,555**	**1,254**	**13,374**	**765,315**	**723,902**	**25**	**1**	**910,804**	**884,837**

(i) The 2018–19 comparative figures have been restated to correct prior period errors. Refer to note 4.3.1 for further details.

(ii) This output includes amounts relating to the Natural Disaster Relief Trust which transferred from the Department of Treasury and Finance to the Department of Justice and Community Safety on 1 December 2019, as a result of a machinery of government change. Refer to note 4.4.

Administered income from transactions includes appropriations for payments made on behalf of the State, special appropriations, sale of goods and services, fines and fees. Appropriations for payments made on behalf of the State, special appropriations, and sale of goods and services are recognised on the same basis as described in note 2. Fines income mainly relates to traffic camera fines and on-the-spot fines issued by Victoria Police, which are recognised upon the issuance of infringement notices. Fees income mainly relates to the fees charged in association with the collection of infringement notice fines, which are recognised upon the issuance of penalty reminder notices, notices of final demand and enforcement warrants.

Administered expenses from transactions include payments made on behalf of the State and payments into the consolidated fund.

Administered other economic flows included in administered net result includes the net gain/(loss) on financial instruments and statutory receivables which mainly relates to movements in the allowance for impairment losses of receivables.

Administered assets include receivables and equity investments in other justice portfolio entities. Receivables mainly relate to unpaid fines and fees and include an allowance for impairment losses of those receivables. The allowance for impairment losses of unpaid fines was calculated by grouping the unpaid fines based on their fine category and days past due and applying an expected credit loss rate based on the department's past experience, current market conditions and forward looking estimates including considering the impacts of the coronavirus (COVID-19) pandemic. Unpaid fines over five years old are written off for accounting purposes in line with department's policy, but are still legally enforceable and will be continued to be pursued for payment. Equity investments in other justice portfolio entities represent the State's capital investment in those entities that are controlled by the State.

Administered liabilities include government expenses incurred but yet to be paid.

4.3.1 Prior period adjustments to administered items

The new infringement management system was implemented on 31 December 2017 to coincide with legislative changes made under the *Fines Reform Act 2014*, without financial reporting functionality. Some management judgements and estimates were therefore made in the amount of administered receivables, fines revenue and other associated revenue reported in the 2017–18 and 2018–19 financial years. In 2019–20 the department produced financial reporting functionality to support the new system, which subsequently identified errors in the amounts reported in the prior years. These errors do not affect fines previously issued to or collected from individuals.

The department also separately identified previous errors dating back to at least 2006 in the calculation of, and accounting treatment for, the allowance for impairment losses from unpaid fines, whereby the accounting methodology reduced the allowance by the amount of unpaid fines collected via non-cash mechanisms (such as undertaking community work to work off a fine debt). This resulted in understatements in the amount of the allowance for impairment losses from unpaid fines and overstatements in the amount of net fines receivables expected to be received in cash that were reported in previous years. It also affected the net gain/(loss) on financial instruments and statutory receivables, total administered comprehensive results and total administered net assets that were reported in previous years. These errors did not affect fines income, fines previously issued or associated cash collections, and do not relate to the new infringement management system.

These errors have been corrected by restating each of the affected line items of the administered income, expenses, assets and liabilities items for the 2018–19 comparative year and administered assets and liabilities items for the 2017–18 year as shown in the below tables.

Prior period adjustments to the administered income and expenses items

($ thousand)

	2019 Published	Prior period adjustments to receivables, fines revenue and other associated revenue in 2019	Prior period adjustments to the allowance for impairment losses for unpaid fines in 2019	2019 Restated
Administered income from transactions				
Appropriations for payments made on behalf of the State	36,000	0	0	36,000
Special appropriations	30,385	0	0	30,385
Sale of goods and services	150,322	(278)	0	150,044
Fines	682,247	(159,076)	0	523,171
Fees	184,601	(17,162)	0	167,439
Other income	24,931	4,502	0	29,433
Total administered income from transactions	**1,108,486**	**(172,014)**	**0**	**936,472**
Administered expenses from transactions				
Payments made on behalf of the State	(36,000)	0	0	(36,000)
Payments into the consolidated fund	(625,799)	0	0	(625,799)
Other expenses	(32,677)	0	(15,673)	(48,350)
Total administered expenses from transactions	**(694,476)**	**0**	**(15,673)**	**(710,149)**
Total administered net result from transactions (net operating balance)	**414,010**	**(172,014)**	**(15,673)**	**226,323**
Administered other economic flows included in administered net result				
Net gain/(loss) on non-financial assets	(2,891)	0	0	(2,891)
Net gain/(loss) on financial instruments and statutory receivables	(544,130)	0	238,573	(305,557)
Total administered other economic flows	**(547,021)**	**0**	**238,573**	**(308,448)**
Total administered comprehensive result	**(133,011)**	**(172,014)**	**222,900**	**(82,125)**

Prior period adjustments to the administered assets and liabilities items

($ thousand)

	2018 Published	Prior period adjustments to receivables, fines revenue and other associated revenue in 2018	Prior period adjustments to the allowance for impairment losses for unpaid fines in 2018	2018 Restated
Administered assets				
Cash and deposits	28,690	0	0	28,690
Receivables	1,428,360	93,622	(1,308,278)	213,704
Equity investments in other justice portfolio entities	714,927	0	0	714,927
Total administered assets	**2,171,977**	**93,622**	**(1,308,278)**	**957,321**
Administered liabilities				
Creditors and accruals	842	0	0	842
Deposits payable	25,201	0	0	25,201
Provisions	0	0	0	0
Unearned revenue	1,469	0	0	1,469
Total administered liabilities	**27,512**	**0**	**0**	**27,512**
Total administered net assets	**2,144,465**	**93,622**	**(1,308,278)**	**929,809**

($ thousand)

	2019 Published	Prior period adjustments from 2018	Prior period adjustments to receivables, fines revenue and other associated revenue in 2019	Prior period adjustments to the allowance for impairment losses for unpaid fines in 2019	2019 Restated
Administered assets					
Cash and deposits	77,866	0	0	0	77,866
Receivables	1,294,249	(1,214,656)	(172,014)	222,900	130,479
Equity investments in other justice portfolio entities	757,465	0	0	0	757,465
Total administered assets	**2,129,580**	**(1,214,656)**	**(172,014)**	**222,900**	**965,810**
Administered liabilities					
Creditors and accruals	5,366	0	0	0	5,366
Deposits payable	74,957	0	0	0	74,957
Provisions	0	0	0	0	0
Unearned revenue	650	0	0	0	650
Total administered liabilities	**80,973**	**0**	**0**	**0**	**80,973**
Total administered net assets	**2,048,607**	**(1,214,656)**	**(172,014)**	**222,900**	**884,837**

4.4 Restructuring of administrative arrangements

Transfer of net assets from the Department of Treasury and Finance

The responsibility for the administrative arrangements of the Natural Disaster Relief Trust transferred from the Department of Treasury and Finance to the Department of Justice and Community Safety, as a result of a machinery of government change on 1 December 2019.

The combined income and expenses for these activities for the reporting period (including those recognised by the Department of Treasury and Finance) were as follows.

($ thousand)

	Department of Treasury and Finance	Department of Justice and Community Safety	Total
	(1 July 2019 to 30 November 2019)	(1 December 2019 to 30 June 2020)	
Administered income and expenses			
Income	(12,549)	228,147	215,598
Expenses	3,820	220,064	223,884

The following net assets were assumed by the Department of Justice and Community Safety for these activities as a result of the administrative restructure and were recognised at the carrying amount of those net assets at the date of transfer.

($ thousand)

	2020
Controlled	
Assets	
Receivables	256
Liabilities	
Employee benefit provisions	256
Controlled net assets recognised	**0**
Net capital contribution from the Crown	**0**
Administered	
Assets	
Cash	43,423
Other asset	10
Liabilities	
Other liabilities	43,358
Administered net assets recognised	**75**
Net capital contribution from the Crown	**75**

Transfer of net assets from the Department of Premier and Cabinet

The responsibility for the administrative arrangements of the Public Interest Monitor, Local Government Inspectorate, and the Office of the Victorian Information Commissioner transferred, for financial purposes on 1 May 2020, from the Department of Premier and Cabinet to the Department of Justice and Community Safety, as a result of a machinery of government change, in accordance with the administrative arrangements order (no. 234) 2020.

The combined income and expenses for these activities for the reporting period (including those recognised by the Department of Premier and Cabinet) were as follows.

			($ thousand)
	Department of Premier and Cabinet	Department of Justice and Community Safety	Total
	(1 July 2019 to 30 April 2020)	(1 May 2020 to 30 June 2020)	
Controlled income and expenses			
Income	10,645	3,256	13,901
Expenses	9,401	3,174	12,575

The following net assets were assumed by the Department of Justice and Community Safety for these activities as a result of the administrative restructure and were recognised at the carrying amount of those net assets at the date of transfer.

	($ thousand)
	2020
Controlled	
Assets	
Cash	231
Receivables	2,136
Property, plant and equipment	1,617
Liabilities	
Borrowings	91
Employee benefit provisions	2,136
Controlled net assets recognised	**1,757**
Net capital contribution from the Crown	**1,757**

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 [(i)]

($ thousand)

	Gross carrying amount		Accumulated depreciation		Net carrying amount	
	2020	2019	2020	2019	2020	2019
Land at fair value	330,883	287,093	0	0	330,883	287,093
Buildings at fair value	2,778,534	2,669,065	(1,071)	(218,757)	2,777,463	2,450,308
Plant, equipment and vehicles at fair value [(ii)]	564,444	497,525	(301,438)	(247,618)	263,006	249,907
Assets under construction at cost	600,715	562,297	0	0	600,715	562,297
Total [(ii)]	**4,274,576**	**4,015,980**	**(302,509)**	**(466,375)**	**3,972,067**	**3,549,605**

(i) AASB 16 *Leases* has been applied for the first time from 1 July 2019.

(ii) The 2018–19 comparative figures have been restated to reflect the adoption of AASB 1059 *Service concession arrangements: grantors*.

The following tables are subsets of land, buildings, plant, equipment and vehicles, and assets under construction by right-of-use assets and service concession assets.

5.2(a) Total right-of-use assets: buildings, plant, equipment and vehicles

($ thousand)

	Gross carrying amount	Accumulated depreciation	Net carrying amount
	2020	2020	2020
Buildings at fair value	455,662	(1,071)	454,591
Plant, equipment and vehicles at fair value	34,245	(14,442)	19,803
Total	**489,907**	**(15,513)**	**474,394**

($ thousand)

	Buildings at fair value	Plant, equipment and vehicles at fair value
Opening balance – 1 July 2019 [(i)]	789,693	18,936
Additions	2,767	11,016
Disposals	0	(3,201)
Transfers out of assets under construction	56,052	0
Revaluation [(ii)]	47,126	0
Machinery of government transfer in	0	91
Fair value of assets received free of charge or for nominal consideration	0	318
Depreciation	(31,251)	(6,816)
Transfers to disposal group held for sale	0	(541)
Net transfers through contributed capital [(iii)]	(409,796)	0
Closing balance – 30 June 2020	**454,591**	**19,803**

(i) AASB 16 *Leases* has been applied for the first time from 1 July 2019. This balance represents the initial recognition of right-of-use assets recorded on the balance sheet on 1 July 2019 along with the transfer from finance lease assets (recognised under AASB 117 at 30 June 2019) to right-of-use assets (recognised under AASB 16 at 1 July 2019).

(ii) A managerial revaluation of land and buildings was performed based on the Valuer-General's annual indices as at 30 June 2020. There are uncertainties inherent in the land and buildings indices in the coronavirus (COVID-19) environment, but it is the best available indication of the change in value of government assets as at 30 June 2020. Refer to note 8.4.2 for further details.

(iii) On 1 November 2019, the department transferred the right-of-use assets and lease liabilities for the accommodation leases under the centralised accommodation management strategy to the Department of Treasury and Finance Shared Service Provider using contributed capital in accordance with the requirements of FRD 119A *Transfers through contributed capital*.

5.2(b) Total service concession assets: land, buildings, plant, equipment, vehicles and assets under construction

($ thousand)

	Gross carrying amount		Accumulated depreciation		Net carrying amount	
	2020	2019	2020	2019	2020	2019
Land at fair value	19,921	16,102	0	0	19,921	16,102
Buildings at fair value	1,050,474	1,042,614	0	(57,220)	1,050,474	985,394
Plant, equipment and vehicles at fair value	79,403	79,858	(13,383)	(9,260)	66,020	70,598
Assets under construction at cost	105,668	27,201	0	0	105,668	27,201
Total	**1,255,466**	**1,165,775**	**(13,383)**	**(66,480)**	**1,242,083**	**1,099,295**

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 initial cost of property, plant and equipment under a finance lease (under AASB 117 until 30 June 2019) 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 now form part of a service concession arrangement.

The initial cost of property, plant and equipment under a lease that is recognised as a right-of-use asset (under AASB 16 from 1 July 2019) is measured at amounts equal to the present value of the unpaid lease payments at the commencement date, adjusted for any lease payments made at or before the commencement date less any lease incentive received.

The initial cost of property, plant and equipment under a service concession arrangement (under AASB 1059) is measured at current replacement cost in accordance with the cost approach to fair value in AASB 13 *Fair value measurement*.

Subsequent measurement: Property, plant and equipment (including right-of-use assets and service concession assets) 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, amortisation and impairment

Depreciation and amortisation

($ thousand)

	2020	2019
Buildings	105,745	85,417
Plant, equipment and vehicles [(i)]	58,986	42,214
Software	6,037	8,421
Total	170,768	136,052

(i) The 2018–19 comparative figures have been restated to reflect the adoption of AASB 1059 *Service concession arrangements: grantors*.

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

Depreciation / amortisation 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, leased and service concession)	20 to 60
Plant, equipment and vehicles (owned, leased and service concession)	1 to 20
Software	1 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.

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

Leasehold improvements, which are included under plant, equipment and vehicles, 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 order and safety		Economic affairs		Recreation culture and religion		Social protection		Total	
	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019
Nature based classification										
Land at fair value	327,722	284,338	79	71	25	44	3,057	2,640	330,883	287,093
Buildings at fair value	2,777,361	2,450,206	9	4	4	3	89	95	2,777,463	2,450,308
Plant, equipment and vehicles at fair value [(i)]	260,031	246,363	1,522	1,608	475	953	978	983	263,006	249,907
Assets under construction at cost	599,119	560,081	783	971	253	600	560	645	600,715	562,297
Total [(i)]	**3,964,233**	**3,540,988**	**2,393**	**2,654**	**757**	**1,600**	**4,684**	**4,363**	**3,972,067**	**3,549,605**

(i) The 2018–19 comparative figures have been restated to reflect the adoption of AASB 1059 *Service concession arrangements: grantors*.

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

($ thousand)

	Land at fair value		Buildings at fair value		Plant, equipment and vehicles at fair value		Assets under construction at cost		Total	
	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019
Opening balance	**287,093**	**281,876**	**2,450,308**	**2,415,665**	**249,907**	**225,013**	**562,297**	**392,671**	**3,549,605**	**3,315,225**
Recognition of service concession assets on initial application of AASB 1059 – adjustment to comparative figures [ii]	0	0	0	0	0	3,797	0	0	0	3,797
Recognition of right-of-use assets on initial application of AASB 16 – adjustment to balance as at 1 July 2019 [i]	0	0	428,020	0	4,259	0	0	0	432,279	0
Restated opening balance	**287,093**	**281,876**	**2,878,328**	**2,415,665**	**254,166**	**228,810**	**562,297**	**392,671**	**3,981,884**	**3,319,022**
Additions [iii]	1	1,896	5,966	6,272	30,649	51,065	225,530	285,966	262,146	345,199
Disposals	0	0	0	0	(3,201)	(3,624)	0	0	(3,201)	(3,624)
Transfers out of assets under construction	0	0	153,015	116,200	34,097	140	(187,112)	(116,340)	0	0
Reclassification between classes	0	0	(664)	0	664	0	0	0	0	0
Revaluation [iv]	43,789	0	256,491	0	0	0	0	0	300,280	0
Machinery of government transfer in	0	0	0	0	1,617	0	0	0	1,617	0
Machinery of government transfer out	0	0	0	0	0	(152)	0	0	0	(152)
Fair value of assets received free of charge or for nominal consideration	0	3,489	0	0	4,644	16,907	0	0	4,644	20,396
Depreciation [iii]	0	0	(105,745)	(85,417)	(58,986)	(42,214)	0	0	(164,731)	(127,631)
Transfers to disposal group held for sale	0	0	0	0	(541)	(519)	0	0	(541)	(519)
Net transfers through contributed capital [v]	0	(168)	(409,928)	(2,412)	(103)	(506)	0	0	(410,031)	(3,086)
Closing balance [iii]	**330,883**	**287,093**	**2,777,463**	**2,450,308**	**263,006**	**249,907**	**600,715**	**562,297**	**3,972,067**	**3,549,605**

(i) This balance represents the initial recognition of the right-of-use assets recorded on the balance sheet on 1 July 2019 for leased items that were previously expensed.

(ii) This balance represents the initial recognition of the service concession assets recorded on the balance sheet on 1 July 2018 for items that were previously expensed.

(iii) The 2018–19 comparative figures have been restated to reflect the adoption of AASB 1059 *Service concession arrangements: grantors*.

(iv) A managerial revaluation of land and buildings was performed based on the Valuer-General's annual indices as at 30 June 2020. There are uncertainties inherent in the land and buildings indices in the coronavirus (COVID-19) environment, but it is the best available indication of the change in value of government assets as at 30 June 2020. Refer to note 8.4.2 for further details.

(v) On 1 November 2019, the department transferred the right-of-use assets and lease liabilities for the accommodation leases under the centralised accommodation management strategy to the Department of Treasury and Finance Shared Service Provider using contributed capital in accordance with the requirements of FRD 119A *Transfers through contributed capital*.

5.3 Intangible assets

		($ thousand)
	2020	2019
Gross carrying amount		
Opening balance	139,535	144,196
Additions [(i)]	13,011	16,212
Disposals	(986)	0
Impairment [(ii)]	0	(20,873)
Machinery of government transfer in	45	0
Closing balance	151,605	139,535
Accumulated amortisation		
Opening balance	(82,118)	(73,697)
Amortisation [(iii)]	(6,037)	(8,421)
Disposals	986	0
Machinery of government transfer in	(45)	0
Closing balance	(87,214)	(82,118)
Net book value at end of financial year	64,391	57,417

(i) Intangible assets (software) reported include both intangible assets under construction and capitalised intangible assets.
(ii) Victorian Infringement Enforcement Warrant (VIEW) System software impairment.
(iii) The consumption of intangible assets is included in the depreciation and amortisation 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 amortisation and impairment. Refer to note 5.2.1 for information on depreciation, amortisation and impairment.

5.4 Investments and other financial assets

		($ thousand)
	2020	2019
Non-current investments and other financial assets		
Managed investment schemes [(i)]	203,213	205,629
Total non-current investments and other financial assets	**203,213**	**205,629**
Total investments and other financial assets	**203,213**	**205,629**

(i) The department measures its managed investment schemes at fair value through net result.

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)
	2020	2019
Contractual		
Advance to Metropolitan Fire and Emergency Services Board	714	952
Accrued interest income	367	1,750
Other receivables	21,182	18,582
Allowance for impairment losses of contractual receivables	(2,704)	(1,223)
Total contractual receivables	**19,559**	**20,061**
Statutory		
Amounts owing from Victorian Government	1,337,507	1,064,672
GST input tax credit recoverable	43,030	35,952
Total statutory receivables	**1,380,537**	**1,100,624**
Total receivables	**1,400,096**	**1,120,685**
Represented by		
Current receivables	1,209,325	994,975
Non-current receivables	190,771	125,710

Contractual receivables arise from an agreement between the department and another party. They are classified as financial instruments and categorised as 'financial assets at amortised costs'. 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.

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

Details about the department's impairment policies, exposure to credit risk, and calculations of the allowance for impairment losses of contractual receivables are set out in note 8.2.3.

6.3 Payables

		($ thousand)
	2020	2019
Contractual		
Trade creditors and other payables [(i)]	367,478	259,708
Accrued capital works	52,407	55,054
Salaries and wages	38,481	28,823
Total contractual payables	**458,366**	**343,585**
Statutory		
Payroll tax	4,700	4,530
Pay as you go (PAYG) tax withheld	4,033	4,158
Fringe benefits tax	834	226
Amounts payable to government agencies [(i)]	688,558	523,892
Total statutory payables	**698,125**	**532,806**
Total payables	**1,156,491**	**876,391**
Represented by		
Current payables	1,003,755	785,772
Non-current payables	152,736	90,619

(i) The 2018–19 comparative figures have been restated due to the reclassification of an item from being a contractual to a statutory payable.

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 changed from 30 days to 10 days in March 2020 as part of a State Government initiative to support businesses and the economy through the impacts of the coronavirus (COVID-19) pandemic.

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). Note 8.2 provides additional disclosures.

7.2 Borrowings

Borrowings refer to interest bearing liabilities, which for the department consist only of lease liabilities and service concession arrangement liabilities. Borrowings are classified as financial instruments and are measured at amortised cost.

		($ thousand)
	2020	2019
Current borrowings		
Lease liabilities [(i)(ii)]	18,872	15,970
Service concession financial liabilities [(ii)]	9,776	11,753
Total current borrowings [(ii)]	28,648	27,723
Non-current borrowings		
Lease liabilities [(i)(ii)]	149,197	150,109
Service concession financial liabilities [(ii)]	513,652	521,585
Total non-current borrowings [(ii)]	662,849	671,694
Total borrowings [(ii)]	691,497	699,417

(i) Secured by the leased assets, as the rights to the leased assets revert to the lessor in the event of default.

(ii) The 2018–19 comparative figures have been restated to reflect the adoption of AASB 1059 *Service concession arrangements: grantors*.

Maturity analysis of borrowings

					($ thousand)
	Carrying amount	Nominal amount	Less than 1 year	1 to 5 years	More than 5 years
2020					
Lease liabilities	168,069	361,695	39,028	131,178	191,489
Service concession financial liabilities	523,428	974,968	40,622	160,242	774,104
Total	691,497	1,336,663	79,650	291,420	965,593
2019					
Lease liabilities [(i)]	166,079	378,610	35,959	121,765	220,886
Service concession financial liabilities [(i)]	533,338	1,016,262	43,202	158,895	814,165
Total	699,417	1,394,872	79,161	280,660	1,035,051

(i) The 2018–19 comparative figures have been restated to reflect the adoption of AASB 1059 *Service concession arrangements: grantors*.

Interest expense

Interest expense is recognised in the period in which it is incurred.

		($ thousand)
	2020	2019
Interest on lease liabilities [(i)]	24,142	20,046
Interest on service concession financial liabilities [(i)]	31,464	43,703
Total interest expense [(i)]	**55,606**	**63,749**

(i) The 2018–19 comparative figures have been restated to reflect the adoption of AASB 1059 *Service concession arrangements: grantors*.

7.3 Leases

The department leases various buildings with lease terms of up to 30 years, and plant, equipment and vehicles with lease terms of up to 8 years.

Right-of-use assets

Right-of-use assets are presented in note 5.2(a)

Lease amounts recognised in the comprehensive operating statement

The following lease amounts are recognised in the comprehensive operating statement

	($ thousand)
	2020
Interest expense on lease liabilities	24,142
Expenses relating to short term leases	17
Expenses relating to leases of low-value assets	4,573
Variable lease payments, not included in the measurement of lease liabilities	1,681
Total	30,413

Lease amounts recognised in the cash flow statement

The following lease amounts are recognised in the cash flow statement

	($ thousand)
	2020
Total cash outflow for leases	57,897

Contracts containing leases

For any new contracts entered into, or changed, on or after 1 July 2019, the department considers whether the contract is or contains a lease. A lease is defined as a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration. A contract is, or contains a lease if:

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

Separation of lease and non-lease components

At inception or on reassessment of a contract that contains a lease component, the lessee is required to separate out and account separately for non-lease components within a lease contract and exclude these amounts when determining the lease liability and right-of-use asset amounts.

Recognition and measurement of leases as a lessee (under AASB 16 from 1 July 2019)

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

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

Subsequent measurement of lease liability: The lease liability is subsequently reduced for payments made and increased for interest. It is remeasured to reflect any reassessment or modification, or if there are changes to in-substance fixed payments. When the lease liability is remeasured, the corresponding adjustment is reflected in the right-of-use asset, or profit and loss if the right-of-use asset is already reduced to zero.

Short-term leases and leases of low-value assets

The department has elected to account for short-term leases and leases of low-value assets using the practical expedients. Instead of recognising a right-of-use asset and lease liability, the payments in relation to these leases are recognised as an expense in profit and loss on a straight-line basis over the lease term.

Below market or peppercorn leases

Right-of-use assets under leases at significantly below-market terms and conditions that are entered into principally to enable the department to further its objectives, are initially and subsequently measured at cost.

Presentation of right-of-use assets and lease liabilities

The department presents right-of-use assets as property, plant and equipment and lease liabilities as borrowings in the balance sheet.

Recognition and measurement of leases as a lessee (under AASB 117 until 30 June 2019)

In the comparative period, leases of property, plant and equipment were classified as either finance leases or operating leases.

Leases of property, plant and equipment where the department as a lessee had substantially all of the risks and rewards of ownership were classified as finance leases. Finance leases were initially recognised as assets and liabilities 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. The leased asset was accounted for as a non-financial physical asset and depreciated over the estimated useful life of the asset or the lease term. The minimum finance lease payments were apportioned between the reduction of the outstanding lease liability and the periodic finance expense (interest expense) which was calculated using the interest rate implicit in the lease and charged directly to the comprehensive operating statement. Contingent rentals associated with the finance leases were recognised as an expense in the period in which they were incurred.

Assets held under other leases were classified as operating leases and were not recognised in the department's balance sheet. Operating lease payments were recognised as an operating expense in the comprehensive operating statement on a straight-line basis over the lease term.

Commissioned public private partnerships (PPP) lease arrangements: 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. The portion of total payments relating to the department's right to use the prison assets under this contract are accounted for as lease liabilities. The payments relating to the ongoing maintenance of the prisons are expensed. Refer to note 7.6 for commitments for expenditure for PPPs.

Other lease arrangements: The other leases relate to buildings, plant, equipment and vehicles with lease terms of up to five years.

Lease liabilities payable

($ thousand)

	Minimum future lease payments		Present value of minimum future lease payments	
	2020	2019	2020	2019
Commissioned PPP related lease liabilities payable [(i)]				
Not longer than 1 year	27,892	27,345	8,313	7,692
Longer than 1 year but not longer than 5 years	117,259	114,960	40,512	37,491
Longer than 5 years	191,016	220,886	94,943	105,956
	336,167	363,191	143,768	151,139
Other lease liabilities payable				
Not longer than 1 year	11,136	8,614	10,559	8,278
Longer than 1 year but not longer than 5 years	13,919	6,805	13,287	6,662
Longer than 5 years	473	0	455	0
	25,528	15,419	24,301	14,940
	361,695	378,610	168,069	166,079
Minimum future lease payments [(ii)]				
Less future finance charges	(193,626)	(212,531)	0	0
Present value of minimum lease payments	168,069	166,079	168,069	166,079
Included in the financial statements as:				
Current borrowings lease liabilities			18,872	15,970
Non-current borrowing lease liabilities			149,197	150,109
			168,069	166,079

(i) The 2018–19 comparative figures have been restated to reflect the adoption of AASB 1059 *Service concession arrangements: grantors*.

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

7.4 Service concession arrangements

In line with the State of Victoria's direction prescribed in FRD 124 *Transitional requirements on the application of AASB 1059 Service concession arrangements: grantors*, the department has early adopted AASB 1059 from 1 July 2019. Further transitional disclosures are included in note 9.5.

The standard addresses the accounting for a service concession arrangement by a grantor that is a public sector entity by prescribing the accounting for the arrangement from a grantor's perspective.

Prior to the issuance of AASB 1059, there was no definitive accounting guidance in Australia for service concession arrangements, which include a number of public private partnerships (PPP) arrangements. The Australian Accounting Standards Board (AASB) issued the new standard to address the lack of specific accounting guidance and based the content thereof broadly on its international equivalent: International Public Sector Accounting Standard 32 *Service concession arrangement: grantor*.

For arrangements within the scope of AASB 1059, on transition and at initial recognition a public sector grantor is required to record the asset(s) used in the service concession arrangement at current replacement cost in accordance with the cost approach to fair value under AASB 13 *Fair value measurement*, with a related financial liability.

The department has applied the transitional provisions of AASB 1059 and elected a full retrospective approach to prior reporting periods. The effect of this is as if the standard has always been applied. Retrospective application requires the derecognition or adjustment of any service concession assets and liabilities recognised under previous accounting policies and the initial recognition of service concession assets and liabilities under AASB 1059. As well as below, note 9.5 summarises the impact of applying the standard.

After initial recognition, service concession assets are measured applying the department's property, plant and equipment (note 5.2) and intangible assets (note 5.3) subsequent measurement accounting policies.

The department has reviewed all of its arrangements to assess whether AASB 1059 applies. The following arrangements were identified.

Fulham Correctional Centre

In October 1995, the State entered into a PPP arrangement with Australasian Correctional Investment Ltd (ACI) for the design, construction, maintenance, and operation (including providing custodial services) of Fulham Correctional Centre. The construction of the prison was completed in 1997 and the operational phase under the original contract was due to end in 2017. However, an extension contract was entered into in April 2015, with the terms of the extension contract coming into effect on 1 July 2016. The extension contract has an initial term of 11 years and subject to ACI's performance, a further term of 8.3 years that would end in October 2035.

ACI is subject to key performance indicators over the term of the extension contract. Where there is unsatisfactory performance, the contract gives ACI the ability to rectify its performance, however if this is not satisfactory the department can adjust the quarterly payments made to ACI. Where performance is not rectified, the department can terminate the contract.

The department first recognised the prison buildings, plant and equipment as finance leased assets with a corresponding liability in 2005-06, following the State's transition to the Australian Equivalents to International Financial Reporting Standards. Prior to this date, the lease was treated as an operating lease. The finance lease ended in 2016–17 with the prison assets reverting to the State. The prison assets were subsequently reclassified as service concession assets upon the application of AASB 1059.

A summary of the service concession balances are included in the table below.

($ thousand)

		Pre-AASB 1059 accounting				Post-AASB 1059 accounting		
Note	Item	2020	2019	2018	Item	2020	2019	2018
5.2 Property, plant and equipment	Land, buildings, plant, equipment, vehicles and assets under construction	182,028	115,257	106,127	Service concession assets – Land, buildings, plant, equipment, vehicles and assets under construction	182,028	115,257	106,127
5.2.1 Depreciation	Depreciation on buildings, plant, equipment and vehicles	2,872	3,021	3,006	Depreciation on service concession assets – buildings, plant, equipment and vehicles	2,872	3,021	3,006

Port Phillip Prison

In July 1996, the State entered into a PPP arrangement with G4S Correctional Services (Australia) Pty Ltd for the design, construction, maintenance, and operation (including providing custodial services) of Port Phillip Prison. The construction of the prison was completed in 1997 and the operational phase under the original contract was due to end in 2017. However, an extension contract was entered into in December 2015, with the terms of the extension contract coming into effect on 10 September 2017. The extension contract also novated from G4S Correctional Services (Australia) Pty Ltd to G4S Custodial Services Pty Ltd on 10 September 2017. For simplicity,

both G4S entities are referred to as G4S. The extension contract has an initial term of 10 years and subject to G4S' performance, a further term of 10 years that would end in September 2037.

G4S is subject to key performance indicators over the term of the extension contract. Where there is unsatisfactory performance, the contract gives G4S the ability to rectify its performance, however if this is not satisfactory the department can adjust the quarterly payments made to G4S. Where performance is not rectified, the department can terminate the contract.

The department first recognised the prison buildings, plant and equipment as finance leased assets with a corresponding liability in 2005-06, following the State's transition to the Australian Equivalents to International Financial Reporting Standards. Prior to this date, the lease was treated as an operating lease. The finance lease ended in 2012–13 with the prison assets reverting to the State. The prison assets were subsequently reclassified as service concession assets upon the application of AASB 1059.

A summary of the service concession balances are included in the table below.

($ thousand)

		Pre-AASB 1059 accounting				Post-AASB 1059 accounting		
Note	Item	2020	2019	2018	Item	2020	2019	2018
5.2 Property, plant and equipment	Land, buildings, plant, equipment and assets under construction	221,376	184,814	185,588	Service concession assets – Land, buildings, plant, equipment and assets under construction	221,376	184,814	185,588
5.2.1 Depreciation	Depreciation on buildings, plant and equipment	5,099	5,240	5,223	Depreciation on service concession assets – buildings, plant and equipment	5,099	5,240	5,223

Ravenhall Correctional Centre

In September 2014, the State entered into a PPP arrangement with GEO Consortium for the design, construction, maintenance and operation (including providing custodial services) of Ravenhall Correctional Centre. The construction of the prison was completed in November 2017 and the operational phase is due to expire in 2042.

GEO Consortium is subject to key performance indicators over the term of the contract. Where there is unsatisfactory performance, the contract gives the consortium the ability to rectify its performance, however if this is not satisfactory the department can adjust the quarterly payments made to the consortium. Where performance is not rectified, the department can terminate the contract.

The department recognised the prison buildings, plant and equipment as finance leased assets with a corresponding liability in accordance with AASB 117 *Leases* in November 2017. The prison assets and liability were subsequently reclassified as service concession assets and liability upon the application of AASB 1059.

A summary of the service concession balances are included in the table below.

($ thousand)

		Pre-AASB 1059 accounting				Post-AASB 1059 accounting		
Note	Item	2020	2019	2018	Item	2020	2019	2018
5.2 Property, plant and equipment	Finance leased assets – buildings, plant and equipment	823,819	789,666	812,563	Service concession assets – buildings, plant and equipment	835,249	796,170	818,014
5.2 Property, plant and equipment	Buildings, plant, equipment and assets under construction	11,430	6,504	5,451				
5.2.1 Depreciation	Depreciation on finance leased assets – buildings, plant and equipment	19,279	22,897	13,458	Depreciation expense on service concession assets – buildings, plant and equipment	19,280	22,898	13,458
5.2.1 Depreciation	Depreciation on buildings, plant and equipment	1	1	0				
7.2 Borrowings	Finance lease liability	519,893	530,128	477,968	Service concession financial liability	519,893	530,128	477,968
7.2 Borrowings	Interest on finance lease liability	31,372	43,589	30,757	Interest on service concession financial liability	31,372	43,589	30,757

Prisoner Transport Contract

Following a competitive tender process, the State entered into a new contract with G4S Custodial Services Pty Ltd (G4S) for the transportation of prisoners between courts, prisons, youth justice centres and police stations using a fleet of purpose built vehicles. The contract is for a five year period from 1 October 2015.

G4S is subject to key performance indicators over the term of the contract. Where there is unsatisfactory performance, the department can adjust the payments made to G4S.

Prior to AASB 1059, the prisoner transport contract costs were expensed. Upon the application of AASB 1059, the costs for the use of the vehicles were recognised as service concession assets and liabilities.

A summary of the service concession balances are included in the table below.

($ thousand)

		Pre-AASB 1059 accounting				Post-AASB 1059 accounting		
Note	Item	2020	2019	2018	Item	2020	2019	2018
3.5 Supplies and services [(i)]	Outsourced contracts expense	1,818	1,501	1,438				
5.2 Property, plant and equipment					Service concession assets – vehicles	3,430	3,053	3,797
5.2.1 Depreciation					Depreciation on service concession assets – vehicles	1,675	1,371	1,310
7.2 Borrowings					Service concession financial liability	3,535	3,210	3,971
7.2 Borrowings					Interest on service concession financial liability	92	114	152

(i) The above disclosed outsource contract expense only relates to the payments for the use of the vehicles.

7.5 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. Most of this cash is held in trusts as shown below.

($ thousand)

	2020	2019
Cash [(i)]	(177)	(179)
Cash and deposits held in trust [(ii)]		
• Crime prevention and victims' aid fund	41	41
• Domestic builders fund	26,060	21,442
• Victorian property fund	5,604	26,186
• Correctional enterprises working account	8,357	11,613
• Motor car traders' guarantee fund	5,247	4,940
• Sex work regulation fund	714	1,046
• Residential tenancies fund	3,899	3,515
• Vehicle lease trust account	54	0
• Inter-departmental transfer fund	7,041	4,728
• Treasury trust fund	20,464	30,686
• Victorian consumer law fund	5,259	4,829
• Emergency services infrastructure authority fund	48,789	8,236
• Emergency management operational communication program fund	38,850	44,000
Balance as per cash flow statement and balance sheet	**170,202**	**161,083**

(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 2020, cash at bank included the amount of a shortfall for the payment of unpresented cheques of $0.144 million (2019: $0.220 million).

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

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

($ thousand)

	2020	2019
Net result for the period [(i)]	(18,780)	(25,878)
Non-cash movements		
Net (gain)/loss on disposal of non-current assets	(2,309)	(1,582)
Depreciation and amortisation of non-current assets [(i)]	170,768	136,052
Impairment of non-current assets	0	20,873
Resources (received)/provided free of charge or for nominal consideration	(4,327)	(20,172)
Net (gain)/loss on financial instruments	9,057	60,811
Net (gain)/loss from revaluation of provisions	5,623	12,440
Movements in assets and liabilities		
Decrease/(increase) in receivables	(280,899)	(56,961)
Decrease/(increase) in prepayments	22,495	(13,457)
Decrease/(increase) in inventories	(7,154)	1,052
Increase/(decrease) in payables	282,747	11,330
Increase/(decrease) in provisions	26,810	31,179
Net cash flows from/(used in) operating activities [(i)]	**204,031**	**155,687**

(i) The 2018–19 comparative figures have been restated to reflect the adoption of AASB 1059 *Service concession arrangements: grantors*.

7.5.2 Non-cash financing and investing activities

The restructuring of administrative arrangements in note 4.4 are not reflected in the cash flow statement.

7.6 Trust account balances

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

($ thousand)

	2020				2019			
Cash and deposits, and investments	Opening balance as at 1 July 2019	Total receipts	Total payments	Closing balance as at 30 June 2020	Opening balance as at 1 July 2018	Total receipts	Total payments	Closing balance as at 30 June 2019
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.	21,442	20,308	15,690	**26,060**	21,196	18,060	17,814	**21,442**
Victorian property fund Established under the *Estate Agents Act 1980* to hold monies in accordance with sections 73 and 75 of that Act.	192,343	23,274	46,760	**168,857**	212,945	44,799	65,401	**192,343**
Correctional enterprises working account Established under the *Financial Management Act 1994* as a working account for Correctional Enterprises.	11,613	27,718	30,974	**8,357**	12,616	22,916	23,919	**11,613**
Motor car traders' guarantee fund Established under the *Motor Car Traders Act 1986* to hold monies in accordance with section 74 of that Act.	4,940	3,186	2,879	**5,247**	4,535	3,137	2,732	**4,940**
Sex work regulation fund Established under the *Sex Work Act 1994* to hold monies in accordance with section 66 of that Act.	1,046	1,055	1,387	**714**	1,251	1,268	1,473	**1,046**
Residential tenancies fund Established under the *Residential Tenancies Act 1997* to hold monies in accordance with sections 492 and 493 of that Act.	42,987	32,603	31,731	**43,859**	40,603	34,269	31,885	**42,987**
Vehicle lease trust account Established under the *Financial Management Act 1994* to process the sales of VicFleet motor vehicles.	0	2,383	2,329	**54**	0	1,637	1,637	**0**
Inter-departmental transfer fund Established under the *Financial Management Act 1994* to hold monies in relation to inter-departmental transfers.	4,728	9,746	7,433	**7,041**	2,472	8,066	5,810	**4,728**

($ thousand)

Cash and deposits, and investments	2020 Opening balance as at 1 July 2019	2020 Total receipts	2020 Total payments	2020 Closing balance as at 30 June 2020	2019 Opening balance as at 1 July 2018	2019 Total receipts	2019 Total payments	2019 Closing balance as at 30 June 2019
Treasury trust fund Established under the *Financial Management Act 1994* for the receipt and disbursement of unclaimed monies and other funds held in trust.	30,686	23,253	33,475	**20,464**	38,945	18,583	26,842	**30,686**
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.	4,829	643	213	**5,259**	4,293	744	208	**4,829**
Emergency services infrastructure authority fund Established under the *Financial Management Act 1994* to hold monies in relation to the emergency services infrastructure authority.	8,236	44,715	4,162	**48,789**	0	8,395	159	**8,236**
Emergency management operational communication program fund Established under the *Financial Management Act 1994* to hold monies in relation to the emergency management operational communication program.	44,000	57,572	62,722	**38,850**	0	50,818	6,818	**44,000**
Total controlled trusts	**366,891**	**246,456**	**239,755**	**373,592**	**338,897**	**212,692**	**184,698**	**366,891**

(i) Trust account balances include cash and deposits (note 7.5) and investments (note 5.4).

($ thousand)

Cash and deposits, and investments	2020 Opening balance as at 1 July 2019	2020 Total receipts	2020 Total payments	2020 Closing balance as at 30 June 2020	2019 Opening balance as at 1 July 2018	2019 Total receipts	2019 Total payments	2019 Closing balance as at 30 June 2019
Administered trusts								
Asset confiscation office retained monies trust Established under the *Financial Management Act 1994* for the Asset Confiscation Office.	11,884	8,430	8,923	**11,391**	10,956	8,295	7,367	**11,884**
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.	32	39	25	**46**	26	78	72	**32**
Victorian government solicitor's trust Established under the *Financial Management Act 1994* for the Victorian Government Solicitors Office.	54,325	171,440	184,690	**41,075**	5,589	229,673	180,937	**54,325**
Departmental suspense Established under the *Financial Management Act 1994* as a working account for the department.	2,313	1,954	1,212	**3,055**	2,882	116	685	**2,313**
Revenue suspense Established under the *Financial Management Act 1994* to temporarily hold monies pending correct identification of receipts.	19	0	2	**17**	17	2	0	**19**
Natural disaster relief trust Established under the *Financial Management Act 1994* for the receipt and disbursement of funds in relation to natural disasters in Victoria.	0	228,222	26,660	**201,562**	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.	7,066	672	1,562	**6,176**	7,583	880	1,397	**7,066**
Public service commuter club Established under the *Financial Management Act 1994* for the Public Service Commuter Club.	(852)	2,711	2,150	**(291)**	(583)	2,543	2,812	**(852)**
Sundry deposits Established under the *Financial Management Act 1994* to hold term deposits for the Victorian Government Solicitors Office.	404	202	405	**201**	0	404	0	**404**
Total administered trusts	**75,191**	**413,670**	**225,629**	**263,232**	**26,470**	**241,991**	**193,270**	**75,191**

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)
	2020	2019
Prisoner private monies		
Cash	6,250	5,947
Amounts owing to prisoners	(6,250)	(5,947)
	0	0
Prisoner compensation quarantine		
Cash	679	347
Amounts owing to prisoners	(679)	(347)
	0	0

7.7 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.

7.7.1 Total commitments payable

				($ thousand)
Nominal values	Less than 1 year	1 to 5 years	More than 5 years	Total
2020				
PPP commitments (note 7.7.2)	429,038	1,847,721	8,465,003	10,741,762
Capital expenditure commitments	284,668	9,570	0	294,238
Intangible assets commitments	3,755	3,301	0	7,056
Other commitments	752,488	900,994	46,624	1,700,106
Total commitments (inclusive of GST)	**1,469,949**	**2,761,586**	**8,511,627**	**12,743,162**
2019				
PPP commitments (note 7.7.2)	431,363	1,839,360	9,028,637	11,299,360
Capital expenditure commitments [(i)]	145,022	35,576	0	180,598
Intangible assets commitments [(i)]	194	300	109	603
Operating lease commitments	51,988	122,690	59,463	234,141
Other commitments	463,868	532,162	35,096	1,031,126
Total commitments (inclusive of GST)	**1,092,435**	**2,530,088**	**9,123,305**	**12,745,828**

(i) The 2018–19 comparative figures have been restated due to the reclassification of an item from being a capital commitment to an intangible commitment.

7.7.2 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 either a lease, a service concession arrangement or construction of an item of property, plant and equipment. The remaining components are accounted for as commitments for operating costs, which are expensed in the comprehensive operating statement as they are incurred.

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

After 1 July 2019, AASB 1059 *Service Concession Arrangements: Grantors* applies to arrangements where an operator provides public services, using a service concession asset, on behalf of the State and importantly, the operator manages at least some of the public service at its own discretion. The State must also control the asset for AASB 1059 to apply. This means that certain PPP arrangements will not be within the scope of AASB 1059 and will continue to be accounted for as either leases or assets being constructed by the State and conversely, certain arrangements that are not PPPs (such as certain external service arrangements) could be captured within the scope of AASB 1059. The department has determined which arrangements should be accounted for under AASB 1059 and the details are included in note 7.4.

PPP commitments

($ thousand)

	2020			2019		
	Liability	Other commitments	Total commitments	Liability	Other commitments	Total commitments
	Discounted value	Present value	Nominal value	Discounted value	Present value	Nominal value
Commissioned PPPs [(i)]						
Private prisons [(ii)]		6,244,410	10,741,762		6,424,107	11,299,360
Total PPP commitments		6,244,410	10,741,762		6,424,107	11,299,360

(i) The liability for commissioned PPPs are recognised on the balance sheet and are not disclosed as commitments.

(ii) The 2018-19 comparative figure for the present value of other commitments has been adjusted to correct an error in the discount factor used in its calculation.

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

Financial assets at amortised cost

Financial assets are measured at amortised cost if both of the following criteria are met and the assets are not designated as fair value through net result:

- the assets are held by the department to collect the contractual cash flows, and
- the assets' contractual terms give rise to cash flows that are solely payments of principal and interest.

These assets are initially recognised at fair value plus any directly attributable transaction costs and subsequently measured at amortised cost using the effective interest method less any impairment.

The department recognises the following assets in this category:

- cash and deposits
- term deposits
- receivables (excluding statutory receivables)

Financial assets at fair value through net result

Financial assets at fair value through net result are initially measured at fair value and any subsequent 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

Financial liabilities at amortised cost are initially recognised on the date they are originated and 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.

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

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)

2020	Net holding gain/(loss)	Total interest income / (expense)	Total
Contractual financial assets			
At fair value through net result	(7,570)	0	(7,570)
At amortised cost	(1,487)	622	(865)
Total contractual financial assets	**(9,057)**	**622**	**(8,435)**
Contractual financial liabilities			
At amortised cost	0	(55,606)	(55,606)
Total contractual financial liabilities	**0**	**(55,606)**	**(55,606)**

($ thousand)

2019	Net holding gain/(loss)	Total interest income / (expense)	Total
Contractual financial assets			
At fair value through net result	(2,481)	0	(2,481)
Loans and receivables	633	1,273	1,906
Total contractual financial assets	**(1,848)**	**1,273**	**(575)**
Contractual financial liabilities			
At amortised cost [ii]	0	(63,749)	(63,749)
Total contractual financial liabilities [ii]	**0**	**(63,749)**	**(63,749)**

(i) Amounts disclosed in this table exclude holding gains and losses related to statutory financial assets and liabilities.
(ii) The 2018–19 comparative figures have been restated to reflect the adoption of AASB 1059 *Service concession arrangements: grantors*.

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

- for financial assets at fair value through net result, the net gain or loss is calculated by taking the movement in the fair value of the financial asset;
- for financial assets at amortised cost, the net gain or loss is calculated by taking the interest income minus any impairment recognised in the net result; and
- for financial liabilities at amortised cost, the net loss is the interest expense.

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 with the Victorian Funds Management Corporation is managed by the department in line with approved investment guidelines.

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

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 2019–20.

Impairment of financial assets under AASB 9

The department records the allowance for expected credit losses for relevant financial instruments by applying AASB 9's expected credit loss approach.

Financial assets at fair value through net result are not subject to impairment under AASB 9.

Cash and deposits and statutory receivables are subject to impairment under AASB 9, but any impairment loss would be immaterial.

Contractual receivables are subject to impairment under AASB 9. The department applied AASB 9's simplified approach to measure the expected credit losses of its contractual receivables using a lifetime expected loss allowance based on assumptions about risk of default and expected loss rates. The department has grouped contractual receivables on shared credit risk characteristics and days past due and selected the expected credit loss rate based on the department's past experience, current market conditions and forward looking estimates including considering the impacts of the coronavirus (COVID-19) pandemic. On this basis, the department determined the loss allowance for the financial year as follows.

($ thousand)

30 June 2020	Current	Less than 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Total
Expected loss rate	2%	2%	11%	100%	100%	
Gross carrying amount of contractual receivables relating to the provision of goods and services	3,819	13,057	382	447	154	**17,859**
Loss allowance	**87**	**302**	**41**	**447**	**154**	**1,030**
Expected loss rate	38%					
Gross carrying amount of other contractual receivables	4,404					**4,404**
Loss allowance	**1,673**	**0**	**0**	**0**	**0**	**1,673**

($ thousand)

30 June 2019	Current	Less than 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Total
Expected loss rate	1%	1%	1%	100%	100%	
Gross carrying amount of contractual receivables relating to the provision of goods and services	4,779	8,814	1,844	83	1	**15,521**
Loss allowance	**48**	**88**	**18**	**83**	**1**	**238**
Expected loss rate	17%					
Gross carrying amount of other contractual receivables	5,763					**5,763**
Loss allowance	**984**	**0**	**0**	**0**	**0**	**984**

Reconciliation of the movement in the allowance for impairment losses of contractual receivables is shown as follows.

($ thousand)

	2020	2019
Balance at beginning of the year	**(1,223)**	**(1,882)**
Increase in allowance recognised in the net result	(1,481)	(7)
Reversal of allowance for receivables written off during the year as uncollectible	0	7
Reversal of unused allowance recognised in the net result	0	659
Balance at end of the year	**(2,704)**	**(1,223)**

Movements in the allowance for impairment losses of contractual receivables are classified as other economic flows in the net result. Contractual receivables are written off when there is no reasonable expectation of recovery and these impairment losses are classified as either a transaction expense or other economic flows in the net result. Subsequent recoveries of amounts previously written off are credited against the same line item.

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. This payment policy changed from 30 days to 10 days in March 2020 as part of a State Government initiative to support businesses and the economy through the impacts of the coronavirus (COVID-19) pandemic.

The department's maximum exposure to liquidity risk is the carrying amounts of its 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)

2020	Weighted average interest rate %	Carrying amount	Fixed interest rate	Variable interest rate	Non-interest bearing
Financial assets					
Cash and deposits	1.66%	170,202	0	32,294	137,908
Receivables					
• Advance to Metropolitan Fire and Emergency Services Board		714	0	0	714
• Accrued interest income	0.23%	367	367	0	0
• Other receivables		18,478	0	0	18,478
Investments and other contractual financial assets					
• Managed investment schemes		203,213	0	0	203,213
Total financial assets		**392,974**	**367**	**32,294**	**360,313**
Financial liabilities					
Payables					
• Trade creditors and other payables		367,478	0	0	367,478
• Accrued capital works		52,407	0	0	52,407
• Salaries and wages		38,481	0	0	38,481
Borrowings					
• Lease liabilities	7.63%	168,069	168,069	0	0
• Service concession financial liabilities	6.07%	523,428	523,428	0	0
Total financial liabilities		**1,149,863**	**691,497**	**0**	**458,366**

($ thousand)

2019	Weighted average interest rate %	Carrying amount	Fixed interest rate	Variable interest rate	Non-interest bearing
Financial assets					
Cash and deposits	1.84%	161,083	0	42,937	118,146
Receivables					
• Advance to Metropolitan Fire and Emergency Services Board		952	0	0	952
• Accrued interest income	0.96%	1,750	1,750	0	0
• Other receivables		17,359	0	0	17,359
Investments and other contractual financial assets					
• Managed investment schemes		205,629	0	0	205,629
Total financial assets		**386,773**	**1,750**	**42,937**	**342,086**
Financial liabilities					
Payables					
• Trade creditors and other payables [(ii)]		259,708	0	0	259,708
• Accrued capital works		55,054	0	0	55,054
• Salaries and wages		28,823	0	0	28,823
Borrowings					
• Lease liabilities [(iii)]	7.94%	166,079	166,079	0	0
• Service concession financial liabilities [(iii)]	6.07%	533,338	533,338	0	0
Total financial liabilities [(ii)(iii)]		**1,043,002**	**699,417**	**0**	**343,585**

(i) Amounts disclosed in this table exclude statutory amounts (e.g. amounts owing from Victorian Government and GST input tax credit recoverable).
(ii) The 2018–19 comparative figures have been restated due to the reclassification of an item from being a contractual to a statutory payable.
(iii) The 2018–19 comparative figures have been restated to reflect the adoption of AASB 1059 *Service concession arrangements: grantors*.

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)

		Interest rate risk		Other price risk	
	Carrying amount	Net result +1%	Net result -1%	Net result +4%	Net result -4%
2020					
Cash and deposits	32,294	323	(323)	0	0
Managed investment schemes	203,213	0	0	8,129	(8,129)
Total	**235,507**	**323**	**(323)**	**8,129**	**(8,129)**

		Interest rate risk		Other price risk	
	Carrying amount	Net result +1%	Net result -1%	Net result +10%	Net result -10%
2019					
Cash and deposits	42,937	429	(429)	0	0
Managed investment schemes	205,629	0	0	20,563	(20,563)
Total	**248,566**	**429**	**(429)**	**20,563**	**(20,563)**

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)

	2020	2019
Legal proceedings and disputes	811	743
Total	**811**	**743**

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 department; 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 power 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.

Employee benefits

Various employee benefits are currently being investigated. The outcome of whether an obligation exists has not been determined or quantified.

Quantifiable contingent liabilities

		($ thousand)
	2020	2019
Legal proceedings and disputes [(i)]	65,183	92,669
Make good leased premises	0	9,525
Total	**65,183**	**102,194**

(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 net result
- 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 net result

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 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 and buildings in 2019–20

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 and building values had occurred in 2019–20. To ensure that the land and building values reflected their fair values, a managerial revaluation was performed based on the Valuer-General's indices. The effective date of the land and building valuation is 30 June 2020.

Impacts of the coronavirus (COVID-19) pandemic on the fair value of property, plant and equipment

There are uncertainties inherent in the land and buildings indices in the coronavirus (COVID-19) environment, but it is the best available indication of the change in value of government assets as at 30 June 2020. Management has performed a sensitivity analysis of the impacts of coronavirus (COVID-19) on the values of the department's land and buildings, and determined that the movement was not materially different. It is too soon to know the full extent of the impact of coronavirus (COVID-19) on the valuation of property, plant and equipment. The next valuation will incorporate its impacts.

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 and buildings occurred in 2019–20 based on the Valuer-General Victoria's indices which are unobservable inputs, non-specialised land and non-specialised buildings have been classified within level 3 of the fair value hierarchy.

The department held $7.102 million (2019: $6.421 million) of non-specialised land, no non-specialised buildings, and $0.027 million (2019: $0.027 million) of artwork as at 30 June 2020.

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 $323.781 million (2019: $280.673 million) of specialised land, $2,772.231 million (2019: $2,445.512 million) of specialised buildings as at 30 June 2020.

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 $5.232 million (2019: $4.795 million) of heritage buildings as at 30 June 2020.

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 2020.

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)
	2020	**2019**
Compensation for economic loss	120	34
Total ex-gratia expenses [(i)]	**120**	**34**

(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)
	2020	**2019**
Net gain/(loss) on non-financial assets		
Impairment of intangible asset	0	(20,873)
Net gain/(loss) on disposal of property, plant and equipment	2,309	1,582
Total net gain/(loss) on non-financial assets	**2,309**	**(19,291)**
Net gain/(loss) on financial instruments		
Impairment of contractual receivables (i)	(1,481)	659
Bad debts written off unilaterally	(6)	(26)
Net gain/(loss) on disposal and revaluation of managed investment schemes	(7,570)	(2,481)
Net gain/(loss) on derecognition and recognition of borrowings	0	(58,963)
Total net gain/(loss) on financial instruments	**(9,057)**	**(60,811)**
Other gains/(losses) from other economic flows		
Net gain/(loss) from revaluation of long service leave liability [(ii)]	(5,765)	(11,615)
Net gain/(loss) from revaluation of other provisions [(iii)]	142	(825)
Total other gains/(losses) from other economic flows	**(5,623)**	**(12,440)**

(i) Includes (increase)/decrease in allowance for impairment losses of contractual receivables.
(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)
	2020	**2019**
Land		
Balance at beginning of financial year	138,977	138,977
Revaluation increment/(decrement)	43,789	0
Balance at end of financial year	**182,766**	**138,977**
Buildings		
Balance at beginning of financial year	472,571	472,571
Revaluation increment/(decrement)	256,491	0
Balance at end of financial year	**729,062**	**472,571**
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	**611,550**	**611,550**
Total balance at end of financial year	**911,830**	**611,550**
Net change	**300,280**	**0**

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

9.5 Change in accounting policies

9.5.1 Leases

This note explains the impact of the adoption of AASB 16 *Leases* on the department's financial statements.

The department has applied AASB 16 with a date of initial application of 1 July 2019.

The department has elected to apply AASB 16 using the modified retrospective approach, as per the transitional provisions of AASB 16 for all leases for which it is a lessee. The cumulative effect of initial application is recognised in retained earnings as at 1 July 2019. Accordingly, the comparative information presented is not restated and is reported under AASB 117 and related interpretations.

Previously, the department determined at contract inception whether an arrangement is or contains a lease under AASB 117 and Interpretation 4 *Determining whether an arrangement contains a lease*. Under AASB 16, the department assesses whether a contract is or contains a lease based on the definition of a lease as explained in note 7.3.

As a lessee, the department previously classified leases as operating or finance leases based on its assessment of whether the lease transferred significantly all of the risks and rewards incidental to ownership of the underlying asset to the department. Under AASB 16, the department recognises right-of-use assets and lease liabilities for all leases except where the exemptions for short-term and low-value leases were applied.

Leases classified as finance leases under AASB 117

For leases that were classified as finance leases under AASB 117, the carrying amount of the right-of-use asset and lease liability at 1 July 2019 are determined as the carrying amount of the lease asset and lease liability under AASB 117 immediately before that date.

Leases classified as operating leases under AASB 117

On adoption of AASB 16, the department recognised lease liabilities in relation to leases which had previously been classified as operating leases under the principles of AASB 117. These lease liabilities were measured at the present value of the remaining lease payments, discounted using the department's incremental borrowing rate as of 1 July 2019. The right-of-use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the balance sheet as at 30 June 2019.

Leases not previously identified under AASB 117

Where a contract had not previously been assessed under AASB 117, the contract has been assessed under AASB 16. For those new leases identified under AASB 16, the lease liabilities were calculated by discounting the lease payments back to the lease commencement date using the department's incremental borrowing rate in the year of the lease inception, and then adjusting for the lease payments up to 30 June 2019. The right-of-use assets were measured at the amounts equal to the lease liabilities at the lease commencement date, adjusted for depreciation up to 30 June 2019. The cumulative effect of the additional interest expense, additional depreciation expense and reduction in supplies and services expense are recognised in retained earnings as at 1 July 2019.

Practical expedients

The department has elected to apply the following practical expedients when applying AASB 16 to leases previously classified as operating leases under AASB 117 and the new leases identified under AASB16:

- Applied a single discount rate to a portfolio of leases with similar characteristics;
- Adjusted the right-of-use assets by the amount of AASB 137 onerous contracts provision immediately before the date of initial application, as an alternative to an impairment review;
- Applied the exemption not to recognise right-of-use assets and liabilities for leases with less than 12 months lease term;
- Excluded initial direct costs from measuring the right-of-use asset at the date of initial application; and
- Used hindsight when determining the lease term if the contract contains options to extend or terminate the lease.

Impacts on financial statements

On transition to AASB 16, the department recognised $808.6 million of right-of-use assets and $599.7 million of lease liabilities. When measuring the lease liabilities, the department discounted the lease payments using its incremental borrowing rate at 1 July 2019 or at the rate from the year of the lease inception. The weighted average rate applied was 2.68 per cent.

	($ thousand)
	1 July 2019
Operating lease commitments disclosed as at 30 June 2019	234,141
Minus goods and services tax (GST)	(21,286)
Minus variable lease payments	(388)
Minus leases of low-value assets	(102)
Minus expired leases	(74)
Minus vacated leases	(9,585)
Plus lease extension options reasonably expected to be executed	285,077
	487,783
Leases discounted using the incremental borrowing rate at 1 July 2019	426,674
Plus leases, not previously identified under AASB117, discounted using the incremental borrowing rates from the year of their inception	6,973
Plus finance lease liabilities recognised as at 30 June 2019	696,207
Minus finance lease liabilities recognised as service concession financial liabilities as at 1 July 2019	(530,128)
Lease liabilities recognised as at 1 July 2019	**599,726**

9.5.2 Service concession arrangements: grantors

AASB 1059 *Service concession arrangements: grantors* applies to annual reporting periods beginning on or after 1 January 2020, however, in line with FRD 124 *Transitional requirements on the application of AASB 1059 Service concession arrangement: grantors*, the department has early adopted it from 1 July 2019.

In line with FRD 124 requirements, the department has applied the transitional provisions of AASB 1059 and applied a full retrospective approach to prior reporting periods. The effect of this is that it has been applied as if it has always been in effect. Where applicable, comparatives have been restated and retained earnings adjusted at 1 July 2018 to reflect the impact of the standard. A third balance sheet has not been presented as the impacts were not material.

The department has reviewed all of its arrangements to assess whether AASB 1059 applies. The following arrangements have been determined to be within the scope of AASB 1059:

- Fulham Correction Centre's PPP Contract
- Port Phillip Prison's PPP Contract
- Ravenhall Correctional Centre's PPP Contract
- Prisoner Transport Contract

Note 7.4 includes details about the transitional application of AASB 1059 and how the standard has been applied to these arrangements, including tables that summarise the impact of applying the standard compared to the prior accounting treatment.

Note 7.7 includes information about how public private partnerships may or may not fall within the scope of AASB 1059.

9.5.3 Revenue from contracts with customers

Note 2.1.1 includes details on the application of AASB 15. There has been no impact from the change in recognition of income upon the application of AASB 15.

9.5.4 Income of not-for-profit entities

Note 2.1.2 includes details on the application of AASB 1058. There has been no impact from the change in recognition of income upon the application of AASB 1058.

The department has not applied the fair value measurement requirements for right-of-use assets arising from leases with significantly below market terms and conditions principally to enable the entity to further its objectives as allowed under the temporary option under AASB 16 and as mandated by FRD 122.

9.5.5 Transition impact on financial statements

This note explains the impact of the adoption of the following new accounting standards for the first time, from 1 July 2019:

- AASB 15 Revenue from contracts with customers;
- AASB 16 Leases;
- AASB 1058 Income of not-for-profit entities;
- AASB 1059 Service concession arrangements: grantors.

The impact on the comprehensive operating statement and balance sheet has been summarised in the following tables.

Impact of AASB 1059 on the comprehensive operating statement as at 30 June 2019:

($ thousand)

Comprehensive Operating Statement	Before new accounting standards 30 June 2019	Net impact of AASB 1059	After new accounting standards 30 June 2019
Total income from transactions	7,718,448	0	7,718,448
Total expenses from transactions	(7,651,800)	16	(7,651,784)
Net result from transactions (net operating balance)	66,648	16	66,664
Total other economic flows included in net result	(92,542)	0	(92,542)
Net result	(25,894)	16	(25,878)
Comprehensive result	(25,894)	16	(25,878)

Impact on the balance sheet due to the adoption of AASB 1059 in the 2018–19 year is illustrated below with the following reconciliation between the 30 June 2019 carrying amounts and the balances reported under the new accounting standard:

($ thousand)

Balance Sheet	Before new accounting standards 30 June 2019	Net impact of AASB 1059	After new accounting standards 30 June 2019
Total financial assets	1,487,397	0	1,487,397
Total non-financial assets	3,641,113	3,053	3,644,166
Total assets	5,128,510	3,053	5,131,563
Total liabilities	1,853,824	3,210	1,857,034
Net assets	3,274,686	(157)	3,274,529
Net worth	3,274,686	(157)	3,274,529

Impact on the balance sheet due to the adoption of AASB 16 is illustrated with the following reconciliation between the restated carrying amounts as at 30 June 2019 and the balances reported under the new accounting standards as at 1 July 2019:

($ thousand)

Balance Sheet	Before new accounting standards 1 July 2019	Net impact of AASB 16	After new accounting standards 1 July 2019
Total financial assets	1,487,397	0	1,487,397
Total non-financial assets	3,644,166	432,279	4,076,445
Total assets	5,131,563	432,279	5,563,842
Total liabilities	1,857,034	433,647	2,290,681
Net assets	3,274,529	(1,368)	3,273,161
Net worth	3,274,529	(1,368)	3,273,161

9.6 Responsible persons

In accordance with the Ministerial Directions issued by the Assistant Treasurer 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 (from 1 July 2019 to 30 June 2020 unless otherwise stated) were as follows.

Attorney-General	The Hon. Jill Hennessy, MP	1 July 2019	to 30 June 2020
Acting Attorney-General	The Hon. Benjamin Carroll, MP	1 July 2019	to 5 July 2019
	The Hon. Gavin Jennings, MP	6 July 2019	to 13 July 2019
	The Hon. Benjamin Carroll, MP	14 July 2019	to 20 July 2019
	The Hon. Gavin Jennings, MP	1 August 2019	to 10 August 2019
	The Hon. Benjamin Carroll, MP	20 December 2019	to 12 January 2020
Minister for Consumer Affairs, Gaming and Liquor Regulation	The Hon. Marlene Kairouz, MP	1 July 2019	to 16 June 2020
	The Hon. Melissa Horne, MP	22 June 2020	to 30 June 2020
Acting Minister for Consumer Affairs, Gaming and Liquor Regulation	The Hon. Jill Hennessy, MP	29 September 2019	to 9 October 2019
Minister for Corrections	The Hon. Benjamin Carroll, MP	1 July 2019	to 21 June 2020
	The Hon. Natalie Hutchins, MP	22 June 2020	to 30 June 2020
Acting Minister for Corrections	The Hon. Lisa Neville, MP	6 July 2019	to 13 July 2019
	The Hon. Jill Hennessy, MP	21 July 2019	to 31 July 2019
	The Hon. Gavin Jennings, MP	1 August 2019	to 4 August 2019
	The Hon. Jill Hennessy, MP	3 December 2019	to 6 December 2019
	The Hon. Lisa Neville, MP	23 December 2019	to 28 December 2019
	The Hon. Jill Hennessy, MP	20 January 2020	to 31 January 2020
Minister for the Coordination of Justice and Community Safety – coronavirus (COVID-19) (i)	The Hon. Jill Hennessy, MP	3 April 2020	to 30 June 2020
Minister for Crime Prevention	The Hon. Benjamin Carroll, MP	1 July 2019	to 21 June 2020
	The Hon. Natalie Hutchins, MP	22 June 2020	to 30 June 2020
Acting Minister for Crime Prevention	The Hon. Lisa Neville, MP	6 July 2019	to 13 July 2019
	The Hon. Jill Hennessy, MP	21 July 2019	to 31 July 2019
	The Hon. Gavin Jennings, MP	1 August 2019	to 4 August 2019
	The Hon. Jill Hennessy, MP	3 December 2019	to 6 December 2019
	The Hon. Lisa Neville, MP	23 December 2019	to 28 December 2019
	The Hon. Jill Hennessy, MP	20 January 2020	to 31 January 2020
Minister for Police and Emergency Services	The Hon. Lisa Neville, MP	1 July 2019	to 30 June 2020
Acting Minister for Police and Emergency Services	The Hon. Benjamin Carroll, MP	20 July 2019	to 20 July 2019
	The Hon. Jill Hennessy, MP	21 July 2019	to 31 July 2019
	The Hon. Gavin Jennings, MP	1 August 2019	to 3 August 2019
	The Hon. Jill Hennessy, MP	29 September 2019	to 20 October 2019
Minister for Victim Support	The Hon. Benjamin Carroll, MP	1 July 2019	to 21 June 2020
	The Hon. Natalie Hutchins, MP	22 June 2020	to 30 June 2020
Acting Minister for Victim Support	The Hon. Lisa Neville, MP	6 July 2019	to 13 July 2019
	The Hon. Jill Hennessy, MP	21 July 2019	to 31 July 2019
	The Hon. Gavin Jennings, MP	1 August 2019	to 4 August 2019
	The Hon. Jill Hennessy, MP	3 December 2019	to 6 December 2019
	The Hon. Lisa Neville, MP	23 December 2019	to 28 December 2019
	The Hon. Jill Hennessy, MP	20 January 2020	to 31 January 2020
Minister for Workplace Safety	The Hon. Jill Hennessy, MP	1 July 2019	to 30 June 2020
Acting Minister for Workplace Safety	The Hon. Benjamin Carroll, MP	1 July 2019	to 5 July 2019
	The Hon. Gavin Jennings, MP	6 July 2019	to 13 July 2019
	The Hon. Benjamin Carroll, MP	14 July 2019	to 20 July 2019
	The Hon. Gavin Jennings, MP	1 August 2019	to 10 August 2019
	The Hon. Benjamin Carroll, MP	20 December 2019	to 12 January 2020
Minister for Youth Justice	The Hon. Benjamin Carroll, MP	1 July 2019	to 21 June 2020
	The Hon. Natalie Hutchins, MP	22 June 2020	to 30 June 2020
Acting Minster for Youth Justice	The Hon. Lisa Neville, MP	6 July 2019	to 13 July 2019
	The Hon. Jill Hennessy, MP	21 July 2019	to 31 July 2019
	The Hon. Gavin Jennings, MP	1 August 2019	to 4 August 2019
	The Hon. Jill Hennessy, MP	3 December 2019	to 6 December 2019
	The Hon. Lisa Neville, MP	23 December 2019	to 28 December 2019
	The Hon. Jill Hennessy, MP	20 January 2020	to 31 January 2020
Secretary	Rebecca Falkingham	1 July 2019	to 30 June 2020
Acting Secretary	Simon Cohen	2 October 2019	to 4 October 2019
	Joshua Smith	10 October 2019	to 11 October 2019
	Ryan Phillips	10 February 2020	to 12 February 2020

(i) Temporary position created on 3 April 2020 to lead all coronavirus (COVID-19) response activities in respect of the department.

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: $550,000 – $559,999 ($540,000 – $549,999 in 2018–19).

9.7 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, 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 resigned or their contracts ceased. This has had an impact on remuneration figures for the termination benefits category. A number of executive roles were created as a result of the new department structure, which has impacted all benefits categories.

		($ thousand)
Remuneration of executive officers [(i)(ii)]	**2020**	**2019**
Short-term employee benefits	30,239	20,257
Post-employment benefits	2,562	1,759
Other long-term benefits	892	770
Termination benefits	709	535
Total remuneration	**34,402**	**23,321**
Total number of executives	**173**	**140**
Total annualised employee equivalents [(iii)]	**130.4**	**90.7**

(i) Includes nine active executive officers from the Victorian Government Solicitor's Office.

(ii) Includes key management personnel (KMP) disclosed in note 9.8, who also meet the definition of executives under FRD21C *Disclosures of responsible persons and executive officers in the financial report*.

(iii) 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.

9.8 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 (KMP)

The people who held, or acted for more than three months, in key management positions in the department (from 1 July 2019 to 30 June 2020 unless otherwise stated) were as follows.

Portfolio Ministers (refer to note 9.6)				
Secretary (refer to note 9.6)				
Deputy Secretary Aboriginal Justice	Joshua Smith	1 July 2019	to	30 June 2020
Deputy Secretary Corporate Governance and Support	David Nicholson	1 July 2019	to	25 February 2020
	Andrew Minack	18 February 2020	to	30 June 2020
Deputy Secretary Corrections and Justice Services	Ryan Phillips	1 July 2019	to	30 June 2020
Deputy Secretary Emergency Management Victoria	Andrew Minack	1 July 2019	to	17 February 2020
Acting Deputy Secretary Emergency Management Victoria	Kate Fitzgerald	18 February 2020	to	30 June 2020
Deputy Secretary Justice Infrastructure and CEO Community Safety Building Authority	Corinne Cadilhac	1 July 2019	to	30 June 2020
Deputy Secretary Justice Policy and Data Reform	Anna Faithfull	1 July 2019	to	30 June 2020
Deputy Secretary Police, Fines and Crime Prevention	Corri McKenzie	1 July 2019	to	30 June 2020
Deputy Secretary Regulation and Director Consumer Affairs Victoria	Simon Cohen	1 July 2019	to	14 January 2020
Deputy Secretary and Chief Counsel Regulation, Legal and Integrity	Samuel Porter	1 April 2020	to	30 June 2020
Deputy Secretary Service Delivery Reform, Coordination and Workplace Safety	Peta McCammon	1 July 2019	to	30 June 2020
Deputy Secretary Youth Justice	Brigid Sunderland	1 July 2019	to	30 June 2020
Executive Director North West Metropolitan Area	Susan Clifford	12 August 2019	to	30 June 2020
Executive Director North Area	Robin Francis	22 July 2019	to	30 June 2020
Executive Director South Area	Gabrielle Levine	1 July 2019	to	28 July 2019
	Albert Bentincontri	12 August 2019	to	30 June 2020
Executive Director West Area	Leanne Barnes	1 July 2019	to	4 August 2019
	Michelle Wood	5 August 2019	to	30 June 2020
Commissioner Corrections Victoria	Emma Cassar	1 July 2019	to	30 June 2020
Deputy Commissioner Custodial Operations	Rod Wise	1 July 2019	to	6 December 2019
	Melissa Westin	9 December 2019	to	30 June 2020
Commissioner Emergency Management	Andrew Crisp	1 July 2019	to	30 June 2020
Commissioner Youth Justice	Jodi Henderson	1 July 2019	to	30 June 2020
Chairperson Building Licensing Authority	Nicole Marshall	1 July 2019	to	30 June 2020
Chief Administrative Officer Post Sentence Authority	Bree Oliver	1 July 2019	to	22 September 2019
Acting Chief Administrative Officer Post Sentence Authority	Marco Boscaglia	23 September 2019	to	30 June 2020
Road Safety Camera Commissioner	John Voyage	1 July 2019	to	4 October 2019
	Stephen Leane	9 December 2019	to	30 June 2020
Chief Finance Officer	Lynda Rogers	2 December 2019	to	30 June 2020
Acting Chief Finance Officer	Anna Higgs	1 July 2019	to	31 December 2019
Chief Transformation and People Officer	Nicola Brown	1 July 2019	to	30 June 2020

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)]	**2020**	**2019**
Short-term employee benefits	7,598	5,890
Post-employment benefits	518	435
Other long-term benefits	243	286
Termination benefits	297	154
Total	**8,656**	**6,765**

(i) KMPs of the department, excluding the Ministers and Accountable Officer, that also meet the definition of executive officers under FRD21C are reported in the disclosures in note 9.7.

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.

9.9 Remuneration of auditors

($ thousand)

	2020	2019
Victorian Auditor-General's Office		
Audit of the financial statements	366	348
Additional fee	28	0
Total remuneration of auditors	**394**	**348**

9.10 Subsequent events

The coronavirus (COVID-19) pandemic has created unprecedented economic uncertainty. Actual economic events and conditions in the future may be different from those assumed in estimates by the department at the reporting date. There has been no significant impacts on the department's financial statements for 2019–20. As at the date of this financial report, Victoria is still in a state of emergency. Since 30 June 2020, the department has officially taken over the supervisory role of hotel quarantine in the government's coronavirus (COVID-19) response. As a result, the department will have an increase in employee and other related costs in 2020–21.

After 30 June 2020, the department has finalised negotiations and executed an Amending Deed to two managing contractor contracts to confirm the total construction cost and commencement of main works construction of the Chisolm Road Prison Project and Youth Justice Redevelopment Project. This increases the department's capital expenditure commitments as shown in note 7.7 by an additional $1.1 billion, the net impacts of which will be shown in 2020–21. There are no other impacts on the department's financial statements for 2019–20.

9.11 Australian Accounting Standards issued that are not yet effective

Certain new and revised accounting standards have been issued but are not effective for the 2019–20 reporting period. These accounting standards have not been applied to these financial statements. The State is reviewing its existing policies and assessing the potential implications of these accounting standards which includes:

- AASB 2018–7 *Amendments to Australian Accounting Standards – Definition of Material*
  This standard principally amends AASB 101 *Presentation of Financial Statements* and AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*. It applies to reporting periods beginning on or after 1 January 2020 with earlier application permitted. The department has not earlier adopted the standard. The amendments refine and clarify the definition of material in AASB 101 and its application by improving the wording and aligning the definition across AASB standards and other publications. The amendments also include some supporting requirements in AASB 101 in the definition to give it more prominence and clarify the explanation accompanying the definition of material. This standard is not anticipated to have a material impact.
- AASB 2020–1 *Amendments to Australian Accounting Standards – Classification of Liabilities as Current or Non-Current*
  This standard amends AASB 101 to clarify requirements for the presentation of liabilities in the statements of financial position as current or non-current. It initially applied to annual reporting periods beginning on or after 1 January 2022 with earlier application permitted, however, the AASB has recently issued ED 301 *Classification of Liabilities as Current or Non-Current – Deferral of Effective Date* with the intention to defer the application by one year to periods beginning on or after 1 January 2023. The department will not early adopt the standard. This standard is not anticipated to have a material impact.

9.12 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, lease liabilities, service concession arrangements 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 asset or liability, 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 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 components of lease liabilities and service concession financial liabilities.

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

Leases are rights conveyed in a contract, or part of a contract, for the right to use an asset (the underlying asset) for a period of time in exchange for consideration.

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.

Service concession arrangement is a contract effective during the reporting period between a grantor and an operator in which:

- the operator has the right of access to the service concession asset (or assets) to provide public services on behalf of the grantor for a specified period of time;
- the operator is responsible for at least some of the management of the public services provided through the asset and does not act merely as an agent on behalf of the grantor; and
- the operator is compensated for its services over the period of the service concession arrangement.

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.

9.13 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 2019–20 *Model Report for Victorian Government Departments*.