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 2019 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 2019 and financial position of the department as at 30 June 2019.

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 26 September 2019.

Anna Higgs
Acting Chief Finance Officer
Department of Justice and Community Safety

Melbourne
26 September 2019

Rebecca Falkingham
Secretary
Department of Justice and Community Safety

Melbourne
26 September 2019

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 2019 • 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 the financial statements. In my opinion the financial report presents fairly, in all material respects, the financial position of the department as at 30 June 2019 and their financial performance and cash flows for the year then ended in accordance with the financial reporting requirements of Part 7 of the *Financial Management Act 1994* and applicable Australian Accounting Standards.
Basis for Opinion	I have conducted my audit in accordance with the *Audit Act 1994* which incorporates the Australian Auditing Standards. I further describe my responsibilities under that Act and those standards in the *Auditor's Responsibilities for the Audit of the Financial Report* section of my report. My independence is established by the *Constitution Act 1975*. My staff and I are independent of the department in accordance with the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to my audit of the financial report in Victoria. My staff and I have also fulfilled our other ethical responsibilities in accordance with the Code. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.
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.

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

Key audit matter	How I addressed the matter
Administered Fines Revenue and Receivables Modelling Refer to Note 4.3 *Administered Items*	

Administered Fines Revenue: $ 682.2 million
Administered Receivables: $1.269 billion
 	
I considered this to be a key audit matter because:
• An external consultant developed a modelling tool to verify and provide assurance on the infringement revenue, debtor and doubtful debt provision amounts in the previous and current year.
• The transactions and balances are significant
• The Infringement Management System (VIEW) is still under development.
• The prior and current period infringement revenue, debtor and doubtful debt provision amounts were modelled. The model:
  ○ uses significant management assumptions
  ○ includes estimation uncertainty
  ○ sources data from VIEW
  ○ sources data from other systems within and external to the department, including three private sector service organizations
  ○ relies on reconciliations of external data to VIEW for data integrity.
	My key procedures included:
	• assessing the reasonableness of key assumptions used for financial reporting
	• identifying and reviewing relevant manual controls over external data input into VIEW
	• using data analysis to verify the completeness and accuracy of VIEW data
	• substantively testing issued infringement notices recorded to infringement revenue and the debtors and receipting cycle in VIEW
	• evaluating three independent experts' ASAE 3402 *Assurance Reports on Controls at a Service Organisation*, including the relevance and reasonableness of their work
	• reviewing and reperforming reconciliations on infringement revenue and debtor amounts and validating any adjustments
	• reviewing and determining the reasonableness of predictive data analysis modelling completed by management's external consultant, which was based on 5-year debtor trends of doubtful debt provisions to determine the reasonableness of the debtors and doubtful debt used the financial report
	• obtaining specific representations from management regarding infringement revenue, debtors and the provision for doubtful debts.

Long term procurement of the Ravenhall Correctional Centre using a public private partnership (PPP) refinancing arrangement
Refer to Note 7.2 Interest Bearing Liabilities Note 7.5 Commitments for expenditure

PPP finance lease liability: $ 530 million
PPP finance lease expense: $ 45 million
PPP commitment disclosures:
Present value of other expenditure commitments $ 3.03 billion
Other expenditure commitments $ 5.68 billion

I considered this to be a key audit matter because:

- the finance lease liability and future PPP commitments are financially significant
- the contractual rights and obligations are complex
- the finance lease and commitments model is highly complex, involves significant management judgement and is underpinned by various subjective assumptions
- the accounting for, and disclosures related to the PPP are inherently complex with limited authoritative accounting guidance available
- small changes to the contractual terms and conditions (for example—refinancing, which occurred in the current reporting period) significantly impact the liability carrying value
- the PPP's commitment disclosures involve significant management judgements and estimates

My key procedures included:

- gaining an understanding of the key contractual changes for the current year
- engaging a subject matter expert to assist in obtaining sufficient, appropriate audit evidence for the finance lease liability and commitment disclosures, including the:
  - appropriateness of re-financing adjustments
  - reasonableness and consistency of the finance lease model assumptions
  - identification of any model or assumption changes
  - reasonableness of model inputs, with specific reference to underlying data and supporting documentation
  - model's computational accuracy
  - appropriateness of all PPP related financial report disclosures as required by AASB 117 Leases.
- evaluating the subject matter expert's report, including assessing it for consistency with other audit evidence obtained, and the relevance and reasonableness of their workings.

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

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

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
- 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
2 October 2019

Andrew Greaves
Auditor-General

4

Comprehensive operating statement

For the financial year ended 30 June 2019

($ thousand)

	Note	2019	2018
Income from transactions			
Output appropriations	2.2	7,570,300	6,837,010
Special appropriations	2.3	3,400	654
Interest income	2.4	23,582	27,608
Grant income	2.5	31,950	21,308
Other income	2.6	89,216	70,587
Total income from transactions		**7,718,448**	**6,957,167**
Expenses from transactions			
Employee benefit expense	3.2.1	(1,062,836)	(961,331)
Depreciation	5.2.1	(134,681)	(118,593)
Interest expense	7.2	(63,635)	(50,676)
Grant expense	3.3	(5,043,501)	(4,634,117)
Capital asset charge	3.4	(185,884)	(169,878)
Supplies and services	3.5	(1,161,263)	(1,003,109)
Total expenses from transactions		**(7,651,800)**	**(6,937,704)**
Net result from transactions (net operating balance)		**66,648**	**19,463**
Other economic flows included in net result			
Net gain/(loss) on non-financial assets (i)	9.3	(19,291)	1,956
Net gain/(loss) on financial instruments (ii)	9.3	(60,811)	6,006
Other gains/(losses) from other economic flows	9.3	(12,440)	2,399
Total other economic flows included in net result		**(92,542)**	**10,361**
Net result		**(25,894)**	**29,824**
Other economic flows - other comprehensive income			
Items that will not be reclassified to net result			
Changes in physical asset revaluation surplus (iii)	9.4	0	(48,984)
Total other economic flows - other comprehensive income		**0**	**(48,984)**
Comprehensive result		**(25,894)**	**(19,160)**

(i) Includes gains/(losses) from impairments and disposals of property, plant and equipment and intangible assets.
(ii) Includes bad and doubtful debts from other economic flows, and gains/(losses) from investments.
(iii) The 2017-18 movement includes a realignment of prior year assets under construction and a building impairment.

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

Balance sheet

As at 30 June 2019

($ thousand)

	Note	2019	2018
Assets			
Financial assets			
Cash and deposits	7.3	161,083	90,767
Receivables	6.2	1,120,685	1,061,645
Investments and other financial assets	5.4	205,629	246,703
Total financial assets		**1,487,397**	**1,399,115**
Non-financial assets			
Prepayments		27,284	13,821
Inventories		9,341	10,393
Non-financial assets classified as held for sale		519	377
Property, plant and equipment	5.2	3,546,552	3,315,225
Intangible assets	5.3	57,417	70,499
Total non-financial assets		**3,641,113**	**3,410,315**
Total assets		**5,128,510**	**4,809,430**
Liabilities			
Payables	6.3	876,391	865,066
Borrowings	7.2	696,207	651,888
Employee benefit provisions	3.2.2	270,315	228,763
Other provisions		10,911	8,213
Total liabilities		**1,853,824**	**1,753,930**
Net assets		**3,274,686**	**3,055,500**
Equity			
Accumulated surplus/(deficit)		1,087,603	1,114,608
Physical asset revaluation surplus	9.4	611,550	611,550
Contributed capital		1,575,533	1,329,342
Net worth		**3,274,686**	**3,055,500**

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 2019

	Note	2019	2018
			($ thousand)
Cash flows from operating activities			
Receipts			
Receipts from government		7,511,288	6,716,352
Receipts from other entities		31,950	21,308
Goods and services tax recovered from Australian Tax Office (i)		151,893	182,294
Interest received		23,806	28,487
Dividends received		14,061	7,416
Other receipts		59,651	64,190
Total receipts		**7,792,649**	**7,020,047**
Payments			
Payments of grant expenses		(5,043,501)	(4,634,117)
Payments to suppliers and employees		(2,345,329)	(2,076,410)
Capital asset charge payments		(185,884)	(169,878)
Interest and other costs of finance paid		(63,635)	(50,676)
Total payments		**(7,638,349)**	**(6,931,081)**
Net cash flows from/(used in) operating activities	7.3.1	**154,300**	**88,966**
Cash flows from investing activities			
Payments for investments		(14,061)	(32,070)
Proceeds from sale of investments		52,654	125,000
Purchases of non-financial assets		(354,065)	(223,965)
Sales of non-financial assets		5,206	4,271
Net cash flows from/(used in) investing activities		**(310,266)**	**(126,764)**
Cash flows from financing activities			
Cash received from capital appropriations		340,045	611,379
Capital contribution passed on to agencies within government		(49,962)	(53,727)
Equity transfers within government		(43,779)	(192,994)
Repayment of borrowings and finance leases		(20,022)	(326,129)
Net cash flows from/(used in) financing activities		**226,282**	**38,529**
Net increase/(decrease) in cash and cash equivalents		**70,316**	**731**
Cash and cash equivalents at beginning of financial year		**90,767**	**90,036**
Cash and cash equivalents at end of financial year	7.3	**161,083**	**90,767**

(i) GST received from ATO is presented on a net basis.

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 2019

($ thousand)

	Note	Accumulated surplus / (deficit)	Physical asset revaluation surplus	Contributed capital	Total
Balance at 1 July 2017		**1,084,784**	**660,534**	**964,684**	**2,710,002**
Net result for year		29,824	0	0	29,824
Other comprehensive income for year		0	(48,984)	0	(48,984)
Capital appropriations		0	0	611,379	611,379
Capital contribution passed onto agencies within Justice Portfolio		0	0	(53,727)	(53,727)
Equity transfer within government		0	0	(192,994)	(192,994)
Balance at 30 June 2018		**1,114,608**	**611,550**	**1,329,342**	**3,055,500**
Change in accounting policy	9.5	(1,111)	0	0	(1,111)
Restated balance at 1 July 2018		**1,113,497**	**611,550**	**1,329,342**	**3,054,389**
Net result for year		(25,894)	0	0	(25,894)
Other comprehensive income for year		0	0	0	0
Capital appropriations		0	0	340,045	340,045
Capital contribution passed onto agencies within Justice 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		**1,087,603**	**611,550**	**1,575,533**	**3,274,686**

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 consolidated 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:

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

Where control of an entity is obtained during the financial period, its results are included in the comprehensive operating statement from the date on which control commenced. Where control ceases during a financial period, the entity's results are included for that part of the period in which control existed. Where entities adopt dissimilar accounting policies and their effect is considered material, adjustments are made to ensure consistent policies are adopted in these financial statements.

In preparing these financial statements, all material transactions and balances between consolidated entities are eliminated.

Compliance information

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

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

2. Funding delivery of services

2.1 Introduction

The department's key objectives are:

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

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

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

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

2.2 Summary of compliance with annual parliamentary appropriations

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

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

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

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

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

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

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

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

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

($ thousand)

		Appropriations Act		Financial Management Act								
	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	
2019												
Controlled												
Provision of 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	(i)(iii)
Additions to net asset base	471,381	80,324	0	362	(35,688)	176,841	0	0	693,220	340,045	353,175	(ii)(iii)
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**	
2018												
Controlled												
Provision for outputs	6,384,511	260,168	0	237,756	34,707	73,298	15,040	0	7,005,480	6,837,010	168,470	
Victorian Law Reform Commission	691	0	0	0	0	0	0	0	691	665	26	
	6,385,202	260,168	0	237,756	34,707	73,298	15,040	0	7,006,171	6,837,675	168,496	
Additions to net asset base	715,504	95,390	0	324	(34,707)	92,055	7,900	0	876,466	611,379	265,087	
Administered												
Payments made on behalf of State	36,001	0	0	0	0	0	0	0	36,001	28,976	7,025	
Total	**7,136,707**	**355,558**	**0**	**238,080**	**0**	**165,353**	**22,940**	**0**	**7,918,638**	**7,478,030**	**440,608**	

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

The majority of the $120.386 million variance (2018: $168.496 million) relates to carryover of output appropriations from 2018-19 to 2019-20.

The primary drivers of the carryovers are:

- Community Crime Prevention Grants – The carryover of funds for the Melbourne CBD security measures initiative is required to support scheduled works in 2019-20. Implementation delays have occurred to deliver benefits identified through latest specialist advice on the security approach to protective effectiveness and other site outcomes.
- Natural Disaster Resilience Grant Scheme – The scheme is contracted over two financial years under the National Partnership Agreement (NPA). Due to some grant recipients not meeting the required deliverable and delays in the NPA project implementation, payments of grants have been extended into 2019-20.
- Correction Victoria prison related projects - The carryover of funds is required for the implementation of the Management of Serious Offenders and Community Corrections - Contributing to a Safer Community initiative. A number of related projects have been delayed in 2018-19 and the carryover will ensure the department can complete the program. In addition, evaluations for the Expanding community corrections and Family Violence reforms under the Community Corrections - Contributing to a Safer Community initiative have been delayed, which further increases the carryover of funds in 2019-20.
- 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 into 2019-20 subject to approval, predominately due to delays in procurement and implementation processes.

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

The majority of the $353.175 million variance (2018: $265.087 million) relates to rephasing and carryover of ATNAB appropriation from 2018-19 into 2019-20.

The primary drivers of the rephasing and carryover are:

- New Youth Justice Facility (Cherry Creek) - The Government announced funding of $288.700 million in the 2017-18 Budget to build a fit-for-purpose youth justice facility at Cherry Creek, with scope for further expansion within the allocated government-owned site. As part of the site due diligence, environmental assessments were undertaken and two critically endangered species were identified under the Environment Protection and Biodiversity Conservation Act. Construction of the youth justice facility required the removal of confirmed habitat for both species which has resulted in a delay to commence construction. A funding rephase and carryover are requested to align the budget to the revised timelines.
- Prison Capacity Expansion - The scope for the construction of the expansion of Fulham Correctional Centre has been increased to accommodate an increased prisoner population and schedule adjusted to achieve efficiencies. As a result, there has been a change to the date of delivery from July 2019 to April 2020 with auxiliary works to be completed by October 2020. Subsequently, a rephase and carryover is requested to align the budget to the revised timelines.

- Essential Services to Manage Growth in Prison - The works in 2019-20 at Barwon, Port Phillip Prison 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 and expand program capacity across these prisons to support prisoner, staff and community safety. A rephase and carryover are required in 2019-20 to enable the department to continue with the required deliverables.
- Chisholm Road prison project - This precinct will support a safe, secure and well-equipped prison system to meet forecast demand. Due to delays in the procurement process in 2018-19, a carryover is required for the department to continue with the deliverables in 2019-20.
- 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 is required to align the budget to the revised timelines into 2019-20 subject to approval.

(iii) **Section 30 transfers**

A transfer from capital to operating funding of $35.688 million has occurred in 2018-19 in accordance with section 30 of the *Financial Management Act 1994* to support Victoria Police's business operations.

2.3 Summary of compliance with special appropriations

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

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

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

($ thousand)

	Authority	Purpose	Appropriations applied 2019	Appropriations applied 2018
	Controlled			
1	*Corrections Act 1986 (No. 117/1986), s.104ZW*	Compensation to CCS from the WorkCover Authority Fund under the *Accident Compensation Act 1985*	157	72
2	*Emergency Management Act 1986 (No. 30/1986), s.32*	Payments to volunteers for work related injuries under the Act	189	181
3	*Victoria State Emergency Service Act 2005 (No. 51/2005), s.52*	Payments to volunteers for work related injuries under the Act	972	401
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	2,082	0
	Total		**3,400**	**654**
	Administered			
5	*Melbourne City Link Act 1995 (No. 107/1995), s.14(4)*	Payments to City Link	939	1,370
6	*EastLink Project Act 2004 (No. 39/2004), s.26*	Payments to East Link	1,058	1,172
7	*Crown Proceedings Act 1958 (No. 6232/1958), s.26*	Payments from Crown Proceedings in the Supreme Court of Victoria	16,497	2,490
8	*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.	3,862	0
9	*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.	529	0
10	*Inquiries Act 2014 (No. 67/2014), s.11*	Costs incurred by the Royal Commission into the Management of Police Informants	7,500	0
	Total		**30,385**	**5,032**

2.4 Interest income

		($ thousand)
	2019	**2018**
Interest from financial assets not at fair value through profit/loss:		
- Interest from deposits and investments	1,273	1,814
- Interest from real estate agent and conveyancer trust accounts	22,309	25,794
Total interest income	**23,582**	**27,608**

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)
	2019	**2018**
Received from:		
- General government within portfolio	4,969	7
- General government outside portfolio	26,731	21,301
- Other	250	0
Total grant income	**31,950**	**21,308**

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

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

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

2.6 Other income

		($ thousand)
	2019	**2018**
Fines and fees	15,221	17,235
Dividends from investments	14,061	7,416
Income from Residential Tenancies Bond Authority (RTBA)	15,400	18,700
Income from Victorian Building Authority (VBA)	17,058	13,950
Other	27,476	13,286
Total other income	**89,216**	**70,587**

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

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

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

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

2.7 Annotated income agreements

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

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

		($ thousand)
	2019	**2018**
User charges, or sales of goods and services		
Consumer Affairs Victoria publications and conferences	76	70
Corrections Victoria prison industries	22,586	15,878
Crime Statistics Agency	47	254
Emergency alerting system	22,436	13,176
Emergency services management	23,903	23,491
Fees for legal services	45,998	38,841
Gaming and liquor regulation	748	696
Infringement Court fees	25,159	39,809
Public information, education, training and mediation services	1,312	709
Registrar of Births, Deaths and Marriages	6,718	6,515
Secretariat Legal Education and Board of Examiners	3,029	2,750
Victorian Institute of Forensic Medicine services	13,177	11,030
Victoria Police policing services and event management	18,611	9,459
Asset sales		
Victoria Police asset sales	362	324
Commonwealth specific purpose payments		
Family advocacy and support services [(i)]	1,240	1,240
Legal assistance services and community legal centres [(i)]	61,130	60,148
National coronial information system	400	0
National disaster resilience program	0	10,440
Prepared communities	800	0
Provision of fire services	3,364	3,250
Total annotated income agreements	**251,096**	**238,080**

(i) Previously shown as Victoria Legal Aid.

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 costs associated with provision of services are recorded. Note 4 discloses aggregated information in relation to the income and expenses by output.

3.2 Employee benefits

3.2.1 Employee benefit expense in the comprehensive operating statement

($ thousand)

	2019	2018
Salary and wages	791,823	719,502
Superannuation	78,321	71,020
Annual leave and long service leave	107,909	96,960
Other on-costs (fringe benefits tax, payroll tax and workcover levy)	82,434	73,010
Termination benefits	2,349	839
Total employee benefit expense	**1,062,836**	**961,331**

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)

	2019	2018
Current provisions		
Annual leave		
• Unconditional and expected to settle within 12 months	69,139	63,126
• Unconditional and expected to settle after 12 months	9,883	8,801
Long service leave		
• Unconditional and expected to settle within 12 months	10,831	9,938
• Unconditional and expected to settle after 12 months	98,302	83,970
On-costs		
• Unconditional and expected to settle within 12 months	20,725	17,977
• Unconditional and expected to settle after 12 months	22,144	18,130
Total current provisions for employee benefits	**231,024**	**201,942**
Non-current provisions		
Employee benefits	32,990	22,705
Employee on-costs	6,301	4,116
Total non-current provisions for employee benefits	**39,291**	**26,821**
Total provisions for employee benefits	**270,315**	**228,763**

Reconciliation of movement in employee on-cost provision

		($ thousand)
	2019	2018
Opening balance	**40,223**	**35,082**
Additional provisions recognised	25,428	24,630
Additions due to transfer in	94	0
Reductions arising from payments/other sacrifices of future economic benefits	(16,575)	(19,489)
Closing balance	**49,170**	**40,223**
Current	42,869	36,107
Non-current	6,301	4,116

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	
	2019	2018	2019	2018
Defined benefit plans				
• Emergency Services and State Super	4,362	4,547	96	87
Defined contribution plans				
• VicSuper	49,868	47,324	1,180	954
• Various other	22,267	17,720	548	388
Total	**76,497**	**69,591**	**1,824**	**1,429**

3.3 Grant expense

		($ thousand)
	2019	**2018**
Payments to:		
• Victoria Police	3,362,390	3,051,625
• Country Fire Authority	619,023	593,192
• Metropolitan Fire and Emergency Services Board	417,287	380,932
• Victoria Legal Aid	188,083	171,387
• Office of Public Prosecutions	79,762	70,816
• Victoria State Emergency Service Authority	60,675	57,765
• Court Services Victoria	23,396	23,406
• Victorian Commission for Gambling and Liquor Regulation	43,394	37,893
• Victorian Institute of Forensic Medicine	41,486	36,771
• Emergency Services Telecommunications Authority	50,505	45,324
• Victorian Equal Opportunity and Human Rights Commission	9,197	9,428
• Sentencing Advisory Council	1,777	2,018
• Victorian Responsible Gambling Foundation	2,912	2,417
• Other parties	143,614	151,143
Total grant expenses	**5,043,501**	**4,634,117**

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)
	2019	**2018**
Capital asset charge	185,884	169,878

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)
	2019	**2018**
Outsourced contracts	697,147	584,345
Contractors, professional services and consultants	106,951	116,832
Accommodation and property services	88,151	73,579
Maintenance	26,346	27,865
Technology services	78,750	61,211
Printing, stationery and other office expenses	33,560	30,939
Other	130,358	108,338
Total supplies and services	**1,161,263**	**1,003,109**

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

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

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

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

Maintenance relates to the expenses paid for repairs and maintenance services.

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

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

4. Disaggregated financial information by output

4.1 Introduction

This section provides a description of the departmental outputs delivered during the year ended 30 June 2019 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, as well as support and development of the racing sector. This output group also promotes the empowerment of consumers and businesses to know their rights and responsibilities to promote a well-functioning market economy through regulation and support to consumers and businesses. There is a specific focus on the needs of vulnerable and disadvantaged consumers.

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

Departmental outputs - controlled

	Policing and crime prevention		Enforcing and managing correctional orders		Youth justice services	
	2019	2018	2019	2018	2019	2018
Controlled income and expenses for year ended 30 June 2019						
Income from transactions						
Output appropriations	3,402,098	3,078,572	1,762,541	1,548,217	225,241	152,398
Special appropriations	0	0	157	73	0	0
Interest income	0	0	405	0	0	0
Grant income	139	106	15,714	15,090	792	0
Other income	3	8	3,538	10,525	673	328
Total income from transactions	**3,402,240**	**3,078,686**	**1,782,355**	**1,573,905**	**226,706**	**152,726**
Expenses from transactions						
Employee benefit expense	(10,886)	(7,417)	(663,566)	(617,698)	(118,434)	(91,120)
Depreciation	(36)	(16)	(104,092)	(91,572)	(4,969)	(4,164)
Interest expense	1	2	(63,518)	(50,622)	(74)	(72)
Grant expense	(3,380,747)	(3,068,463)	(4,853)	(8,727)	(1,431)	(682)
Capital asset charge	0	0	(158,225)	(151,904)	(14,852)	0
Supplies and services	(8,364)	(3,633)	(740,824)	(627,633)	(84,835)	(60,302)
Total expenses from transactions	**(3,400,032)**	**(3,079,527)**	**(1,735,078)**	**(1,548,156)**	**(224,595)**	**(156,340)**
Net result from transactions (net operating balance)	**2,208**	**(841)**	**47,277**	**25,749**	**2,111**	**(3,614)**
Other economic flows included in net result						
Net gain/(loss) on non-financial assets	11	12	826	1,069	102	0
Net gain/(loss) on financial instruments	(3)	(9)	(59,003)	507	47	0
Other gains/(losses) from other economic flows	(87)	19	(6,459)	1,456	(797)	191
Total other economic flows included in net result	**(79)**	**22**	**(64,636)**	**3,032**	**(648)**	**191**
Net result	**2,129**	**(819)**	**(17,359)**	**28,781**	**1,463**	**(3,423)**
Other economic flows - other comprehensive income						
Items that will not be reclassified to net result						
Changes in physical asset revaluation surplus	1	1	93	(49,306)	(61)	0
Total other economic flows - other comprehensive income	**1**	**1**	**93**	**(49,306)**	**(61)**	**0**
Comprehensive result	**2,130**	**(818)**	**(17,266)**	**(20,525)**	**1,402**	**(3,423)**
Controlled assets and liabilities at 30 June 2019						
Assets						
Financial assets	465,316	479,704	289,327	263,083	14,495	1,218
Non-financial assets	1,305	479	3,038,484	2,958,219	407,788	289,851
Total assets	**466,621**	**480,183**	**3,327,811**	**3,221,302**	**422,283**	**291,069**
Liabilities	**471,517**	**478,056**	**1,058,534**	**968,186**	**51,770**	**32,542**
Total liabilities	**471,517**	**478,056**	**1,058,534**	**968,186**	**51,770**	**32,542**
Net assets	**(4,896)**	**2,127**	**2,269,277**	**2,253,116**	**370,513**	**258,527**

($ thousand)

Criminal justice services		Civil justice services		Emergency management		Industry regulation and support		Departmental total	
2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
642,549	627,079	114,777	104,771	1,314,652	1,207,654	108,442	118,319	7,570,300	6,837,010
2,082	0	0	0	1,161	581	0	0	3,400	654
0	0	0	0	0	0	23,177	27,608	23,582	27,608
3,512	2,018	3,750	2,942	7,994	1,103	49	49	31,950	21,308
1,183	520	35	215	16,750	1,112	67,034	57,879	89,216	70,587
649,326	**629,617**	**118,562**	**107,928**	**1,340,557**	**1,210,450**	**198,702**	**203,855**	**7,718,448**	**6,957,167**
(101,314)	(89,453)	(67,520)	(59,474)	(43,356)	(40,614)	(57,760)	(55,555)	(1,062,836)	(961,331)
(15,621)	(11,401)	(1,601)	(373)	(7,885)	(10,767)	(477)	(300)	(134,681)	(118,593)
(23)	(27)	(11)	3	4	42	(14)	(2)	(63,635)	(50,676)
(353,811)	(321,116)	(12,284)	(12,169)	(1,178,878)	(1,103,597)	(111,497)	(119,363)	(5,043,501)	(4,634,117)
(10,279)	(14,491)	0	0	(2,528)	(3,483)	0	0	(185,884)	(169,878)
(184,761)	(188,877)	(41,173)	(34,685)	(61,450)	(49,191)	(39,856)	(38,788)	(1,161,263)	(1,003,109)
(665,809)	**(625,365)**	**(122,589)**	**(106,698)**	**(1,294,093)**	**(1,207,610)**	**(209,604)**	**(214,008)**	**(7,651,800)**	**(6,937,704)**
(16,483)	**4,252**	**(4,027)**	**1,230**	**46,464**	**2,840**	**(10,902)**	**(10,153)**	**66,648**	**19,463**
(20,640)	310	67	94	268	367	75	104	(19,291)	1,956
(24)	0	4	0	619	0	(2,451)	5,508	(60,811)	6,006
(1,805)	271	(529)	168	(2,094)	120	(669)	174	(12,440)	2,399
(22,469)	**581**	**(458)**	**262**	**(1,207)**	**487**	**(3,045)**	**5,786**	**(92,542)**	**10,361**
(38,952)	**4,833**	**(4,485)**	**1,492**	**45,257**	**3,327**	**(13,947)**	**(4,367)**	**(25,894)**	**29,824**
(9)	(14)	(5)	(5)	(15)	342	(4)	(2)	0	(48,984)
(9)	**(14)**	**(5)**	**(5)**	**(15)**	**342**	**(4)**	**(2)**	**0**	**(48,984)**
(38,961)	**4,819**	**(4,490)**	**1,487**	**45,242**	**3,669**	**(13,951)**	**(4,369)**	**(25,894)**	**(19,160)**
148,526	135,610	34,584	33,962	227,882	160,643	307,267	324,895	1,487,397	1,399,115
71,381	92,443	30,243	4,389	87,270	60,698	4,642	4,236	3,641,113	3,410,315
219,907	**228,053**	**64,827**	**38,351**	**315,152**	**221,341**	**311,909**	**329,131**	**5,128,510**	**4,809,430**
112,064	**118,115**	**28,196**	**22,511**	**87,818**	**79,126**	**43,925**	**55,394**	**1,853,824**	**1,753,930**
112,064	**118,115**	**28,196**	**22,511**	**87,818**	**79,126**	**43,925**	**55,394**	**1,853,824**	**1,753,930**
107,843	**109,938**	**36,631**	**15,840**	**227,334**	**142,215**	**267,984**	**273,737**	**3,274,686**	**3,055,500**

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 2019

	Policing and crime prevention		Enforcing and managing correctional orders		Youth justice services	
	2019	2018	2019	2018	2019	2018
Administered income from transactions						
Appropriations for payments made on behalf of the State	0	0	0	0	0	0
Special appropriations applied	0	0	0	0	0	0
Sale of goods and services	47	2	22,702	16,140	0	0
Fines [(i)]	0	0	330	247	0	0
Fees	3	2	0	0	0	0
Other income	28	19	2,064	1,684	263	0
Total administered income from transactions	**78**	**23**	**25,096**	**18,071**	**263**	**0**
Administered expenses from transactions						
Payments made on behalf of the State	0	0	0	0	0	0
Payments into the consolidated fund	(47)	(5)	(42,264)	(31,084)	69	0
Other expenses	(20)	(15)	(1,742)	(1,555)	(181)	0
Total administered expenses from transactions	**(67)**	**(20)**	**(44,006)**	**(32,639)**	**(112)**	**0**
Total administered net result from transactions (net operating balance)	**11**	**3**	**(18,910)**	**(14,568)**	**151**	**0**
Administered other economic flows included in administered net result						
Net gain/(loss) on non-financial assets	0	(1)	(2,607)	(1,171)	(69)	0
Net gain/(loss) on financial instruments	(3)	0	0	0	0	0
Total administered other economic flows	**(3)**	**(1)**	**(2,607)**	**(1,171)**	**(69)**	**0**
Total administered comprehensive result	**8**	**2**	**(21,517)**	**(15,739)**	**82**	**0**
Administered assets						
Cash and deposits	51	53	12,120	12,778	478	16
Receivables [(i)]	23	0	2	0	0	0
Equity investments in other justice portfolio entities	0	0	0	0	0	0
Total administered assets	**74**	**53**	**12,122**	**12,778**	**478**	**16**
Administered liabilities						
Creditors and accruals	0	0	2	49	0	0
Deposits payable	52	49	10,126	10,200	481	16
Unearned revenue	0	3	7	242	1	0
Total administered liabilities	**52**	**52**	**10,135**	**10,491**	**482**	**16**
Total administered net assets	**22**	**1**	**1,987**	**2,287**	**(4)**	**0**

(i) The department implemented a new infringement management system on 31 December 2017 to coincide with legislative changes made under the *Fines Reform Act 2014*. The new system has had issues producing system generated financial reports. However, the department has received independent assurance reports over the operations of the new infringement penalty system and a third party has verified the accuracy of the infringement penalty revenue recorded in the system. The department is working through a number of options to finalise the outstanding financial reports required for its business needs.

Administered income from transactions includes fines and fees. 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.

($ thousand)

Criminal justice services		Civil justice services		Emergency management		Industry regulation and support		Departmental total	
2019	**2018**	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**
0	0	0	0	0	0	36,000	28,976	36,000	28,976
13,888	2,542	16,497	2,490	0	0	0	0	30,385	5,032
25,159	39,848	55,999	48,396	46,339	36,715	76	84	150,322	141,185
681,917	763,888	0	0	0	0	0	0	682,247	764,135
171,111	310,943	11,298	10,240	0	0	2,189	2,579	184,601	323,764
21,553	29,226	170	186	666	569	187	6,431	24,931	38,115
913,628	**1,146,447**	**83,964**	**61,312**	**47,005**	**37,284**	**38,452**	**38,070**	**1,108,486**	**1,301,207**
0	0	0	0	0	0	(36,000)	(28,976)	(36,000)	(28,976)
(454,720)	(471,542)	(72,283)	(65,557)	(56,481)	(49,876)	(73)	(114)	(625,799)	(618,178)
(14,292)	(3,165)	(15,833)	(3,419)	(476)	(452)	(133)	(127)	(32,677)	(8,733)
(469,012)	**(474,707)**	**(88,116)**	**(68,976)**	**(56,957)**	**(50,328)**	**(36,206)**	**(29,217)**	**(694,476)**	**(655,887)**
444,616	**671,740**	**(4,152)**	**(7,664)**	**(9,952)**	**(13,044)**	**2,246**	**8,853**	**414,010**	**645,320**
(179)	(48)	(3)	(14)	(30)	479	(3)	(7)	(2,891)	(762)
(543,324)	(507,060)	22	0	(825)	0	0	0	(544,130)	(507,060)
(543,503)	**(507,108)**	**19**	**(14)**	**(855)**	**479**	**(3)**	**(7)**	**(547,021)**	**(507,822)**
(98,887)	**164,632**	**(4,133)**	**(7,678)**	**(10,807)**	**(12,565)**	**2,243**	**8,846**	**(133,011)**	**137,498**
8,953	8,186	54,647	5,603	1,236	1,578	381	476	77,866	28,690
1,269,564	1,418,371	14,787	8,008	9,873	1,981	0	0	1,294,249	1,428,360
43,395	43,395	29	29	714,041	660,405	0	11,098	757,465	714,927
1,321,912	**1,469,952**	**69,463**	**13,640**	**725,150**	**663,964**	**381**	**11,574**	**2,129,580**	**2,171,977**
4,954	11	410	782	0	0	0	0	5,366	842
7,632	7,075	55,041	5,965	1,246	1,458	379	438	74,957	25,201
1	70	638	992	2	139	1	23	650	1,469
12,587	**7,156**	**56,089**	**7,739**	**1,248**	**1,597**	**380**	**461**	**80,973**	**27,512**
1,309,325	**1,462,796**	**13,374**	**5,901**	**723,902**	**662,367**	**1**	**11,113**	**2,048,607**	**2,144,465**

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

Administered assets include government income earned but yet to be collected, such as receivables that relate to unpaid fines, fees, sale of goods and services and other income. Some management judgements and estimates have been made for receivables relating to fines revenue, whereby an analysis of third party data, database queries and predictive analysis was undertaken to ensure the completeness and accuracy of debts in the infringement management system, and an allowance for impairment losses has been estimated based on an analysis of clearance rates, recovery rates and aged debts. Administered assets also includes equity investments that represent the State's capital investment in other justice portfolio entities that are controlled by the State.

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

4.4 Restructuring of administrative arrangements

Transfer of net assets to the Department of Jobs, Precincts and Regions

On 1 January 2019, the responsibility for the administrative arrangements of racing activities transferred from the Department of Justice and Community Safety to the Department of Jobs, Precincts and Regions, as a result of a machinery of government change, in accordance with the administrative arrangements order (no. 229) 2018.

As a result of the administrative restructure, the following net assets were transferred from the Department of Justice and Community Safety to the Department of Jobs, Precincts and Regions at their carrying amounts at the date of transfer using contributed capital.

	($ thousand)
	2019
Controlled	
Assets	
Receivables	390
Property, plant and equipment	152
Liabilities	
Payables	47
Borrowings	39
Employee benefit provisions	343
Controlled net assets transferred	**113**
Net capital contribution from the Crown	**113**
Administered	
Assets	
Equity investments in other State controlled entities	11,098
Administered net assets transferred	**11,098**
Net capital contribution from the Crown	**11,098**

Transfer of net assets from the Department of Health and Human Services

On 1 January 2019, the responsibility for the administrative arrangements of adoption services activities transferred from the Department of Health and Human Services 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. 229) 2018.

The combined income and expenses for the adoption services activities for the reporting period (including those recognised by the Department of Health and Human Services) were as follows.

			($ thousand)
	Department of Health and Human Services	Department of Justice and Community Safety	Total
	(1 July 2018 to 31 December 2018)	(1 January 2019 to 30 June 2019)	
Controlled income and expenses			
Income	2,779	3,102	5,881
Expenses	2,779	3,102	5,881

The following net assets were assumed by the Department of Justice and Community Safety for the adoption services 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)
	2019
Controlled	
Assets	
Receivables	732
Liabilities	
Employee benefit provisions	732
Controlled net assets recognised	**0**
Net capital contribution from the Crown	**0**

Transfer of net assets from the Department of Premier and Cabinet

On 11 February 2019, the responsibility for the administrative arrangements of countering violent extremism activities transferred from the Department of Premier and Cabinet to the Department of Justice and Community Safety, as a result of a machinery of government change.

The combined income and expenses for the countering violent extremism 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 2018 to 10 February 2019)	(11 February 2019 to 30 June 2019)	
Controlled income and expenses			
Income	4,360	4,812	9,172
Expenses	4,360	4,812	9,172

The following net assets were assumed by the Department of Justice and Community Safety for the countering violent extremism 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)
	2019
Controlled	
Assets	
Receivables	2,215
Prepayments	6
Liabilities	
Payables	1,980
Employee benefit provisions	241
Controlled net assets recognised	**0**
Net capital contribution from the Crown	**0**

5. Key assets available to support output delivery

5.1 Introduction

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

5.2 Property, plant and equipment

($ thousand)

	Gross carrying amount		Accumulated depreciation		Net carrying amount	
	2019	2018	2019	2018	2019	2018
Land at fair value	287,093	281,876	0	0	287,093	281,876
Buildings at fair value	1,510,406	1,391,349	(147,097)	(96,238)	1,363,309	1,295,111
Leased buildings at fair value	1,158,659	1,158,659	(71,660)	(38,105)	1,086,999	1,120,554
Leasehold improvements at fair value	113,490	83,807	(60,318)	(57,585)	53,172	26,222
Plant and equipment at fair value	281,454	261,613	(166,722)	(145,134)	114,732	116,479
Leased plant and equipment at fair value	94,406	93,730	(15,456)	(11,418)	78,950	82,312
Assets under construction at cost	562,297	392,671	0	0	562,297	392,671
Total	**4,007,805**	**3,663,705**	**(461,253)**	**(348,480)**	**3,546,552**	**3,315,225**

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

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

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

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

5.2.1 Depreciation and impairment

Depreciation

($ thousand)

	2019	2018
Buildings	51,862	49,871
Leased buildings	33,555	25,058
Leasehold improvements	9,767	6,958
Plant and equipment	22,871	22,727
Leased plant and equipment	8,205	7,029
Software	8,421	6,950
Total	**134,681**	**118,593**

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

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

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

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

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

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

Impairment

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

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

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

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

5.2.2 Carrying values by 'purpose' groups [(i)]

($ thousand)

	Public order and safety		Economic affairs		Recreation culture and religion		Social protection		Total	
	2019	**2018**	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**
Nature based classification										
Land at fair value	284,338	279,121	71	71	44	44	2,640	2,640	287,093	281,876
Buildings at fair value	1,363,207	1,294,996	4	0	3	0	95	115	1,363,309	1,295,111
Leased buildings at fair value	1,086,999	1,120,554	0	0	0	0	0	0	1,086,999	1,120,554
Leasehold improvements at fair value	50,750	25,644	1,102	193	681	273	639	112	53,172	26,222
Plant and equipment at fair value	114,565	116,310	61	32	9	7	97	130	114,732	116,479
Leased plant and equipment at fair value	77,995	81,269	445	502	263	279	247	262	78,950	82,312
Assets under construction at cost	560,081	390,974	971	772	600	477	645	448	562,297	392,671
Total	**3,537,935**	**3,308,868**	**2,654**	**1,570**	**1,600**	**1,080**	**4,363**	**3,707**	**3,546,552**	**3,315,225**

(i) The 2017-18 comparative figures have been reallocated under the new classifications of the functions of government (COFOG) categories.

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

($ thousand)

2019	Land at fair value	Buildings at fair value	Leased buildings at fair value	Leasehold improvements at fair value	Plant & equipment at fair value	Leased plant & equipment at fair value	Assets under construction at cost	Total
Opening balance	**281,876**	**1,295,111**	**1,120,554**	**26,222**	**116,479**	**82,312**	**392,671**	**3,315,225**
Additions	1,896	6,272	0	36,892	4,722	8,824	285,966	**344,572**
Disposals	0	0	0	0	0	(3,624)	0	**(3,624)**
Transfers out of assets under construction	0	116,200	0	0	140	0	(116,340)	**0**
Reclassification between classes	0	0	0	0	24	(24)	0	**0**
Machinery of government transfer out	0	0	0	(113)	0	(39)	0	**(152)**
Fair value of assets received free of charge or for nominal consideration	3,489	0	0	0	16,682	225	0	**20,396**
Depreciation	0	(51,862)	(33,555)	(9,767)	(22,871)	(8,205)	0	**(126,260)**
Transfers to disposal group held for sale	0	0	0	0	0	(519)	0	**(519)**
Net transfers contributed capital	(168)	(2,412)	0	(62)	(444)	0	0	**(3,086)**
Closing balance	**287,093**	**1,363,309**	**1,086,999**	**53,172**	**114,732**	**78,950**	**562,297**	**3,546,552**

($ thousand)

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

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

5.3 Intangible assets

($ thousand)

	2019	2018
Gross carrying amount		
Opening balance	**144,196**	**112,824**
Additions [(i)]	16,212	31,932
Reclassification to / from property, plant and equipment	0	(560)
Impairment [(ii)]	(20,873)	0
Closing balance	**139,535**	**144,196**
Accumulated depreciation		
Opening balance	**(73,697)**	**(66,747)**
Depreciation [(iii)]	(8,421)	(6,950)
Closing balance	**(82,118)**	**(73,697)**
Net book value at end of financial year	**57,417**	**70,499**

(i) Intangible assets 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 expense line item in the comprehensive operating statement.

Initial recognition

Purchased intangible assets are initially recognised at cost.

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

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

Subsequent measurement

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

Significant intangible assets

The department implemented the Registry Information Online System (RIO) on 19 February 2019 at a value of $23.032 million. RIO replaces the legacy LifeData System and is capable of providing improved services for users of Births, Deaths and Marriages services.

5.4 Investments and other financial assets

($ thousand)

	2019	2018
Current investments and other financial assets		
-Term deposits > 3 months [(i)]	0	24,654
Total current investments and other financial assets	**0**	**24,654**
Non-current investments and other financial assets		
Managed investment schemes [(ii)]		
-Multi-strategy funds	205,629	222,049
Total non-current investments and other financial assets	**205,629**	**222,049**
Total investments and other financial assets	**205,629**	**246,703**

(i) Term deposits under 'investments and other financial assets' class include only term deposits with maturity greater than 3 months.
(ii) The department designated all its managed investment schemes at fair value through 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)
	2019	**2018**
Contractual		
Advance to Metropolitan Fire and Emergency Services Board	952	1,189
Accrued interest income	1,750	2,214
Other receivables	18,582	14,339
Allowance for impairment losses of contractual receivables	(1,223)	(771)
Total contractual receivables	**20,061**	**16,971**
Statutory		
Amounts owing from Victorian Government	1,064,672	1,008,359
GST input tax credit recoverable	35,952	36,315
Total statutory receivables	**1,100,624**	**1,044,674**
Total receivables	**1,120,685**	**1,061,645**
Represented by		
Current receivables	994,975	868,569
Non-current receivables	125,710	193,076

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)
	2019	**2018**
Contractual		
Trade creditors and other payables	270,020	259,601
Accrued capital works	55,054	56,991
Salaries and wages	28,823	19,279
Total contractual payables	**353,897**	**335,871**
Statutory		
Payroll tax	4,530	3,898
Pay as you go (PAYG) tax withheld	4,158	3,167
Fringe benefits tax	226	135
Amounts payable to government agencies	513,580	521,995
Total statutory payables	**522,494**	**529,195**
Total payables	**876,391**	**865,066**
Represented by		
Current payables	785,772	699,263
Non-current payables	90,619	165,803

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

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

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

7. Financing operations

7.1 Introduction

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

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

7.2 Borrowings (finance lease liabilities)

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

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

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

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

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

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

Modification to the State's payments to GEO Consortium: In May 2019, GEO refinanced its external debt, which resulted in the State being entitled to reduce its payments to GEO by $162.9 million to reflect the changes in the financing costs incurred by GEO. This modification to the State's payments to GEO resulted in the department being required to derecognise its remaining finance lease liability and recognise a new finance lease liability calculated by discounting the revised cash flow using a current discount rate. As the new discount rate was significantly lower than the original discount rate, the new finance lease liability was higher than the remaining finance lease liability, which resulted in a net loss of $59.0 million being recognised at the date of the refinancing. However, the new principal repayment and interest expense profile resulted in the future finance charges being reduced by $220.5 million.

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

Finance lease liabilities payable

($ thousand)

	Minimum future lease payments		Present value of minimum future lease payments	
	2019	2018	2019	2018
Commissioned PPP related finance lease liabilities payable				
Not longer than 1 year	68,953	77,201	17,927	12,521
Longer than 1 year but not longer than 5 years	272,154	314,272	74,627	61,971
Longer than 5 years	1,035,019	1,224,454	588,713	561,420
	1,376,126	1,615,927	681,267	635,912
Other finance lease liabilities payable				
Not longer than 1 year	8,614	8,826	8,278	8,455
Longer than 1 year but not longer than 5 years	6,805	7,717	6,662	7,521
Longer than 5 years	0	0	0	0
	15,419	16,543	14,940	15,976
	1,391,545	1,632,470	696,207	651,888
Minimum future lease payments (i)				
Less future finance charges	(695,338)	(980,582)	0	0
Present value of minimum lease payments	696,207	651,888	696,207	651,888
Included in the financial statements as:				
Current borrowings lease liabilities			26,205	20,976
Non-current borrowing lease liabilities			670,002	630,912
			696,207	651,888

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

Interest expense

($ thousand)

	2019	2018
Interest on finance leases		
• For PPP arrangements	63,279	50,453
• For non-PPP arrangements	356	223
Total interest expense	**63,635**	**50,676**

7.3 Cash flow information and balances

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

		($ thousand)
	2019	**2018**
Cash [(i)]	(179)	(1,427)
Cash and deposits held in trust [(ii)]		
• Crime prevention and victims' aid fund	41	41
• Domestic builders fund	21,442	2,442
• Victorian property fund	26,186	28,286
• Correctional enterprises working account	11,613	12,616
• Motor car traders' guarantee fund	4,940	1,635
• National gambling research trust	0	0
• Sex work regulation fund	1,046	1,251
• Residential tenancies fund	3,515	3,213
• Inter-departmental transfer fund	4,728	2,472
• Treasury trust fund	30,686	38,945
• Victorian consumer law fund	4,829	1,293
• Emergency services infrastructure authority fund	8,236	0
• Emergency management operational communication program fund	44,000	0
Balance as per cash flow statement and balance sheet	**161,083**	**90,767**

(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 2019, cash at bank included the amount of a shortfall for the payment of unpresented cheques of $0.220 million (2018: $1.488 million).

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

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

		($ thousand)
	2019	**2018**
Net result for the period	(25,894)	29,824
Non-cash movements		
Net (gain)/loss on disposal of non-current assets	(1,582)	(1,956)
Depreciation of non-current assets	134,681	118,593
Impairment of non-current assets	20,873	0
Resources (received)/provided free of charge or for nominal consideration	(20,172)	(175)
Net (gain)/loss on financial instruments	60,811	(6,006)
Net (gain)/loss from revaluation of provisions	12,440	(2,399)
Movements in assets and liabilities		
Decrease/(increase) in receivables	(56,961)	(189,874)
Decrease/(increase) in prepayments	(13,457)	(2,366)
Decrease/(increase) in inventories	1,052	(1,549)
Increase/(decrease) in payables	11,330	116,086
Increase/(decrease) in provisions	31,179	28,788
Net cash flows from/(used in) operating activities	**154,300**	**88,966**

7.4 Trust account balances

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

($ thousand)

Cash and deposits, and investments	2019 Opening balance as at 1 July 2018	2019 Total receipts	2019 Total payments	2019 Closing balance as at 30 June 2019	2018 Opening balance as at 1 July 2017	2018 Total receipts	2018 Total payments	2018 Closing balance as at 30 June 2018
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.	21,196	18,060	17,814	**21,442**	21,409	14,663	14,876	**21,196**
Victorian property fund Established under the *Estate Agents Act 1980* to hold monies in accordance with sections 73 and 75 of that Act.	212,945	44,799	65,401	**192,343**	318,514	46,283	151,852	**212,945**
Correctional enterprises working account Established under the *Financial Management Act 1994* as a working account for Correctional Enterprises.	12,616	22,916	23,919	**11,613**	12,992	15,992	16,368	**12,616**
Motor car traders' guarantee fund Established under the *Motor Car Traders Act 1986* to hold monies in accordance with section 74 of that Act.	4,535	3,137	2,732	**4,940**	4,059	3,515	3,039	**4,535**
National gambling research trust Established under a memorandum of understanding between the State and Federal Governments to hold funds for a multi-jurisdictional group to perform national gambling research.	0	0	0	**0**	434	0	434	**0**
Sex work regulation fund Established under the *Sex Work Act 1994* to hold monies in accordance with section 66 of that Act.	1,251	1,268	1,473	**1,046**	1,335	1,313	1,397	**1,251**
Residential tenancies fund Established under the *Residential Tenancies Act 1997* to hold monies in accordance with sections 492 and 493 of that Act.	40,603	34,269	31,885	**42,987**	36,665	37,088	33,150	**40,603**
Vehicle lease trust account Established under the *Financial Management Act 1994* to process the sales of VicFleet motor vehicles.	0	1,637	1,637	**0**	0	2,167	2,167	**0**
Inter-departmental transfer fund Established under the *Financial Management Act 1994* to hold monies in relation to inter-departmental transfers.	2,472	8,066	5,810	**4,728**	0	3,771	1,299	**2,472**
Treasury trust fund Established under the *Financial Management Act 1994* for the receipt and disbursement of unclaimed monies and other funds held in trust.	38,945	18,583	26,842	**30,686**	28,037	30,508	19,600	**38,945**
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.	4,293	744	208	**4,829**	1,695	2,802	204	**4,293**
Emergency services infrastructure authority fund Established under the *Financial Management Act 1994* to hold monies in relation to the emergency services infrastructure authority.	0	8,395	159	**8,236**	0	0	0	**0**
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.	0	50,818	6,818	**44,000**	0	0	0	**0**
Total controlled trusts	**338,897**	**212,692**	**184,698**	**366,891**	**425,181**	**158,102**	**244,386**	**338,897**

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

($ thousand)

Cash and deposits, and investments	2019 Opening balance as at 1 July 2018	2019 Total receipts	2019 Total payments	2019 Closing balance as at 30 June 2019	2018 Opening balance as at 1 July 2017	2018 Total receipts	2018 Total payments	2018 Closing balance as at 30 June 2018
Administered trusts								
Asset confiscation office retained monies trust Established under the *Financial Management Act 1994* for the Asset Confiscation Office.	10,956	8,295	7,367	**11,884**	10,904	6,031	5,979	**10,956**
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.	26	78	72	**32**	0	26	0	**26**
Victorian government solicitor's trust Established under the *Financial Management Act 1994* for the Victorian Government Solicitors Office.	5,589	229,673	180,937	**54,325**	8,244	129,507	132,162	**5,589**
Departmental suspense Established under the *Financial Management Act 1994* as a working account for the department.	2,882	116	685	**2,313**	3,167	531	816	**2,882**
Revenue suspense Established under the *Financial Management Act 1994* to temporarily hold monies pending correct identification of receipts.	17	2	0	**19**	12	5	0	**17**
Treasury trust fund Established under the *Financial Management Act 1994* for the receipt and disbursement of unclaimed monies and other funds held in trust.	7,583	880	1,397	**7,066**	7,622	786	825	**7,583**
Public service commuter club Established under the *Financial Management Act 1994* for the Public Service Commuter Club.	(583)	2,543	2,812	**(852)**	(408)	2,251	2,426	**(583)**
Sundry deposits Established under the *Financial Management Act 1994* to hold term deposits for the Victorian Government Solicitors Office.	0	404	0	**404**	30	0	30	**0**
Total administered trusts	**26,470**	**241,991**	**193,270**	**75,191**	**29,571**	**139,137**	**142,238**	**26,470**

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)

	2019	2018
Prisoner private monies		
Cash	5,947	5,610
Amounts owing to prisoners	(5,947)	(5,610)
	0	0
Prisoner compensation quarantine		
Cash	347	325
Amounts owing to prisoners	(347)	(325)
	0	0

7.5 Commitments for expenditure

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

7.5.1 Total commitments payable

($ thousand)

Nominal values	Less than 1 year	1 to 5 years	More than 5 years	Total
2019				
PPP commitments (note 7.5.2)	431,363	1,839,360	9,028,637	11,299,360
Capital expenditure commitments	145,216	35,876	109	181,201
Intangible assets commitments	0	0	0	0
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**
2018				
PPP commitments (note 7.5.2)	377,485	1,657,404	9,322,187	11,357,076
Capital expenditure commitments	214,899	37,874	0	252,773
Intangible assets commitments	6,067	0	0	6,067
Operating lease commitments	50,153	152,468	65,859	268,480
Other commitments	415,380	531,365	42,742	989,487
Total commitments (inclusive of GST)	**1,063,984**	**2,379,111**	**9,430,788**	**12,873,883**

7.5.2 PPP commitments

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

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

PPP commitments

($ thousand)

	2019			2018		
	Minimum lease payments	Other commitments	Total commitments	Minimum lease payments	Other commitments	Total commitments
	Discounted value	Present value	Nominal value	Discounted value	Present value	Nominal value
Commissioned PPPs [(i)(ii)]						
Private prisons		6,599,170	11,299,360		6,537,386	11,357,076
Total PPP commitments		**6,599,170**	**11,299,360**		**6,537,386**	**11,357,076**

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

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

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

From 1 July 2018, the department applied AASB 9 and classified all of its financial assets based on its business model for managing the assets and the assets' contractual terms.

Financial assets at amortised cost, under AASB 9

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
- term deposits
- receivables (excluding statutory receivables)

The department previously classified these assets as loans and receivables and cash under AASB 139 .

Financial assets at fair value through net result, under AASB 9 and previously under AASB 139

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

Financial liabilities at amortised cost, under AASB 9 and previously under AASB 139

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)

2019	Net holding gain/ (loss)	Total interest income / (expense)	Total
Contractual financial assets			
Designated at fair value through net result	(2,481)	0	(2,481)
At amortised cost	633	1,273	1,906
Total contractual financial assets	**(1,848)**	**1,273**	**(575)**
Contractual financial liabilities			
At amortised cost	0	63,635	63,635
Total contractual financial liabilities	**0**	**63,635**	**63,635**

($ thousand)

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

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

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

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

8.2.3 Financial risk management objective and policies

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

Financial instruments: credit risk

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

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

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

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 2018-19.

Impairment of financial assets under AASB 9

From 1 July 2018, the department has been recording an allowance for expected credit losses for relevant financial instruments based on AASB 9's expected credit loss approach, rather than AASB 139's incurred loss approach.

Financial assets designated 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 experience. On this basis, the department determined the opening loss allowance on initial application date of AASB 9 and the closing loss allowance at the end of the financial year as follows.

($ thousand)

1 July 2018	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	9,055	1,008	526	772	19	**11,380**
Loss allowance	**91**	**10**	**5**	**772**	**19**	**897**
Expected loss rate	16%					
Gross carrying amount of other contractual receivables	6,362					**6,362**
Loss allowance	**985**	**0**	**0**	**0**	**0**	**985**

($ 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)

	2019	2018
Balance at beginning of the year	**(771)**	**(1,279)**
Opening retained earnings adjustment on adoption of AASB 9	(1,111)	0
Opening loss allowance	**(1,882)**	**(1,279)**
Increase in allowance recognised in the net result	(7)	0
Reversal of allowance for receivables written off during the year as uncollectible	7	482
Reversal of unused allowance recognised in the net result	659	26
Balance at end of the year	**(1,223)**	**(771)**

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.

In prior years, a provision for doubtful debts was recognised when there was objective evidence that the debts may not be collected and bad debts were written off when identified. A provision was made for estimated irrecoverable amounts when there was objective evidence that an individual receivable was impaired.

Financial instruments: liquidity risk

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

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

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		270,020	0	0	270,020
• Accrued capital works		55,054	0	0	55,054
• Salaries and wages		28,823	0	0	28,823
Borrowings					
• Finance lease liabilities	6.53%	696,207	696,207	0	0
Total financial liabilities		**1,050,104**	**696,207**	**0**	**353,897**

($ thousand)

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

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

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 +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)**
2018					
Cash and deposits	2,531	25	(25)	0	0
Managed investment schemes	222,049	0	0	22,205	(22,205)
Total	**224,580**	**25**	**(25)**	**22,205**	**(22,205)**

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)
	2019	2018
Legal proceedings and disputes	743	59
Total	**743**	**59**

Contingent liabilities

Contingent liabilities are:

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

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

Non-quantifiable contingent liabilities

Native title

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

National redress scheme - sexual abuse of children in institutions

On 13 June 2018, the *National Redress Scheme for Institutional Child Sexual Abuse (Commonwealth Powers) Act 2018 (Vic)* commenced. The Act refers 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.

Quantifiable contingent liabilities

		($ thousand)
	2019	2018
Legal proceedings and disputes [(i)]	92,669	91,315
Make good leased premises	9,525	6,853
Total	**102,194**	**98,168**

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

Managerial revaluation of land in 2016-17

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

Heritage buildings

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

The department held $4.795 million (2018: $5.055 million) of heritage buildings as at 30 June 2019.

Non-specialised land, non-specialised buildings and artworks

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

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

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

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

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

The department held $6.421 million (2018: $6.419 million) of non-specialised land, no non-specialised buildings, and $0.027 million (2018: $0.027 million) of artwork as at 30 June 2019.

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 $280.673 million (2018: $275.457 million) of specialised land, $2,445.512 million (2018: $2,410.610 million) of specialised buildings as at 30 June 2019.

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 2019.

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)

	2019	2018
Compensation for economic loss	34	505
Total ex-gratia expenses [(i)]	**34**	**505**

(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)

	2019	2018
Net gain/(loss) on non-financial assets		
Impairment of intangible asset	(20,873)	0
Net gain/(loss) on disposal of property, plant and equipment	1,582	1,956
Total net gain/(loss) on non-financial assets	**(19,291)**	**1,956**
Net gain/(loss) on financial instruments		
Impairment of contractual receivables [(i)]	659	507
Bad debts written off unilaterally	(26)	(9)
Net gain/(loss) on disposal and revaluation of managed investment schemes	(2,481)	5,508
Net gain/(loss) on derecognition and recognition of borrowings	(58,963)	0
Total net gain/(loss) on financial instruments	**(60,811)**	**6,006**
Other gains/(losses) from other economic flows		
Net gain/(loss) from revaluation of long service leave liability [(ii)]	(11,615)	2,410
Net gain/(loss) from revaluation of other provisions [(iii)]	(825)	(11)
Total other gains/(losses) from other economic flows	**(12,440)**	**2,399**

(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)

	2019	2018
Land		
Balance at beginning of financial year	138,977	138,636
Revaluation increment/(decrement)	0	341
Balance at end of financial year	**138,977**	**138,977**
Buildings		
Balance at beginning of financial year	472,571	521,896
Revaluation increment/(decrement) [(ii)]	0	(49,325)
Balance at end of financial year	**472,571**	**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**	**660,534**
Total balance at end of financial year	**611,550**	**611,550**
Net change	**0**	**(48,984)**

(i) The physical asset revaluation surplus arises from the revaluation of land, buildings and artwork.
(ii) This movement includes a realignment of prior year assets under construction and a building impairment.

9.5 Change in accounting policies

This note explains the impact of the adoption of AASB 9 *Financial Instruments* on the department's financial statements.

9.5.1 Application of limited exemption in AASB 9

The department has elected to apply the limited exemption in AASB 9 paragraph 7.2.15 relating to transition for classification, measurement and impairment, and accordingly has not restated the comparative periods in the year of initial application. As a result:

(a) any adjustments to carrying amounts of financial assets or liabilities are recognised at the beginning of the current reporting period with the difference recognised in opening retained earnings; and

(b) financial assets and the provision for impairment have not been reclassified and/or restated in the comparative period.

9.5.2 Changes to classification and measurement

On initial application of AASB 9 on 1 July 2018, the department's management assessed its financial assets and financial liabilities, and determined that only contractual receivables would be affected by the new accounting standard.

Contractual receivables were previously classified as loans and receivables under AASB 139 and are now classified as financial assets at amortised cost under AASB 9. The change in classification has only affected the measurement of the allowance for impairment losses of contractual receivables, which was previously known as the provision for doubtful debts. The allowance for impairment losses of contractual receivables increased by $1.111 million upon the application of AASB 9, which was recognised in the opening retained earnings for the period.

The following table summarises the main effects from the reclassification upon adoption of AASB 9.

($ thousand)

	AASB 139 measurement category	AASB 9 measurement category
	Loans and receivables	Financial assets at amortised cost
	As at 30 June 2018	As at 1 July 2018
Contractual receivables		
Advance to Metropolitan Fire and Emergency Services Board	1,189	1,189
Accrued interest income	2,214	2,214
Other receivables	14,339	14,339
Allowance for impairment losses of contractual receivables	(771)	(1,882)

9.5.3 Changes to the impairment of financial assets

Contractual receivables are subject to AASB 9's new expected credit loss impairment model, which replaces AASB 139's incurred loss approach.

The department applied AASB 9's simplified approach to measure the expected credit losses of its contractual receivables based on the change in their expected credit losses over the lives of the assets. Application of the lifetime expected credit loss allowance method resulted in an increase in the allowance for impairment losses of contractual receivables of $1.111 million as at 1 July 2018. Refer to note 8.2.3 for details about the calculation of the allowance. The allowance decreased by $0.659 million upon the reassessment of the lifetime expected credit losses of the contractual receivables as at 30 June 2019.

9.5.4 Transition impact

The transition impact of first-time adoption of AASB 9 on the Comprehensive Operating Statement and Balance Sheet has been summarised in the following tables.

The impacts on the Comprehensive Operating Statement as at 1 July 2018 are as follows.

($ thousand)

Comprehensive Operating Statement	Impact to balance as at 30 June 2018
Other economic flows included in net result	
Net gain/(loss) on financial instruments	(1,111)
Total other economic flows included in net result	**(1,111)**
Net result	**(1,111)**
Comprehensive result	**(1,111)**

The impacts on the Balance Sheet are illustrated with the following reconciliation between the carrying amounts under AASB 139 as at 30 June 2018 and the balances reported under AASB 9 as at 1 July 2018.

($ thousand)

Balance Sheet	Amount as at 30 June 2018	Reclassification	Remeasurement	Restated amount as at 1 July 2018
Loans and receivables (excluding allowance for impairment losses)	133,163	(133,163)	0	0
Financial assets at fair value through net result	222,049	0	0	222,049
Financial assets at amortised cost	0	133,163	0	133,163
Allowance for impairment losses	(771)	0	(1,111)	(1,882)
Total financial assets (i)	**354,441**	**0**	**(1,111)**	**353,330**
Total financial liabilities (i)	**987,759**	**0**	**0**	**987,759**
Accumulated surplus/(deficit)	1,114,608	0	(1,111)	1,113,497
Other items in equity	1,940,892	0	0	1,940,892
Total equity	**3,055,500**	**0**	**(1,111)**	**3,054,389**

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

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 2018 to 30 June 2019 unless otherwise stated) were as follows.

Attorney-General	The Hon. Martin Pakula, MP	1 July 2018	to	28 November 2018
	The Hon. Jill Hennessy, MP	29 November 2018	to	30 June 2019
Acting Attorney-General	The Hon. Benjamin Carroll, MP	6 April 2019	to	14 April 2019
Minister for Consumer Affairs, Gaming and Liquor Regulation	The Hon. Marlene Kairouz, MP	1 July 2018	to	30 June 2019
Acting Minister for Consumer Affairs, Gaming and Liquor Regulation	The Hon. Lisa Neville, MP	1 January 2019	to	20 January 2019
Minister for Corrections	The Hon. Gayle Tierney, MP	1 July 2018	to	28 November 2018
	The Hon. Benjamin Carroll, MP	29 November 2018	to	30 June 2019
Acting Minister for Corrections	The Hon. Jill Hennessy, MP	20 January 2019	to	30 January 2019
	The Hon. Jill Hennessy, MP	21 April 2019	to	29 April 2019
Minister for Crime Prevention (i)	The Hon. Benjamin Carroll, MP	29 November 2018	to	30 June 2019
Acting Minister for Crime Prevention	The Hon. Jill Hennessy, MP	20 January 2019	to	30 January 2019
	The Hon. Jill Hennessy, MP	21 April 2019	to	29 April 2019
Minister for Emergency Services (ii)	The Hon. James Merlino, MP	1 July 2018	to	28 November 2018
Minister for Families and Children (ii)	The Hon. Jenny Mikakos, MP	1 July 2018	to	28 November 2018
Acting Minister for Families and Children	The Hon. Gayle Tierney, MP	9 July 2018	to	15 July 2018
Minister for Police (ii)	The Hon. Lisa Neville, MP	1 July 2018	to	28 November 2018
Acting Minister for Police	The Hon. James Merlino, MP	1 July 2018	to	8 July 2018
Minister for Police and Emergency Services (i)	The Hon. Lisa Neville, MP	29 November 2018	to	30 June 2019
Acting Minister for Police and Emergency Services	The Hon. James Merlino, MP	23 March 2019	to	4 April 2019
	The Hon. Benjamin Carroll, MP	5 April 2019	to	9 April 2019
	The Hon. Jill Hennessy, MP	14 April 2019	to	16 April 2019
Minister for Racing (iii)	The Hon. Martin Pakula, MP	1 July 2018	to	31 December 2018
Minister for Victim Support (i)	The Hon. Benjamin Carroll, MP	29 November 2018	to	30 June 2019
Acting Minister for Victim Support	The Hon. Jill Hennessy, MP	20 January 2019	to	30 January 2019
	The Hon. Jill Hennessy, MP	21 April 2019	to	29 April 2019
Minister for Workplace Safety (i)	The Hon. Jill Hennessy, MP	29 November 2018	to	30 June 2019
Acting Minister for Workplace Safety	The Hon. Benjamin Carroll, MP	6 April 2019	to	14 April 2019
Minister for Youth Justice (i)	The Hon. Benjamin Carroll, MP	29 November 2018	to	30 June 2019
Acting Minster for Youth Justice	The Hon. Jill Hennessy, MP	20 January 2019	to	30 January 2019
	The Hon. Jill Hennessy, MP	21 April 2019	to	29 April 2019
Secretary	Greg Wilson	1 July 2018	to	28 November 2018
	Rebecca Falkingham	29 November 2018	to	30 June 2019
Acting Secretary	Julia Griffith	23 July 2018	to	6 August 2018
	Corri McKenzie	14 January 2019	to	18 January 2019
	Ryan Phillips	15 April 2019	to	19 April 2019

(i) Position created on 29 November 2018.
(ii) Position ceased on 28 November 2018.
(iii) Position has been supported by the Department of Jobs, Precincts and Regions as a result of a machinery of government change from 1 January 2019.

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: $540,000 - $549,999 ($520,000 - $529,000 in 2017-18).

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 2018-19 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)(iii)] **(including key management personnel disclosed in note 9.8)**	**2019**	**2018**
Short-term employee benefits	20,257	15,291
Post-employment benefits	1,759	1,310
Other long-term benefits	770	526
Termination benefits	535	128
Total remuneration	**23,321**	**17,255**
Total number of executives	**140**	**87**
Total annualised employee equivalents [(iv)]	**90.7**	**68.3**

(i) The 2017-18 comparative figures have been updated to remove non-executive key management personnel, amend other long term benefits for people who transferred to other departments, and amend termination benefits to exclude leave payments.

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

(iii) Includes persons who meet the definition of key management personnel (KMP) of the department under AASB 124 *Related Party Disclosures* and are also reported within the related parties note disclosure (note 9.8).

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

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

9.8 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 2018 to 30 June 2019 unless otherwise stated) were as follows.

Portfolio Ministers (refer to note 9.6)				
Secretary (refer to note 9.6)				
Deputy Secretary Aboriginal Justice [(i)]	Josh Smith	30 April 2019	to	30 June 2019
Deputy Secretary Corporate Governance and Support [(i)]	David Nicholson	14 January 2019	to	30 June 2019
Deputy Secretary Corrections and Justice Health [(i)]	Julia Griffith	1 February 2019	to	16 June 2019
Deputy Secretary Emergency Management	Andrew Minack	10 December 2018	to	30 June 2019
Acting Deputy Secretary Emergency Management	Marisa De Cicco	1 July 2018	to	6 December 2018
Deputy Secretary Family Violence, Justice and Social Services Coordination and Workplace Safety [(i)]	Peta McCammon	8 April 2019	to	30 June 2019
Deputy Secretary Justice Policy and Data Reform [(i)]	Anna Faithfull	6 February 2019	to	30 June 2019
Deputy Secretary Police, Fines and Crime Prevention [(i)]	Corri McKenzie	10 December 2018	to	30 June 2019
Deputy Secretary Regulation	Simon Cohen	1 July 2018	to	30 June 2019
Deputy Secretary Victims Support, Innovation and Justice Operations [(i)]	Ryan Phillips	1 February 2019	to	30 June 2019
Deputy Secretary Youth Justice	Julia Griffith Brigid Sunderland	1 July 2018 1 February 2019	to to	31 January 2019 30 June 2019
Executive Director North Area	Jodi Henderson	1 July 2018	to	18 June 2019
Executive Director South Area	Gabrielle Levine	1 July 2018	to	30 June 2019
Executive Director West Area	Leanne Barnes	1 July 2018	to	30 June 2019
Corrections Victoria Commissioner	Emma Cassar	1 July 2018	to	30 June 2019
Deputy Commissioner Corrections Victoria [(ii)]	Rod Wise	1 July 2018	to	30 June 2019
Youth Justice Commissioner [(ii)]	Jodi Henderson	19 June 2019	to	30 June 2019
Chairperson Building Licensing Authority	Nicole Marshall	1 July 2018	to	30 June 2019
Chief Administrative Officer Post Sentence Authority	Bree Oliver	1 July 2018	to	30 June 2019
Road Safety Camera Commissioner	John Voyage	1 July 2018	to	30 June 2019
Deputy Secretary Civil Justice [(iii)]	Donald Speagle	1 July 2018	to	20 January 2019
Deputy Secretary Criminal Justice Strategy and Coordination [(iii)]	Kylie Kilgour	1 July 2018	to	16 December 2018
Deputy Secretary Criminal Law Policy and Operations [(iii)]	Ryan Phillips	1 July 2018	to	31 January 2019
Deputy Secretary Finance Infrastructure and Governance [(iii)]	Shaun Condron	1 July 2018	to	31 January 2019
Lead Deputy Secretary Police, Emergency Management and Corrections [(iii)]	Tony Bates	1 July 2018	to	4 January 2019
Deputy Secretary Police and Crime Prevention [(iii)]	Kate Houghton	1 July 2018	to	9 December 2018
Deputy Secretary Service Strategy Reform [(iii)]	Carolyn Gale	1 July 2018	to	31 January 2019
Executive Director North West Metropolitan Area [(iii)]	Peter Ewer	1 July 2018	to	7 May 2019
Executive Director Liquor, Gaming and Racing [(iv)]	Catherine Carr	1 July 2018	to	29 January 2019
Executive Director People and Culture [(iv)]	Miya Chiba	1 July 2018	to	31 January 2019
Chief Finance Officer [(iv)]	Christopher Breitkreuz	1 July 2018	to	31 January 2019
Director Office of the Secretary [(iv)]	Andreas Mansour	1 July 2018	to	31 January 2019

(i) Position created in 2018-19
(ii) Position identified as a KMP in 2018-19
(iii) Position ceased in 2018-19
(iv) Position ceased to be a KMP in 2018-19 upon the creation of the new board of management.
(v) Other positions previously disclosed as KMPs in 2017-18 have been excluded in 2018-19 due to a rationalisation of positions considered to be KMPs.

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)(ii)]	**2019**	**2018**
Short-term employee benefits	5,890	7,020
Post-employment benefits	435	552
Other long-term benefits	286	238
Termination benefits	154	128
Total	**6,765**	**7,938**

(i) The 2017-18 comparative figures have been updated to amend other long term benefits for people who transferred to other departments and amend termination benefits to exclude leave payments.

(ii) KMPs, excluding the Ministers and Accountable Officer, are also reported in the disclosure of remuneration of executive officers (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)
	2019	**2018**
Victorian Auditor-General's Office		
Audit of the financial statements	348	339
Total remuneration of auditors	**348**	**339**

9.10 Australian Accounting Standards issued that are not yet effective

The following Australian Accounting Standards (AAS) become effective for annual reporting periods commencing on or after 1 July 2019.

- AASB 1059 *Service Concession Arrangements: Grantor*
- AASB 16 *Leases*
- AASB 15 *Revenue from Contracts with Customers*
- AASB 1058 *Income of Not-for-Profit Entities*

Service concession arrangements

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 partnership (PPP) arrangements. The Australian Accounting Standards Board (AASB) issued the new standard to address the lack of specific accounting guidance and based the content broadly on its international equivalent, International Public Sector Accounting Standard 32 *Service Concession Arrangements: Grantor*.

For arrangements within the scope of AASB 1059, the public sector grantor will be required to record the assets 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 AASB recently announced a one-year deferral on the new accounting requirements for public sector grantors in service concession arrangements. As a result, AASB 1059 will apply to annual reporting periods beginning on or after 1 January 2020, rather than 1 January 2019. However, the department intends to early adopt AASB 1059, in line with the original adoption date of 1 January 2019, in the 2019-20 financial year.

The department will apply the standard using a full retrospective approach to prior reporting periods from the transition date of 1 July 2018. As a result, all comparative information in the financial statements will be prepared as if AASB 1059 had always been in effect with a cumulative adjustment between the recognition of service concession assets and financial liabilities recognised in accumulated surplus as at 1 July 2018.

The department has identified four material service concession arrangements and has estimated the potential impact of AASB 1059 in the initial year of application as follows.

- Increase in service concession assets of $1,016 million
- Decrease in owned assets of $301 million
- Decrease in finance leased assets of $709 million
- Increase in financial liabilities of $397 million
- Decrease in finance lease liabilities of $391 million
- Decrease in supplies and services expense of $3 million
- Increase in depreciation expense of $3 million
- Increase in interest expense of $0.1 million

Leases

AASB 16 *Leases* replaces AASB 117 *Leases*, AASB Interpretation 4 *Determining Whether an Arrangement Contains a Lease*, AASB Interpretation 115 *Operating Leases-Incentives* and AASB Interpretation 127 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*.

AASB 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases on the balance sheet by recording a right-of-use asset and a lease liability, except for leases that are shorter than 12 months and leases where the underlying asset is of low value (deemed to be below $10,000).

AASB 16 also requires the lessees to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset, and remeasure the lease liability upon the occurrence of certain events (e.g. a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The amount of the remeasurement of the lease liability will generally be recognised as an adjustment to the right-of-use asset.

Lessor accounting under AASB 16 is substantially unchanged from AASB 117. Lessors will continue to classify all leases using the same classification principle as in AASB 117 and distinguish between two types of leases, operating and finance leases.

The effective date is for annual reporting periods beginning on or after 1 January 2019. The department intends to adopt AASB 16 in the 2019-20 financial year when it becomes effective.

The department will apply the standard using a modified retrospective approach with the cumulative effect of initial application recognised as an adjustment to the opening balance of accumulated surplus as at 1 July 2019, with no restatement of comparative information.

Various practical expedients are available on adoption to account for leases previously classified by a lessee as operating leases under AASB 117. The department will elect to use the exemptions for all short-term leases (lease term less than 12 months) and low value leases (deemed to be below $10,000).

In addition, AASB 2018-8 *Amendments to Australian Accounting Standards - Right-of-Use Assets (ROU) of Not-for-Profit Entities* allows a temporary option for not-for-profit entities to not measure right-of-use assets at initial recognition at fair value in respect of leases that have significantly below-market terms, since further guidance is expected to be developed to assist not-for-profit entities in measuring right-of-use assets at fair value. The standard requires an entity that elects to apply the option (i.e. measures a class or classes of such right-of-use assets at cost rather than fair value) to include additional disclosures. The department intends to choose the temporary relief to value these right-of-use assets at the present value of the payments required (at cost).

The department has estimated the potential impact of AASB 16 in the initial year of application as follows.

- Increase in right-of-use assets of $846 million
- Decrease in finance leased assets of $376 million
- Increase in right-of-use lease liabilities of $635 million
- Decrease in finance lease liabilities of $166 million
- Decrease in supplies and services expense of $59 million
- Increase in depreciation expense of $61 million
- Increase in interest expense of $17 million

Revenue and income

AASB 15 supersedes AASB 118 *Revenue*, AASB 111 *Construction Contracts* and related Interpretations and it applies, with limited exceptions, to all revenue arising from contracts with its customers.

AASB 15 establishes a five-step model to account for revenue arising from an enforceable contract that imposes a sufficiently specific performance obligation on an entity to transfer goods or services. AASB 15 requires entities to only recognise revenue upon the fulfilment of the performance obligation. Therefore, entities need to allocate the transaction price to each performance obligation in a contract and recognise the revenue only when the related obligation is satisfied.

To address specific concerns from the not-for-profit sector in Australia, the AASB also released the following standards and guidance.

- AASB 2016-8 *Amendments to Australian Accounting Standards - Australian Implementation Guidance for Not-for-Profit Entities*, to provide guidance on the application of revenue recognition principles under AASB 15 in the not-for-profit sector.
- AASB 2018-4 *Amendments to Australian Accounting Standards - Australian Implementation Guidance for Not-for-Profit Public-Sector Licensors*, to provide guidance on distinguishing between a tax and a licence, and on the timing of revenue recognition for non-IP licence payments.
- AASB 1058 *Income of Not-for-Profit Entities,* to supplement AASB 15 and provide criteria to be applied by not-for-profit entities in establishing the timing of recognising income for government grants and other types of contributions previously contained within AASB 1004 *Contributions*.

AASB 15, AASB 1058 and the related guidance will come into effect for not-for-profit entities for annual reporting periods beginning on or after 1 January 2019. The department intends to adopt these standards in the 2019-20 financial year when it becomes effective.

The department will apply the standard using a modified retrospective approach with the cumulative effect of initial application recognised as an adjustment to the opening balance of accumulated surplus at 1 July 2019, with no restatement of comparative information.

The department expects AASB 15 and AASB 1058 will have minimal impact on its income.

9.11 Glossary of technical terms

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

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

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

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

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

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

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

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

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

Effective interest method is used to calculate the amortised cost of a financial asset or liability and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial 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 component of finance lease repayments.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

9.12 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 2018-19 *Model Report for Victorian Government Departments*.