

## Report structure

The Department of Justice and Regulation (department) has presented its audited general purpose financial statements for the financial year ended 30 June 2017 in the following structure to provide users with information about the department's stewardship of resources entrusted to it.

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## Declaration in financial statements

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

We further state that, in our opinion, the information set out in the comprehensive operating statement, balance sheet, cash flow statement, statement of changes in equity and notes forming part of the financial statements, presents fairly the financial transactions during the year ended 30 June 2017 and financial position of the department as at 30 June 2017.

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 12 September 2017.



**Christopher Breitkreuz**  
Chief Finance Officer  
Department of Justice and Regulation

Melbourne  
12 September 2017



**Greg Wilson**  
Secretary  
Department of Justice and Regulation

Melbourne  
12 September 2017



## Independent Auditor's Report

### *To the Secretary of the Department of Justice and Regulation*

<b>Opinion</b>	<p>I have audited the financial report of the Department of Justice and Regulation (the department) which comprises the:</p> <ul style="list-style-type: none"> <li>• balance sheet as at 30 June 2017</li> <li>• comprehensive operating statement for the year then ended</li> <li>• cash flow statement for the year then ended</li> <li>• statement of changes in equity for the year then ended</li> <li>• notes to the financial statements, including a summary of significant accounting policies</li> <li>• declaration in financial statements.</li> </ul> <p>In my opinion the financial report presents fairly, in all material respects, the financial position of the department as at 30 June 2017 and their financial performance and cash flows for the year then ended in accordance with the financial reporting requirements of Part 7 of the <i>Financial Management Act 1994</i> and applicable Australian Accounting Standards.</p>
<b>Basis for Opinion</b>	<p>I have conducted my audit in accordance with the <i>Audit Act 1994</i> which incorporates the Australian Auditing Standards. My responsibilities under the Act are further described in the <i>Auditor's Responsibilities for the Audit of the Financial Report</i> section of my report.</p> <p>My independence is established by the <i>Constitution Act 1975</i>. 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 <i>Code of Ethics for Professional Accountants</i> (the Code) that are relevant to my audit of the financial report in Australia. My staff and I have also fulfilled our other ethical responsibilities in accordance with the Code.</p> <p>I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.</p>
<b>Secretary's responsibilities for the financial report</b>	<p>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 <i>Financial Management Act 1994</i>, 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.</p> <p>In preparing the financial report, the Secretary is responsible for assessing the department's ability to continue as a going concern, and using the going concern basis of accounting unless it is inappropriate to do so.</p>

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

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

As part of an audit in accordance with the Australian Auditing Standards, I exercise professional judgement and maintain professional scepticism throughout the audit. I also:

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

MELBOURNE  
15 September 2017



Andrew Greaves  
Auditor-General

## Comprehensive operating statement

For the financial year ended 30 June 2017

		(\$ thousand)	
	Note	2017	2016
<b>Income from transactions</b>			
Output appropriations	2.3	6,053,549	5,506,669
Special appropriations	2.3	1,188	3,947
Interest	2.4.1	29,284	35,308
Grants	2.4.2	19,222	7,775
Other income	2.4.3	63,217	63,557
<b>Total income from transactions</b>		<b>6,166,460</b>	<b>5,617,256</b>
<b>Expenses from transactions</b>			
Employee expenses <sup>(i)</sup>	3.1.1	(803,366)	(682,608)
Depreciation	5.1.1	(97,093)	(108,626)
Interest expense	7.1	(20,229)	(20,678)
Grant expenses	3.2	(4,243,809)	(3,906,440)
Capital asset charge	3.3	(151,608)	(133,421)
Supplies and services <sup>(i)</sup>	3.4	(844,894)	(756,352)
<b>Total expenses from transactions <sup>(i)</sup></b>		<b>(6,160,999)</b>	<b>(5,608,125)</b>
<b>Net result from transactions (net operating balance) <sup>(i)</sup></b>		<b>5,461</b>	<b>9,131</b>
<b>Other economic flows included in net result</b>			
Net gain/(loss) on non-financial assets <sup>(ii)</sup>	9.2	935	(2,204)
Net gain/(loss) on financial instruments <sup>(iii)</sup>	9.2	(6,341)	1,421
Other gains/(losses) from other economic flows	9.2	(1,598)	(1,584)
<b>Total other economic flows included in net result</b>		<b>(7,004)</b>	<b>(2,367)</b>
<b>Net result <sup>(i)</sup></b>		<b>(1,543)</b>	<b>6,764</b>
<b>Other economic flows - other comprehensive income</b>			
<b>Items that will not be reclassified to net result</b>			
Changes in physical asset revaluation surplus	9.4	45,301	82,784
<b>Total other economic flows - other comprehensive income</b>		<b>45,301</b>	<b>82,784</b>
<b>Comprehensive result <sup>(i)</sup></b>		<b>43,758</b>	<b>89,548</b>

<sup>(i)</sup> The 2015-16 comparative has been adjusted to correct a prior period error (refer to note 9.5).

<sup>(ii)</sup> Includes realised gains/(losses) from impairments and disposals of physical assets and intangible assets.

<sup>(iii)</sup> Includes bad and doubtful debts from other economic flows, and realised and unrealised gains/(losses) from investments.

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

## Balance sheet

As at 30 June 2017

	Note	(\$ thousand)	
		2017	2016
<b>Assets</b>			
<b>Financial assets</b>			
Cash and deposits <sup>(i)</sup>	7.3	90,036	255,471
Receivables <sup>(i)</sup>	6.1	871,273	744,956
Investments and other financial assets	5.3	334,124	271,180
<b>Total financial assets</b>		<b>1,295,433</b>	<b>1,271,607</b>
<b>Non-financial assets</b>			
Prepayments	6.4	11,456	14,373
Inventories	6.3	8,844	7,397
Non-financial assets classified as held for sale	9.3	319	746
Property, plant and equipment <sup>(i)(ii)</sup>	5.1	2,464,257	2,133,495
Intangible assets	5.2	46,077	11,805
<b>Total non-financial assets <sup>(ii)</sup></b>		<b>2,530,953</b>	<b>2,167,816</b>
<b>Total assets <sup>(ii)</sup></b>		<b>3,826,386</b>	<b>3,439,423</b>
<b>Liabilities</b>			
Payables	6.2	713,140	618,195
Borrowings <sup>(i)</sup>	7.1	192,657	188,765
Employee related provisions <sup>(i)</sup>	3.1.2	202,337	161,701
Other provisions	6.5	8,250	16,265
<b>Total liabilities</b>		<b>1,116,384</b>	<b>984,926</b>
<b>Net assets <sup>(ii)</sup></b>		<b>2,710,002</b>	<b>2,454,497</b>
<b>Equity</b>			
Accumulated surplus/(deficit) <sup>(ii)</sup>		1,084,784	1,086,327
Physical asset revaluation surplus	9.4	660,534	615,233
Contributed capital <sup>(i)</sup>		964,684	752,937
<b>Net worth <sup>(ii)</sup></b>		<b>2,710,002</b>	<b>2,454,497</b>

<sup>(i)</sup> The net assets relating to the youth services and youth justice output group transferred from the Department of Health and Human Services to the Department of Justice and Regulation, for financial purposes on 1 April 2017, as a result of a machinery of government change. Refer to note 4.3 for further details.

<sup>(ii)</sup> The 2015-16 comparative has been adjusted to correct a prior period error (refer to note 9.5).

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 2017

		(\$ thousand)	
	Note	2017	2016
<b>Cash flows from operating activities</b>			
<b>Receipts</b>			
Receipts from government		5,988,484	5,468,426
Receipts from other entities		19,222	7,775
Goods and services tax recovered from Australian Tax Office <sup>(i)</sup>		101,495	98,687
Interest received		28,715	35,446
Dividends received		21,350	11,023
Other receipts		60,228	62,617
<b>Total receipts</b>		<b>6,219,494</b>	<b>5,683,974</b>
<b>Payments</b>			
Payments of grant expenses		(4,243,809)	(3,906,440)
Payments to suppliers and employees <sup>(ii)</sup>		(1,703,772)	(1,513,931)
Capital asset charge payments		(151,608)	(133,421)
Interest and other costs of finance paid		(20,229)	(20,678)
<b>Total payments <sup>(ii)</sup></b>		<b>(6,119,418)</b>	<b>(5,574,470)</b>
<b>Net cash flows from/(used in) operating activities <sup>(ii)</sup></b>	7.3.1	<b>100,076</b>	<b>109,504</b>
<b>Cash flows from investing activities</b>			
Payments for investments		(333,113)	(130,121)
Proceeds from sale of investments		263,837	119,484
Purchases of non-financial assets <sup>(ii)</sup>		(196,114)	(298,292)
Sales of non-financial assets		3,450	4,125
<b>Net cash flows from/(used in) investing activities <sup>(ii)</sup></b>		<b>(261,940)</b>	<b>(304,804)</b>
<b>Cash flows from financing activities</b>			
Cash received from machinery of government changes		345	0
Owner contributions by State Government		164,983	234,846
Capital contribution passed on to agencies within government		(29,948)	(27,091)
Equity transfers within government		(141,036)	(25,777)
Proceeds from borrowings		20,039	6,320
Repayment of borrowings and finance leases		(17,954)	(18,083)
<b>Net cash flows from/(used in) financing activities</b>		<b>(3,571)</b>	<b>170,215</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>(165,435)</b>	<b>(25,085)</b>
Cash and cash equivalents at beginning of financial year		255,471	280,556
<b>Cash and cash equivalents at end of financial year</b>	7.3	<b>90,036</b>	<b>255,471</b>

<sup>(i)</sup> GST received from ATO is presented on a net basis.

<sup>(ii)</sup> The 2015-16 comparative has been adjusted to correct a prior period error (refer to note 9.5).

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 2017

(\$ thousand)

	Note	Physical asset revaluation surplus	Accumulated surplus / (deficit) <sup>(i)</sup>	Contributed capital	Total
<b>Balance at 1 July 2015</b>		<b>603,231</b>	<b>1,008,781</b>	<b>900,257</b>	<b>2,512,269</b>
Net result for year		0	6,764	0	6,764
Other comprehensive income for year		82,784	0	0	82,784
Transfer to accumulated surplus <sup>(ii)</sup>		(70,782)	70,782	0	0
Transactions with State in its capacity as owners		0	0	128,597	128,597
Capital contribution passed onto agencies within Justice Portfolio		0	0	(27,091)	(27,091)
Equity transfer within government		0	0	(195,390)	(195,390)
Administrative restructure - net assets transferred		0	0	(53,436)	(53,436)
<b>Balance at 30 June 2016</b>		<b>615,233</b>	<b>1,086,327</b>	<b>752,937</b>	<b>2,454,497</b>
Net result for year		0	(1,543)	0	(1,543)
Other comprehensive income for year		45,301	0	0	45,301
Transactions with State in its capacity as owners		0	0	164,984	164,984
Capital contribution passed onto agencies within Justice Portfolio		0	0	(29,948)	(29,948)
Equity transfer within government		0	0	(141,527)	(141,527)
Administrative restructure - net assets received	4.3	0	0	218,238	218,238
<b>Balance at 30 June 2017</b>		<b>660,534</b>	<b>1,084,784</b>	<b>964,684</b>	<b>2,710,002</b>

<sup>(i)</sup> The 2015-16 comparative has been adjusted to correct a prior period error (refer to note 9.5).

<sup>(ii)</sup> The physical asset revaluation surplus associated with assets transferred to other entities was reclassified to accumulated surplus in accordance with FRD119A *Transfer Through Contributed Capital*. The adjustment did not affect the Comprehensive Operating Statement, but was reflected in the Statement of Changes in Equity.

The above statement of changes in equity should be read in conjunction with notes to the financial statements.

# Notes to the financial statements

## 1. About this report

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

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

### Basis of preparation

These financial statements are presented in Australian dollars, and prepared in accordance with the historical cost convention unless a different measurement basis is specifically disclosed in the note associated with the item measured on a different basis.

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

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.

Transfers of net assets arising from administrative restructures are treated as distributions to or contributions by owners. Transfers of net liabilities arising from administrative restructures are treated as distributions to owners.

Judgements, estimates and assumptions are required to be made about financial information being presented. The significant judgements made in the preparation of these financial statements are disclosed in the notes where amounts affected by those judgements are disclosed. Estimates and associated assumptions are based on professional judgements derived from historical experience and various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates.

Revisions to accounting estimates are recognised in the period in which the estimate is revised and also in future periods that are affected by the revision. Judgements and assumptions made by management in applying Australian Accounting Standards that have significant effects on the financial statements and estimates are disclosed in the notes under the heading: 'Significant judgements or estimates'.

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

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

- Office of the Road Safety Camera Commissioner, established under the *Road Safety Camera Commissioner Act 2011*.

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.

Amounts in these financial statements (including the notes) have been rounded to the nearest thousand dollars, unless otherwise stated.

### **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**

### **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
- A fair and accessible Victorian justice system that supports a just society based on the rule of law
- A just and supportive 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.

### **Structure**

- 2.1 Summary of income that funds the delivery of services
- 2.2 Appropriations
- 2.3 Summary of compliance with annual parliamentary and special appropriations
- 2.4 Income from transactions
- 2.5 Annotated income agreements

## 2.1 Summary of income that funds the delivery of services

		(\$ thousand)	
	Note	2017	2016
<b>Income from transactions</b>			
Output appropriations	2.3	6,053,549	5,506,669
Special appropriations	2.3	1,188	3,947
Interest	2.4.1	29,284	35,308
Grants	2.4.2	19,222	7,775
Other income	2.4.3	63,217	63,557
<b>Total income from transactions</b>		<b>6,166,460</b>	<b>5,617,256</b>

Income is recognised to the extent it is probable the economic benefits will flow to the department and the income can be reliably measured at fair value. Where applicable, amounts disclosed as income are net of returns, allowances, duties and taxes. All amounts of income over which the department does not have control are disclosed as administered income (see note 4.2).

## 2.2 Appropriations

Once annual parliamentary appropriations are applied by the Treasurer, they become controlled by the department and are recognised as income when applied to the purposes defined under the relevant *Appropriations Act*.

**Output appropriations:** Income for the outputs the department provides to government is recognised when those outputs have been delivered and the relevant minister has certified delivery of those outputs in accordance with specified performance criteria.

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

## 2.3 Summary of compliance with annual parliamentary and special appropriations

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

In accordance with accrual output-based management procedures, 'provision of outputs' and 'additions to net assets' are disclosed as 'controlled' activities of the department. Administered transactions are those that are undertaken on behalf of the State over which the department has no control or discretion.

	Appropriations Act		
	Annual appropriation	Advance from Treasurer	Section 3(2)
<b>2017</b>			
<b>Controlled</b>			
Provision of outputs	5,583,419	123,093	0
Victorian Law Reform Commission	694	0	0
	5,584,113	123,093	0
Addition to net assets	324,411	32,220	0
<b>Administered</b>			
Payments made on behalf of State	54,462	0	0
<b>Total</b>	<b>5,962,986</b>	<b>155,313</b>	<b>0</b>
<b>2016</b>			
<b>Controlled</b>			
Provision for outputs	5,156,798	147,234	0
Victorian Law Reform Commission	707	0	0
	5,157,505	147,234	0
Addition to net assets	345,335	5,620	0
<b>Administered</b>			
Payments made on behalf of State	54,461	0	0
<b>Total</b>	<b>5,557,301</b>	<b>152,854</b>	<b>0</b>

<sup>(i)</sup> **Provision of outputs (including Victorian Law Reform Commission)**

The majority of the \$151.389 million variance (2016: \$190.138 million) relates to rephasing and carryover of output appropriations from 2016-17 to 2017-18. The primary drivers of the rephasing and carryover are:

- Victorian Racing Industry Fund (VRIF) Grants - Owing to the size and scope of some of the VRIF's capital works programs, the timing of certain projects may extend beyond the financial year in which they are approved or initially anticipated to occur. While funds are committed, the precise timing of claims is dependant upon receipt of appropriate documentation from the racing bodies indicating project stages have been completed in line with Ministerial approval, payment is then facilitated. Funds have been rephased into future years to align with the expected payment obligations.
- Emergency Management Operational Communications Program - This program is administered by the department in consultation with other departments and agencies. Due to the number of communications contracts and the complexities of negotiating these contracts with various providers on behalf of the multiple users, the project timeline has been extended.
- Digital Radios Upgrade Program - This program will replace the analogue radio communication system in regional areas with an encrypted digital network and new radios. Delays to existing projects which the Digital Radio upgrade is dependant on have had a flow-on impact to this project's timeline.
- Family Violence Information Sharing Project and Legislative reform - Information Sharing work is being refocused in the context of the Innovative Justice Strategy following the Royal Commission into Family Violence recommendations. The development of the Innovative Justice Strategy will be informed by current practices in civil and criminal jurisdictions. The department will continue working on workforce-specific guidelines, training, communications materials, information sharing agreements and capacity building programs to support implementation of the family violence information sharing legislative reforms into 2017-18.
- Strategic Investment Management Program (SIMP) - The SIMP is a finance and procurement improvement program. Due to interdependencies with other projects, the program has adjusted the schedule.
- Victoria Police - Carryover of funding into 2017-18 totalling \$26.782 million primarily for the following projects: Public Safety - Police Response; Trident TaskForce (Phase Two) Program; Conducted Energy Devices (commonly known as Tasers) and other minor output projects.

<sup>(ii)</sup> **Additions to net asset base (ATNAB)**

The majority of the \$311.596 million variance (2016: \$280.727 million) relates to rephasing and carryover of the ATNAB appropriation into 2017-18. The primary drivers of the rephasing and carryover are:

- Critical Infrastructure and Services - Supporting Recent Prison Expansion - The Barwon Waste Water Plant Upgrade was completed under budget in 2016-17 and the department received approval to redirect the surplus funds to upgrade the Langi Kal waste treatment plant and expand the scope of the Melbourne Assessment prison reception upgrade. Both these projects are expected to commence in 2017-18 and hence a rephasing and/or carryover of funds was required to align the budget to the expected timelines. Additionally, the Loddon Medical centre had experienced delays in commencing construction due to the complex construction methodology and the need to maintain the operation of the existing medical centre during construction.
- Management of Serious Sex Offenders - The scope of Management of Serious Sex Offenders has been combined with the Management of Serious Offenders (2017-18 Budget) to include serious violent offenders. Minor delays have occurred due to facility requirements being rescoped. Property for the immediate security facility has been acquired and works are expected to begin in 2017-18.

(\$ thousand)

Financial Management Act				Machinery of government changes	Total parliamentary authority	Appropriations applied	Variance
Section 29	Section 30	Section 32	Section 35				
226,688	89,719	144,707	0	37,312	6,204,938	6,053,549	151,389
0	0	0	0	0	694	694	0
226,688	89,719	144,707	0	37,312	6,205,632	6,054,243	151,389 <sup>(i)(iv)</sup>
2,485	(89,719)	205,607	0	1,576	476,580	164,984	311,596 <sup>(ii)(iv)</sup>
0	0	0	0	0	54,462	27,773	26,689 <sup>(iii)</sup>
<b>229,173</b>	<b>0</b>	<b>350,314</b>	<b>0</b>	<b>38,888</b>	<b>6,736,674</b>	<b>6,247,000</b>	<b>489,674</b>
230,577	62,729	99,468	0	0	5,696,806	5,506,669	190,137
0	0	0	0	0	707	706	1
230,577	62,729	99,468	0	0	5,697,513	5,507,375	190,138
1,491	(62,729)	119,607	0	0	409,324	128,597	280,727
0	0	0	0	0	54,461	28,905	25,556
<b>232,068</b>	<b>0</b>	<b>219,075</b>	<b>0</b>	<b>0</b>	<b>6,161,298</b>	<b>5,664,877</b>	<b>496,421</b>

- Corrections System expansion and Women's prison expansion strategy - Due to efficiencies gained by grouping deliverables into contracts made up of like buildings, the delivery of the new Dame Phyllis Frost Centre gatehouse was delayed to correspond with the construction of the separate, but adjoining mental health unit. The sequential phasing of the existing program works has resulted in minimised disruption to existing operations and allowed for necessary drainage and critical infrastructure works to commence before the gatehouse becomes operational. There has also been a minor delay to the gas upgrade which is now due for completion in August 2017. In addition, the scope of the project was reduced with funding redirected to the Corrections Remand Infrastructure in 2015-16, resulting in delays to engaging a builder.
- Corrections Remand Infrastructure - The Metropolitan Remand Centre reinforcement project comprises multiple bundles of work, some of which are still being refined and programmed for delivery. Progress of construction of the reinforcement works is currently under review by both Victoria Correctional Infrastructure Partnership and the State's independent programmer. The builder is to propose options for earlier completion of various stages of work. It is anticipated that expenditure will accelerate as the works progress in 2017-18.
- Mobile Camera Replacement program - Planning for the pilot stage has been completed and initial design activities have commenced. In-vehicle mounting infrastructure designs are progressing and analysis of in-vehicle software in the new mobile camera environment has commenced. Planning is under way for changes to support processing of images from the new camera systems. The full rollout of the new camera systems is due to be completed by early to mid 2018.
- Victoria Police - Carryover of funding into 2017-18 totalling \$40.720 million predominantly for the Public Safety-Regional and Rural Police Station initiatives.

<sup>(iii)</sup> **Administered - payments on behalf of state**

The variance of \$26.689 million (2016: \$25.556 million) is due to an over estimate of amounts paid/payable to other states and jurisdictions for their share of Tattersall's taxation which is collected in Victoria.

<sup>(iv)</sup> **Section 30 transfers**

The following transfers, greater than \$10 million, between operating and capital funding have occurred in 2016-17 in accordance with section 30 of the *Financial Management Act 1994*.

- A transfer from capital to operating funding of \$45.709 million occurred for Country Fire Authority's depreciation costs.
- A transfer from operating to capital funding of \$14.250 million occurred as a result of a decrease in the annual depreciation expense due to an increase in the useful lives of some buildings from 40 to 60 years as determined during the asset revaluation in 2015-16.
- Victoria Police - A transfer from capital to operating funding of \$19.638 million occurred as a result of an increase in depreciation expense due to the impact of the five year scheduled revaluation of all non-current physical assets.
- Victoria Police - A transfer from capital to operating funding of \$13.000 million occurred as a result of an increase in indexation on contract and property leases, legal matters including settlement costs, and sworn overtime.

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

Authority	Purpose	(\$ thousand)	
		Appropriations applied	
		2017	2016
<b>Controlled</b>			
1 <i>Corrections Act 1986 (No. 117/1986), s.104ZW</i>	Compensation to CCS from the WorkCover Authority Fund under the <i>Accident Compensation Act 1985</i>	68	26
2 <i>Volunteer Work Comp (Emergency Management Act 1986 (Act No. 30/1986), s.32)</i>	Payments to volunteers for work related injuries under 1986 Act	230	123
3 <i>VicSES Volunteer Work Comp (Victoria State Emergency Service Act 2005 (Act No. 51/2005), s.52)</i>	Payments to SES volunteers for work related injuries under 2005 Act	311	476
4 <i>Financial Management Act 1994 (No. 18/1994), s.10</i>	Payments of Commonwealth grants under section 10 of the <i>Financial Management Act 1994</i>	579	3,322
<b>Total</b>		<b>1,188</b>	<b>3,947</b>
<b>Administered</b>			
5 <i>Melbourne City Link Act 1995 (No. 107/1995), s.14 (4)</i>	Payments to City Link	2,064	2,387
6 <i>EastLink Project Act 2004 (No. 39/2004), s.26</i>	Payments to East Link	1,907	1,837
7 <i>Crown Proceedings Act 1958 (No. 6232/1958), s.26</i>	Payments due for Crown Proceedings in the Supreme Court of Victoria	1,470	0
<b>Total</b>		<b>5,441</b>	<b>4,224</b>

## 2.4 Income from transactions

### 2.4.1 Interest income

	(\$ thousand)	
	2017	2016
<b>Interest from financial assets not at fair value through profit/loss:</b>		
• Interest from deposits and investments	5,445	5,484
• Interest from real estate agent and conveyancer trust accounts	23,839	29,824
<b>Total interest income</b>	<b>29,284</b>	<b>35,308</b>

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.

Net realised and unrealised gains and losses on the revaluation of investments do not form part of income from transactions, but are reported as part of income from other economic flows in the net result.

### 2.4.2 Grant income

	(\$ thousand)	
	2017	2016
<b>Other specific purpose from:</b>		
• General government within portfolio	0	32
• General government outside portfolio	19,122	7,743
• Other organisations	100	0
<b>Total grant income</b>	<b>19,222</b>	<b>7,775</b>

**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.

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

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.

### 2.4.3 Other income

	(\$ thousand)	
	2017	2016
Fines and fees	14,277	14,044
Dividends from investments	20,991	11,176
Income from Residential Tenancies Bond Authority (RTBA)	10,500	10,000
Income from Victorian Building Authority (VBA)	12,354	11,884
Sale of goods and services	700	1,496
Fair value of equipment received free of charge or for nominal consideration	1	249
Other	4,394	14,708
<b>Total other income</b>	<b>63,217</b>	<b>63,557</b>

The above **finances and fees income** is recognised upon the receipt of cash paid into various trust funds in accordance with their associated legislation.

**Dividend income** is 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*.

Income from the **sale of goods** is recognised when:

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

Income from the **supply of services** is recognised by reference to the stage of completion of the services being performed. The income is recognised when:

- the amount of income, stage of completion and transaction costs incurred can be reliably measured; and
- it is probable that the economic benefits associated with the transaction will flow to the department.

Under this method, income is recognised by reference to labour hours supplied or to labour hours supplied as a percentage of total services to be performed in each annual reporting period.

Contributions of resources received free of charge or for nominal consideration are recognised at fair value when control is obtained over them, irrespective of whether these contributions are subject to restrictions or conditions over their use.

Contributions in the form of services are only recognised when a fair value can be reliably determined and the services would have been purchased if not received as a donation.

## 2.5 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)	
	2017	2016
<b>User charges, or sales of goods and services</b>		
Consumer Affairs Victoria publications and conferences	10	41
Corrections Victoria prison industries	14,600	12,242
Crime Statistics Agency	576	169
Emergency alerting system	11,836	28,689
Emergency services management	23,086	19,958
Fees for legal services	35,909	39,162
Gaming and liquor regulation	1,244	845
Infringement Court fees	39,995	34,570
Public information, education, training and mediation services	1,200	701
Registrar of Births, Deaths and Marriages	6,204	6,369
Secretariat Legal Education and Board of Examiners	2,758	2,728
Victorian Institute of Forensic Medicine services	11,169	11,593
Victoria Police policing services and event management	11,303	9,940
<b>Asset sales</b>		
Victoria Police asset sales	2,485	1,491
<b>Commonwealth specific purpose payments</b>		
National bushfire mitigation program	898	900
National coronial information system	800	0
National disaster resilience program	2,088	2,088
Provision of fire services	3,108	3,003
Victoria legal aid	59,904	57,579
<b>Total annotated income agreements</b>	<b>229,173</b>	<b>232,068</b>

### 3. Cost of delivering services

#### Introduction

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

#### Structure

- 3.1 Expenses incurred in delivery of services
- 3.2 Grant expenses
- 3.3 Capital asset charge
- 3.4 Supplies and services

#### 3.1 Expenses incurred in delivery of services

		(\$ thousand)	
	Note	2017	2016
Employee expenses	3.1	803,366	682,608
Grant expenses	3.2	4,243,809	3,906,440
Capital asset charge	3.3	151,608	133,421
Supplies and services <sup>(i)</sup>	3.4	844,894	756,352
<b>Total expenses incurred in delivery of services <sup>(i)</sup></b>		<b>6,043,677</b>	<b>5,478,821</b>

<sup>(i)</sup> The 2015-16 comparative has been adjusted to correct a prior period error (refer to note 9.5).

#### 3.1.1 Employee benefits in the comprehensive operating statement

	(\$ thousand)	
	2017	2016
Salary and wages <sup>(i)</sup>	601,930	516,327
Superannuation <sup>(i)</sup>	59,490	51,264
Annual leave and long service leave <sup>(i)</sup>	81,009	67,286
Other on-costs (fringe benefits tax, payroll tax and workcover levy) <sup>(i)</sup>	60,315	47,104
Departure packages	622	627
<b>Total employee expenses</b>	<b>803,366</b>	<b>682,608</b>

<sup>(i)</sup> The 2015-16 comparative has been adjusted to correct a prior period error (refer to note 9.5).

Employee expenses include all costs related to employment including wages and salaries, fringe benefits tax, leave entitlements, termination payments and WorkCover premiums.

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

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

### 3.1.2 Employee benefits 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)	
	2017	2016
<b>Current provisions</b>		
<b>Annual leave</b>		
• Unconditional and expected to settle within 12 months	53,170	41,316
• Unconditional and expected to settle after 12 months	7,828	5,969
<b>Long service leave</b>		
• Unconditional and expected to settle within 12 months	8,675	42,629
• Unconditional and expected to settle after 12 months	72,394	27,133
<b>On-costs</b>		
• Unconditional and expected to settle within 12 months	14,961	18,165
• Unconditional and expected to settle after 12 months	15,364	6,550
<b>Total current provisions for employee benefits</b>	<b>172,392</b>	<b>141,762</b>
<b>Non-current provisions</b>		
Employee benefits	25,188	17,003
On-costs	4,757	2,936
<b>Total non-current provisions for employee benefits</b>	<b>29,945</b>	<b>19,939</b>
<b>Total provisions for employee benefits</b>	<b>202,337</b>	<b>161,701</b>

#### Reconciliation of movement in on-cost provision

	(\$ thousand)	
	2017	2016
<b>Opening balance</b>	<b>27,651</b>	<b>24,402</b>
Additional provisions recognised	21,392	16,652
Additions due to transfer in	2,264	0
Reductions arising from payments/other sacrifices of future economic benefits	(16,225)	(13,403)
<b>Closing balance</b>	<b>35,082</b>	<b>27,651</b>
Current	30,325	24,715
Non-current	4,757	2,936

**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.

The department adopted a new model to calculate the provision for long service leave in 2016-17. The previous model assumed that long service leave is taken as a lump sum, the new model assumes it is taken a few days at a time. Therefore, the new model apportions more of the unconditional long service leave liability over future years than the old model, based on an assumed pattern of payments.

**Unconditional long service leave** is disclosed as a current liability, even where the department does not expect to settle the liability within 12 months because it will not have the unconditional

right to defer the settlement of the entitlement should an employee take leave within 12 months.

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

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

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

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

**Employment on-costs** such as payroll tax, workers compensation and superannuation 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 6.2).

### 3.1.3 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 in the comprehensive operating statement of the department.

	(\$ thousand)			
	Paid contribution for year		Contribution outstanding at year end	
	2017	2016	2017	2016
<b>Defined benefit plans</b>				
• Emergency Services and State Super	4,408	4,764	78	52
<b>Defined contribution plans</b>				
• VicSuper	41,082	36,241	763	449
• Various other <sup>(i)</sup>	12,891	9,626	268	132
<b>Total</b>	<b>58,381</b>	<b>50,631</b>	<b>1,109</b>	<b>633</b>

<sup>(i)</sup> The 2015-16 comparative has been adjusted to correct a prior period error (refer to note 9.5).

The basis for contributions is determined by the various schemes.

### 3.2 Grant expenses

	(\$ thousand)	
	2017	2016
Payments for specific purpose to:		
• Victoria Police	2,766,807	2,581,882
• Country Fire Authority	557,845	477,623
• Metropolitan Fire and Emergency Services Board	362,471	340,625
• Victoria Legal Aid	151,912	146,025
• Office of Public Prosecution	65,984	60,521
• Victoria State Emergency Service	57,237	47,479
• Court Services Victoria	21,000	20,802
• Victorian Commission for Gambling and Liquor Regulation	36,494	32,829
• Victorian Institute of Forensic Medicine	34,918	30,747
• Emergency Services Telecommunications Authority	49,692	47,932
• Victorian Equal Opportunity and Human Rights Commission	9,201	8,361
• Sentencing Advisory Council	1,854	1,792
• Victorian Responsible Gambling Foundation	2,058	1,606
• Other parties	126,336	108,216
<b>Total grant expenses</b>	<b>4,243,809</b>	<b>3,906,440</b>

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).

Grants can either be operating or capital in nature. 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.

Grant expenses are recognised in the reporting period in which they are paid or payable. Grants can take the form of money, assets, goods, services or forgiveness of liabilities.

### 3.3 Capital asset charge

	(\$ thousand)	
	2017	2016
Capital asset charge	151,608	133,421

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.

### 3.4 Supplies and services

	(\$ thousand)	
	2017	2016
Outsourced contracts	454,686	414,355
Contractors, professional services, and consultants	115,892	109,349
Accommodation and property services	59,347	54,662
Maintenance	21,088	22,590
Technology services	52,564	42,485
Printing, stationery and other office expenses	31,195	26,291
Other <sup>(i)</sup>	110,122	86,620
<b>Total supplies and services <sup>(i)</sup></b>	<b>844,894</b>	<b>756,352</b>

<sup>(i)</sup> The 2015-16 comparative has been adjusted to correct a prior period error (refer to note 9.5).

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.

## 4. Disaggregated financial information by output

### Introduction

The department is predominantly funded by accrual based parliamentary appropriations for the provision of outputs. This section provides a description of the departmental outputs delivered during the year ended 30 June 2017 along with the objectives of those outputs.

This note disaggregates revenue and 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.

### Structure

- 4.1 Departmental outputs - descriptions and objectives
- 4.2 Administered items
- 4.3 Restructuring of administrative arrangements

## 4.1 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 which 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 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'.

### Criminal justice services

**Description of output:** This output group relates to the provision of 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 Victorian justice system that supports a just society based on the rule of law'.

### Civil justice services

**Description of output:** This output group delivers services that safeguard the Victorian community through the provision of services relating to rights and equal opportunity, life event registration, 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 just and supportive 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 of '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 delivers activities relating to regulating the gambling and liquor industries, harm minimisation, and support and development of the racing industry. 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'.

### Youth services and youth justice

**Machinery of government change:** This output group transferred from the Department of Health and Human Services to the Department of Justice and Regulation, for financial purposes, on 1 April 2017.

**Description of output:** This output group, through the funding of a range of services including the provision of advice to courts, community-based and custodial supervision and youth services, aim to make a positive difference for Victorians experiencing disadvantage by providing excellent community services to meet clients' needs.

**Objectives:** This output group contributes to the government's objective of immediate support, by supporting people in crisis, and helping individuals and families get their lives back on track. This output group also contributes to the government's objective of capabilities and participation, by working with families, individuals, young people and communities to improve their lives through building capabilities and resilience, supporting participation in work, education and the community.

## Departmental outputs - controlled

	Policing and crime prevention <sup>(i)</sup>		Enforcing and managing correctional orders		Criminal justice services <sup>(ii)</sup>	
	2017	2016	2017	2016	2017	2016
<b>Controlled income and expenses for year ended 30 June 2017</b>						
<b>Income from transactions</b>						
Output appropriations	2,783,114	2,591,599	1,289,268	1,159,858	570,239	526,306
Special appropriations	579	2,408	68	26	0	0
Interest	0	0	140	142	0	0
Grants	1	0	14,191	0	20	0
Other income	6	9	2,696	930	557	715
<b>Total income from transactions</b>	<b>2,783,700</b>	<b>2,594,016</b>	<b>1,306,363</b>	<b>1,160,956</b>	<b>570,816</b>	<b>527,021</b>
<b>Expenses from transactions</b>						
Employee expenses <sup>(vi)</sup>	(5,592)	(4,854)	(554,179)	(473,749)	(80,982)	(76,184)
Depreciation	(13)	(17)	(75,846)	(72,996)	(9,530)	(12,527)
Interest expense	1	3	(20,165)	(20,722)	(61)	(18)
Grant expenses	(2,775,686)	(2,587,820)	(13,863)	(9,772)	(277,494)	(258,421)
Capital asset charge	0	0	(133,755)	(125,683)	(11,486)	(3,722)
Supplies and services <sup>(vi)</sup>	(2,328)	(1,458)	(499,750)	(457,372)	(189,794)	(177,285)
<b>Total expenses from transactions <sup>(vi)</sup></b>	<b>(2,783,618)</b>	<b>(2,594,146)</b>	<b>(1,297,558)</b>	<b>(1,160,294)</b>	<b>(569,347)</b>	<b>(528,157)</b>
<b>Net result from transactions (net operating balance) <sup>(vi)</sup></b>	<b>82</b>	<b>(130)</b>	<b>8,805</b>	<b>662</b>	<b>1,469</b>	<b>(1,136)</b>
<b>Other economic flows included in net result</b>						
Net gain/(loss) on non-financial assets	5	7	471	792	171	(3,376)
Net gain/(loss) on financial instruments	0	0	(5)	(551)	0	(10)
Other gains/(losses) from other economic flows	(34)	(8)	(1,239)	(874)	(111)	(300)
<b>Total other economic flows included in net result</b>	<b>(29)</b>	<b>(1)</b>	<b>(773)</b>	<b>(633)</b>	<b>60</b>	<b>(3,686)</b>
<b>Net result <sup>(vi)</sup></b>	<b>53</b>	<b>(131)</b>	<b>8,032</b>	<b>29</b>	<b>1,529</b>	<b>(4,822)</b>
<b>Other economic flows - other comprehensive income</b>						
<b>Items that will not be reclassified to net result</b>						
Changes in physical asset revaluation surplus	1	2	17,086	53,673	503	29,037
<b>Total other economic flows - other comprehensive income</b>	<b>1</b>	<b>2</b>	<b>17,086</b>	<b>53,673</b>	<b>503</b>	<b>29,037</b>
<b>Comprehensive result <sup>(vi)</sup></b>	<b>54</b>	<b>(129)</b>	<b>25,118</b>	<b>53,702</b>	<b>2,032</b>	<b>24,215</b>

## Controlled assets and liabilities at 30 June 2017

<b>Assets</b>						
Financial assets	437,521	390,203	195,253	169,040	111,878	100,442
Non-financial assets <sup>(vi)</sup>	295	223	2,125,283	2,048,567	76,030	51,596
<b>Total assets <sup>(vi)</sup></b>	<b>437,816</b>	<b>390,426</b>	<b>2,320,536</b>	<b>2,217,607</b>	<b>187,908</b>	<b>152,038</b>
<b>Liabilities</b>						
<b>Total liabilities</b>	<b>436,459</b>	<b>389,567</b>	<b>416,246</b>	<b>387,214</b>	<b>97,104</b>	<b>91,795</b>
<b>Total liabilities</b>	<b>436,459</b>	<b>389,567</b>	<b>416,246</b>	<b>387,214</b>	<b>97,104</b>	<b>91,795</b>
<b>Net assets <sup>(vi)</sup></b>	<b>1,357</b>	<b>859</b>	<b>1,904,290</b>	<b>1,830,393</b>	<b>90,804</b>	<b>60,243</b>

<sup>(i)</sup> Previously included in "policing", "infringements and enhancing community safety", and "supporting legal processes and law reform".

<sup>(ii)</sup> Previously included in "infringements and enhancing community safety" and "supporting legal processes and law reform".

<sup>(iii)</sup> Previously included in "personal identity and individual rights" and "supporting legal processes and law reform".

<sup>(iv)</sup> Previously included in "supporting the State's fire and emergency services".

<sup>(v)</sup> Output group transferred from the Department of Health and Human Services to the Department of Justice and Regulation, for financial purposes on 1 April 2017, as a result of a machinery of government change.

<sup>(vi)</sup> The 2015-16 comparative has been adjusted to correct a prior period error (refer to note 9.5).

(\$ thousand)

Civil justice services <sup>(iii)</sup>		Emergency management <sup>(iv)</sup>		Industry regulation and support		Youth services and youth justice <sup>(v)</sup>		Departmental total	
2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
97,223	95,891	1,155,851	1,025,929	113,796	107,086	44,058	0	6,053,549	5,506,669
0	0	541	1,513	0	0	0	0	1,188	3,947
0	0	0	0	29,144	35,166	0	0	29,284	35,308
2,392	1,219	242	3,854	2,166	2,702	210	0	19,222	7,775
248	319	670	14,201	59,001	47,383	39	0	63,217	63,557
<b>99,863</b>	<b>97,429</b>	<b>1,157,304</b>	<b>1,045,497</b>	<b>204,107</b>	<b>192,337</b>	<b>44,307</b>	<b>0</b>	<b>6,166,460</b>	<b>5,617,256</b>
(54,751)	(52,443)	(37,058)	(28,313)	(48,489)	(47,065)	(22,315)	0	(803,366)	(682,608)
(545)	(938)	(9,831)	(21,681)	(319)	(467)	(1,009)	0	(97,093)	(108,626)
(2)	10	28	42	(11)	7	(19)	0	(20,229)	(20,678)
(13,021)	(12,450)	(1,056,503)	(939,587)	(106,789)	(98,390)	(453)	0	(4,243,809)	(3,906,440)
0	(80)	(3,343)	(3,562)	0	(374)	(3,024)	0	(151,608)	(133,421)
(33,681)	(32,625)	(50,929)	(48,615)	(51,888)	(38,997)	(16,524)	0	(844,894)	(756,352)
<b>(102,000)</b>	<b>(98,526)</b>	<b>(1,157,636)</b>	<b>(1,041,716)</b>	<b>(207,496)</b>	<b>(185,286)</b>	<b>(43,344)</b>	<b>0</b>	<b>(6,160,999)</b>	<b>(5,608,125)</b>
<b>(2,137)</b>	<b>(1,097)</b>	<b>(332)</b>	<b>3,781</b>	<b>(3,389)</b>	<b>7,051</b>	<b>963</b>	<b>0</b>	<b>5,461</b>	<b>9,131</b>
52	81	182	182	54	110	0	0	935	(2,204)
0	0	(1)	0	(6,335)	1,982	0	0	(6,341)	1,421
(157)	(87)	284	(196)	(306)	(119)	(35)	0	(1,598)	(1,584)
<b>(105)</b>	<b>(6)</b>	<b>465</b>	<b>(14)</b>	<b>(6,587)</b>	<b>1,973</b>	<b>(35)</b>	<b>0</b>	<b>(7,004)</b>	<b>(2,367)</b>
<b>(2,242)</b>	<b>(1,103)</b>	<b>133</b>	<b>3,767</b>	<b>(9,976)</b>	<b>9,024</b>	<b>928</b>	<b>0</b>	<b>(1,543)</b>	<b>6,764</b>
20	17	172	40	11	15	27,508	0	45,301	82,784
<b>20</b>	<b>17</b>	<b>172</b>	<b>40</b>	<b>11</b>	<b>15</b>	<b>27,508</b>	<b>0</b>	<b>45,301</b>	<b>82,784</b>
<b>(2,222)</b>	<b>(1,086)</b>	<b>305</b>	<b>3,807</b>	<b>(9,965)</b>	<b>9,039</b>	<b>28,436</b>	<b>0</b>	<b>43,758</b>	<b>89,548</b>
29,622	23,854	106,663	78,444	413,874	509,624	622	0	1,295,433	1,271,607
3,839	3,315	64,895	60,723	3,621	3,392	256,990	0	2,530,953	2,167,816
<b>33,461</b>	<b>27,169</b>	<b>171,558</b>	<b>139,167</b>	<b>417,495</b>	<b>513,016</b>	<b>257,612</b>	<b>0</b>	<b>3,826,386</b>	<b>3,439,423</b>
<b>21,453</b>	<b>21,410</b>	<b>47,780</b>	<b>59,365</b>	<b>43,359</b>	<b>35,575</b>	<b>53,983</b>	<b>0</b>	<b>1,116,384</b>	<b>984,926</b>
<b>21,453</b>	<b>21,410</b>	<b>47,780</b>	<b>59,365</b>	<b>43,359</b>	<b>35,575</b>	<b>53,983</b>	<b>0</b>	<b>1,116,384</b>	<b>984,926</b>
<b>12,008</b>	<b>5,759</b>	<b>123,778</b>	<b>79,802</b>	<b>374,136</b>	<b>477,441</b>	<b>203,629</b>	<b>0</b>	<b>2,710,002</b>	<b>2,454,497</b>

## 4.2 Administered items

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

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

### Administered (non-controlled) items

For the financial year ended 30 June 2017

	Policing and crime prevention <sup>(i)</sup>		Enforcing and managing correctional orders		Criminal justice services <sup>(ii)</sup>	
	2017	2016	2017	2016	2017	2016
<b>Administered income from transactions</b>						
Appropriations - payments made on behalf of the State	0	0	0	0	0	0
Special appropriations applied	0	0	0	0	3,971	4,224
Sale of goods and services	3	0	15,080	12,556	40,095	34,602
Fines	0	0	265	344	668,771	702,566
Fees	2	1	0	0	303,768	260,946
Other income	12	13	1,381	1,492	23,121	35,356
<b>Total administered income from transactions</b>	<b>17</b>	<b>14</b>	<b>16,726</b>	<b>14,392</b>	<b>1,039,726</b>	<b>1,037,694</b>
<b>Administered expenses from transactions</b>						
Payments made on behalf of the State	0	0	0	0	0	0
Payments into the consolidated fund	(3)	0	(29,504)	(24,577)	(505,441)	(561,077)
Other expenses	(11)	(10)	(1,466)	(1,292)	(5,492)	(5,070)
<b>Total administered expenses from transactions</b>	<b>(14)</b>	<b>(10)</b>	<b>(30,970)</b>	<b>(25,869)</b>	<b>(510,933)</b>	<b>(566,147)</b>
<b>Total administered net result from transactions (net operating balance)</b>	<b>3</b>	<b>4</b>	<b>(14,244)</b>	<b>(11,477)</b>	<b>528,793</b>	<b>471,547</b>
<b>Administered other economic flows included in administered net result</b>						
Net gain/(loss) on non-financial assets	0	0	(49)	(11,962)	(3)	0
Net gain/(loss) on financial instruments	0	0	0	0	(356,518)	(314,608)
Other gains/(losses) from other economic flows	0	0	0	0	0	0
<b>Total administered other economic flows</b>	<b>0</b>	<b>0</b>	<b>(49)</b>	<b>(11,962)</b>	<b>(356,521)</b>	<b>(314,608)</b>
<b>Total administered comprehensive result</b>	<b>3</b>	<b>4</b>	<b>(14,293)</b>	<b>(23,439)</b>	<b>172,272</b>	<b>156,939</b>
<b>Administered financial assets</b>						
Cash and deposits	42	49	13,015	13,540	8,516	11,820
Receivables	1	0	101	6	1,276,663	1,151,308
Equity investments in other justice portfolio entities	0	0	0	0	42,195	42,195
<b>Total administered financial assets</b>	<b>43</b>	<b>49</b>	<b>13,116</b>	<b>13,546</b>	<b>1,327,374</b>	<b>1,205,323</b>
<b>Administered liabilities</b>						
Creditors and accruals	0	0	10	(97)	281	0
Deposits payable	37	40	10,136	10,232	7,301	10,912
Provisions	0	0	0	41	0	0
Unearned revenue	0	2	3	181	1	62
Other	0	0	0	0	0	0
<b>Total administered liabilities</b>	<b>37</b>	<b>42</b>	<b>10,149</b>	<b>10,357</b>	<b>7,583</b>	<b>10,974</b>
<b>Total administered net assets</b>	<b>6</b>	<b>7</b>	<b>2,967</b>	<b>3,189</b>	<b>1,319,791</b>	<b>1,194,349</b>

<sup>(i)</sup> Previously included in "policing", "infringements and enhancing community safety", and "supporting legal processes and law reform".

<sup>(ii)</sup> Previously included in "infringements and enhancing community safety" and "supporting legal processes and law reform".

<sup>(iii)</sup> Previously included in "personal identity and individual rights" and "supporting legal processes and law reform".

<sup>(iv)</sup> Previously included in "supporting the State's fire and emergency services".

<sup>(v)</sup> Output group transferred from the Department of Health and Human Services to the Department of Justice and Regulation, for financial purposes on 1 April 2017, as a result of a machinery of government change.

(\$ thousand)

Civil justice services <sup>(iii)</sup>		Emergency management <sup>(iv)</sup>		Industry regulation and support		Youth services and youth justice <sup>(v)</sup>		Departmental total	
2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
0	0	0	0	27,773	28,905	0	0	27,773	28,905
1,470	0	0	0	0	0	0	0	5,441	4,224
45,127	48,494	35,030	48,668	41	54	0	0	135,376	144,374
0	0	0	0	0	0	0	0	669,036	702,910
10,303	9,742	0	0	2,581	2,457	0	0	316,654	273,146
140	145	481	323	1,063	572,705	0	0	26,198	610,034
<b>57,040</b>	<b>58,381</b>	<b>35,511</b>	<b>48,991</b>	<b>31,458</b>	<b>604,121</b>	<b>0</b>	<b>0</b>	<b>1,180,478</b>	<b>1,763,593</b>
0	0	0	0	(27,773)	(28,905)	0	0	(27,773)	(28,905)
(62,267)	(48,494)	(48,908)	(48,668)	(41)	(567,154)	0	0	(646,164)	(1,249,970)
(1,606)	(106)	(440)	(240)	(141)	(145)	0	0	(9,156)	(6,863)
<b>(63,873)</b>	<b>(48,600)</b>	<b>(49,348)</b>	<b>(48,908)</b>	<b>(27,955)</b>	<b>(596,204)</b>	<b>0</b>	<b>0</b>	<b>(683,093)</b>	<b>(1,285,738)</b>
<b>(6,833)</b>	<b>9,781</b>	<b>(13,837)</b>	<b>83</b>	<b>3,503</b>	<b>7,917</b>	<b>0</b>	<b>0</b>	<b>497,385</b>	<b>477,855</b>
(1)	(11)	333	694	(1)	0	0	0	279	(11,279)
(89)	0	0	0	0	0	0	0	(356,607)	(314,608)
0	0	0	0	0	0	0	0	0	0
<b>(90)</b>	<b>(11)</b>	<b>333</b>	<b>694</b>	<b>(1)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>(356,328)</b>	<b>(325,887)</b>
<b>(6,923)</b>	<b>9,770</b>	<b>(13,504)</b>	<b>777</b>	<b>3,502</b>	<b>7,917</b>	<b>0</b>	<b>0</b>	<b>141,057</b>	<b>151,968</b>
8,358	38,465	1,644	1,170	488	737	17	0	32,080	65,781
10,991	8,981	1,416	810	10	1	0	0	1,289,182	1,161,106
29	29	597,621	556,585	11,098	11,098	0	0	650,943	609,907
<b>19,378</b>	<b>47,475</b>	<b>600,681</b>	<b>558,565</b>	<b>11,596</b>	<b>11,836</b>	<b>17</b>	<b>0</b>	<b>1,972,205</b>	<b>1,836,794</b>
101	0	1	0	0	0	0	0	393	(97)
8,661	38,386	1,443	967	425	587	17	0	28,020	61,124
0	0	0	0	0	0	0	0	0	41
804	755	1	41	0	25	0	0	809	1,066
0	0	0	0	0	0	0	0	0	0
<b>9,566</b>	<b>39,141</b>	<b>1,445</b>	<b>1,008</b>	<b>425</b>	<b>612</b>	<b>17</b>	<b>0</b>	<b>29,222</b>	<b>62,134</b>
<b>9,812</b>	<b>8,334</b>	<b>599,236</b>	<b>557,557</b>	<b>11,171</b>	<b>11,224</b>	<b>0</b>	<b>0</b>	<b>1,942,983</b>	<b>1,774,660</b>

### 4.3 Restructuring of administrative arrangements

The youth services and youth justice output group transferred from the Department of Health and Human Services to the Department of Justice and Regulation, for financial purposes on 1 April 2017, as a result of a machinery of government change, in accordance with the administrative arrangements order (no. 224) 2017.

The combined income and expenses for the youth services and youth justice output group for the reporting period (including those recognised by the Department of Health and Human Services) are as follows:

	(\$ thousand)		
	Department of Health and Human Services	Department of Justice and Regulation	Total
	(1 July 2016 to 31 March 2017)	(1 April 2017 to 30 June 2017)	
<b>Controlled income and expenses</b>			
Income	109,081	44,307	153,388
Expenses	(108,808)	(43,380)	(152,188)

Comparative amounts for the prior year have not been adjusted.

The net assets assumed by the Department of Justice and Regulation for the youth services and youth justice output group as a result of the administrative restructure were recognised at the carrying amount of those net assets in the Department of Health and Human Services' balance sheet immediately prior to the transfer.

The net assets transfer was treated as a contribution of capital by the State in compliance with the accounting requirements of Financial Reporting Direction 119A *Transfers Through Contributed Capital*.

The following net assets were assumed at the date of transfer:

	(\$ thousand)
	2017
<b>Controlled</b>	
<b>Assets</b>	
Cash and deposits	345
Receivables	14,884
Property, plant and equipment	219,691
<b>Liabilities</b>	
Borrowings	1,808
Employee related provisions	14,874
<b>Net assets recognised</b>	<b>218,238</b>
<b>Net capital contribution from the Crown</b>	<b>218,238</b>
<b>Administered</b>	
<b>Assets</b>	
Trust funds	17
Receivables	(6)
<b>Liabilities</b>	
Other liabilities	17
<b>Net assets recognised</b>	<b>(6)</b>
<b>Net capital contribution from the Crown</b>	<b>(6)</b>

## 5. Key assets available to support output delivery

### 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.

### Structure

- 5.1 Property, plant and equipment
- 5.2 Intangible assets
- 5.3 Investments and other financial assets

### 5.1 Property, plant and equipment

	(\$ thousand)					
	Gross carrying amount		Accumulated depreciation		Net carrying amount	
	2017	2016	2017	2016	2017	2016
Land at fair value	280,463	148,195	0	0	280,463	148,195
Buildings at fair value	1,383,537	1,035,265	(46,520)	(15)	1,337,017	1,035,250
Leased buildings at fair value	414,191	488,961	(12,918)	0	401,273	488,961
Leasehold improvements at fair value	83,627	79,462	(50,627)	(50,785)	33,000	28,677
Plant and equipment at fair value	249,735	243,254	(124,243)	(103,807)	125,492	139,447
Leased plant and equipment at fair value	24,732	20,229	(9,811)	(7,407)	14,921	12,822
Assets under construction at cost <sup>(i)</sup>	272,091	280,143	0	0	272,091	280,143
<b>Total <sup>(i)</sup></b>	<b>2,708,376</b>	<b>2,295,509</b>	<b>(244,119)</b>	<b>(162,014)</b>	<b>2,464,257</b>	<b>2,133,495</b>

<sup>(i)</sup> The 2015-16 comparative has been adjusted to correct a prior period error (refer to note 9.5).

**Initial recognition:** Items of property, plant and equipment, are measured initially at cost and subsequently revalued at fair value less accumulated depreciation and impairment. 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 cost of constructed non-financial physical assets 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 leasehold improvements is capitalised and depreciated over the shorter of the remaining term of the lease or their estimated useful lives.

The initial cost for non-financial physical assets under a finance lease 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) and is summarised below by asset category.

**Non-specialised land, non-specialised buildings and artworks** are usually 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.

**Specialised land** is also usually valued using the market approach, although adjusted for the community service obligation (CSO) to reflect the specialised nature of the land being valued.

The community service obligation adjustment is a reflection of the valuer's assessment of the impact of restrictions associated with an asset to the extent that it is also equally applicable to market participants.

**Specialised buildings** are valued using the depreciated replacement cost method, adjusted for the associated depreciation.

**Heritage assets** are valued using the depreciated replacement cost method. This cost generally represents the replacement cost of the building/component 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.

Refer to note 8.3 for additional information on fair value determination of property, plant and equipment.

### 5.1.1 Depreciation and impairment

#### Depreciation charge for the period

	(\$ thousand)	
	2017	2016
Buildings	44,097	44,504
Leased buildings	15,326	15,939
Leasehold improvements	6,686	6,530
Plant and equipment	21,301	20,151
Leased plant and equipment	5,102	4,750
Software	4,581	16,752
<b>Total</b>	<b>97,093</b>	<b>108,626</b>

All buildings, plant and equipment and other non-financial physical assets that have finite useful lives are depreciated. The 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)
	Useful life
Buildings (owned and leased)	5 to 60
Leasehold improvements	3 to 20
Plant and equipment (owned and leased)	2 to 40
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.

In the event of the loss or destruction of an asset, the future economic benefits arising from the use of the asset will be replaced (unless a specific decision to the contrary has been made).

Land and core cultural assets, which are considered to have an indefinite 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:** Non-financial assets, including items of property, plant and equipment, are tested for impairment 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', except to the extent that it can be debited to an asset revaluation surplus amount applicable to that class of asset.

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 or amortisation, 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.

## 5.1.2 Carrying values by 'purpose' groups

	(\$ thousand)					
	Public safety and environment		Public administration <sup>(i)</sup>		Total	
	2017	2016	2017	2016	2017	2016
<b>Nature based classification</b>						
Land at fair value	280,383	148,126	80	69	280,463	148,195
Buildings at fair value	1,337,017	1,035,250	0	0	1,337,017	1,035,250
Leased buildings at fair value	401,273	488,961	0	0	401,273	488,961
Leasehold improvements at fair value	32,721	28,332	279	345	33,000	28,677
Plant and equipment at fair value	125,464	139,395	28	52	125,492	139,447
Leased plant and equipment at fair value	14,354	12,374	567	448	14,921	12,822
Assets under construction at cost <sup>(ii)</sup>	271,352	279,805	739	338	272,091	280,143
<b>Total <sup>(ii)</sup></b>	<b>2,462,564</b>	<b>2,132,243</b>	<b>1,693</b>	<b>1,252</b>	<b>2,464,257</b>	<b>2,133,495</b>

<sup>(i)</sup> The 2015-16 comparative has been adjusted to include the Public Administration purpose group.

<sup>(ii)</sup> The 2015-16 comparative has been adjusted to correct a prior period error (refer to note 9.5).

### 5.1.3 Reconciliation of movements in carrying amount of property, plant and equipment

(\$ thousand)

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

<sup>(i)</sup> The 2015-16 comparative has been adjusted to correct a prior period error (refer to note 9.5).

(\$ thousand)

2016	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 <sup>(i)</sup>	Total <sup>(i)</sup>
<b>Opening balance</b>	<b>216,533</b>	<b>872,643</b>	<b>440,658</b>	<b>38,739</b>	<b>122,585</b>	<b>11,382</b>	<b>500,161</b>	<b>2,202,701</b>
Additions	21	4,947	0	1,742	12,266	8,947	136,307	164,230
Disposals	0	0	0	0	(15)	(2,658)	0	(2,673)
Transfers out of assets under construction	0	335,058	0	92	21,175	0	(356,325)	0
Reclassification between classes	0	680	0	(5,366)	4,686	0	0	0
Revaluation	57,593	(39,053)	59,242	0	2	0	0	77,784
Reversal of impairment	0	0	5,000	0	0	0	0	5,000
Machinery of government transfer out	(49,120)	(4,316)	0	0	0	0	0	(53,436)
Fair value of assets received free of charge or for nominal consideration	0	0	0	0	246	3	0	249
Depreciation	0	(44,504)	(15,939)	(6,530)	(20,151)	(4,750)	0	(91,874)
Transfers to disposal group held for sale	0	0	0	0	0	(102)	0	(102)
Net transfers contributed capital	(76,832)	(90,205)	0	0	(1,347)	0	0	(168,384)
<b>Closing balance</b>	<b>148,195</b>	<b>1,035,250</b>	<b>488,961</b>	<b>28,677</b>	<b>139,447</b>	<b>12,822</b>	<b>280,143</b>	<b>2,133,495</b>

<sup>(i)</sup> The 2015-16 comparative has been adjusted to correct a prior period error (refer to note 9.5).

## 5.2 Intangible assets

	(\$ thousand)	
	2017	2016
<b>Gross carrying amount</b>		
<b>Opening balance</b>	<b>73,971</b>	<b>67,687</b>
Additions	3,434	8,099
Net additions to/(from) software works in progress	35,419	3,464
Disposals	0	(1,624)
Impairment <sup>(i)</sup>	0	(3,655)
<b>Closing balance</b>	<b>112,824</b>	<b>73,971</b>
<b>Accumulated depreciation</b>		
<b>Opening balance</b>	<b>(62,166)</b>	<b>(47,038)</b>
Depreciation <sup>(ii)</sup>	(4,581)	(16,752)
Disposals	0	1,624
<b>Closing balance</b>	<b>(66,747)</b>	<b>(62,166)</b>
<b>Net book value at end of financial year</b>	<b>46,077</b>	<b>11,805</b>

<sup>(i)</sup> Impairment losses are included in the 'net gain / (loss) on non-financial assets' line item in the comprehensive operating statement.

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

### Initial recognition

**Purchased intangible assets** are initially recognised at cost. Subsequently, intangible assets with finite useful lives are carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation begins when the asset is available for use, that is, when it is in the location and condition necessary for it to be capable of operating in the manner intended by management.

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

Produced intangible assets with finite useful lives, are amortised as an 'expense from transactions' on a straight line basis over their useful lives. Produced intangible assets have useful lives of between 2 and 7 years.

### Impairment of intangible assets

Intangible assets with indefinite useful lives (and intangible assets not yet available for use) are tested annually for impairment and whenever there is an indication that the asset may be impaired. Intangible assets with finite useful lives are tested for impairment whenever an indication of impairment is identified. The policy in connection with testing for impairment is outlined in note 5.11.

### Significant intangible assets

The department has entered into a software licensing agreement with a current value of \$6.389 million. This software relates to a national early warning system that broadcasts alerts in the event of bushfires, floods or other emergencies. The current contract ends in June 2018.

## 5.3 Investments and other financial assets

	(\$ thousand)	
	2017	2016
<b>Current investments and other financial assets</b>		
• Term deposits > 3 months <sup>(i)</sup>	100,000	0
<b>Total current investments and other financial assets</b>	<b>100,000</b>	<b>0</b>
<b>Non-current investments and other financial assets</b>		
Managed investment schemes <sup>(ii)</sup>		
• Multi-strategy funds	234,124	0
• Equity trust - Australian dollar	0	89,806
• Equity trust - foreign currency	0	24,515
• Fixed interest trust	0	131,705
• Unlisted property trust	0	25,154
<b>Total non-current investments and other financial assets</b>	<b>234,124</b>	<b>271,180</b>
<b>Total investments and other financial assets</b>	<b>334,124</b>	<b>271,180</b>

<sup>(i)</sup> Term deposits under 'investments and other financial assets' class include only term deposits with maturity greater than 3 months.

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

## 6. Other assets and liabilities

### Introduction

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

### Structure

- 6.1 Receivables
- 6.2 Payables
- 6.3 Inventories
- 6.4 Prepayments
- 6.5 Other provisions

### 6.1 Receivables

	(\$ thousand)	
	2017	2016
<b>Contractual</b>		
Advance to Metropolitan Fire and Emergency Services Board	1,427	1,665
Accrued interest income	4,357	3,788
Other receivables	5,593	16,532
Provision for doubtful contractual receivables	(1,279)	(1,279)
<b>Total contractual receivables</b>	<b>10,098</b>	<b>20,706</b>
<b>Statutory</b>		
Amounts owing from Victorian Government	835,395	701,994
GST input tax credit recoverable	25,780	22,256
<b>Total statutory receivables</b>	<b>861,175</b>	<b>724,250</b>
<b>Total receivables</b>	<b>871,273</b>	<b>744,956</b>
Represented by		
• Current receivables	675,602	584,322
• Non-current receivables	195,671	160,634

**Contractual receivables** are classified as financial instruments and categorised as 'loans and receivables'. They are initially recognised at fair value plus any directly attributable transaction costs. Subsequent to initial measurement they are 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 (except for impairment), but are not classified as financial instruments. Amounts recognised from the Victorian Government represent funding for all commitments incurred and are drawn from the Consolidated Fund as the commitments fall due.

#### Movement in the provision for doubtful debts

	(\$ thousand)	
	2017	2016
<b>Balance at beginning of year</b>	<b>1,279</b>	<b>775</b>
Reversal of unused provision recognised in net result	0	(3)
Increase in provision recognised in net result	0	507
Reversal of provision for receivables written off during the year as uncollectible	0	0
<b>Balance at end of year</b>	<b>1,279</b>	<b>1,279</b>

**Doubtful debts:** Receivables are assessed for bad and doubtful debts on a regular basis. A provision for doubtful debts is recognised when there is objective evidence that the debts may not be collected and bad debts are written off when identified. In assessing impairment of statutory (non-contractual) financial assets, which are not financial instruments, professional judgement is applied in assessing materiality using estimates, averages and other computational methods in accordance with *AASB 136 Impairment of Assets*.

A provision is made for estimated irrecoverable amounts from the sales of goods and services, and other receivables when there is objective evidence that an individual receivable is impaired. The increase in the provision for the year is recognised in the net result.

Bad debts considered as written off by mutual consent are classified as a transaction expense. Bad debts not written off, but included in the provision for doubtful debts, are classified as other economic flows in the net result.

#### Ageing analysis of contractual receivables

	(\$ thousand)					
	Carrying amount	Not past due and not impaired	Past due but not impaired			
			Less than 1 month	1 to 3 months	3 months to 1 year	1 to 5 years
<b>2017</b>						
Advance to Metropolitan Fire and Emergency Services Board	1,427	1,427	0	0	0	0
Accrued interest income	4,357	4,357	0	0	0	0
Other receivables	4,314	3,747	377	93	34	63
<b>Total</b>	<b>10,098</b>	<b>9,531</b>	<b>377</b>	<b>93</b>	<b>34</b>	<b>63</b>
<b>2016</b>						
Advance to Metropolitan Fire and Emergency Services Board	1,665	1,665	0	0	0	0
Accrued interest income	3,788	3,788	0	0	0	0
Other receivables	15,253	12,781	487	1,080	890	15
<b>Total</b>	<b>20,706</b>	<b>18,234</b>	<b>487</b>	<b>1,080</b>	<b>890</b>	<b>15</b>

The average credit period for sales of goods and services and other receivables is 30 days. No interest is charged on outstanding balances that are overdue. There are no material financial assets that are individually determined to be impaired. Currently the department does not hold any collateral as security nor credit enhancements relating to any of its financial assets. There are no financial assets that have had their terms renegotiated so as to prevent them from being past due or impaired, and they are stated at the carrying amounts as indicated.

## 6.2 Payables

	(\$ thousand)	
	2017	2016
<b>Contractual</b>		
Trade creditors and other payables	196,857	164,657
Accrued capital works	21,151	17,538
Salaries and wages	14,908	9,916
<b>Total contractual payables</b>	<b>232,916</b>	<b>192,111</b>
<b>Statutory</b>		
Pay as you go (PAYG) tax withheld	2,920	761
Payroll tax	4,628	4,947
Fringe benefits tax	212	212
Amounts payable to government agencies	472,464	420,164
<b>Total statutory payables</b>	<b>480,224</b>	<b>426,084</b>
<b>Total payables</b>	<b>713,140</b>	<b>618,195</b>
Represented by		
Current payables	548,534	476,787
Non-current payables	164,606	141,408

Payables consist of:

- **contractual payables**, classified as financial instruments and measured at amortised cost. Accounts payable represent liabilities for goods and services provided to the department prior to the end of the financial year that are unpaid; and
- **statutory payables**, that are recognised and measured similarly to contractual payables, but are not classified as financial instruments and not included in the category of financial liabilities at amortised cost, because they do not arise from contracts.

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

### Maturity analysis of contractual payables <sup>(i)</sup>

	(\$ thousand)						
	Carrying amount	Nominal amount	Maturity dates				More than 5 years
			Less than 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	
<b>2017</b>							
Trade creditors and other payables	196,857	196,857	196,840	(1)	54	(36)	0
Accrued capital works	21,151	21,151	21,151	0	0	0	0
Salaries and wages	14,908	14,908	14,908	0	0	0	0
<b>Total</b>	<b>232,916</b>	<b>232,916</b>	<b>232,899</b>	<b>(1)</b>	<b>54</b>	<b>(36)</b>	<b>0</b>
<b>2016</b>							
Trade creditors and other payables	164,657	164,657	164,610	86	(15)	(24)	0
Accrued capital works	17,538	17,538	17,538	0	0	0	0
Salaries and wages	9,916	9,916	9,916	0	0	0	0
<b>Total</b>	<b>192,111</b>	<b>192,111</b>	<b>192,064</b>	<b>86</b>	<b>(15)</b>	<b>(24)</b>	<b>0</b>

<sup>(i)</sup> Maturity analysis is presented using the contractual undiscounted cash flows

## 6.3 Inventories

	(\$ thousand)	
	2017	2016
<b>Current inventories</b>		
Supplies and consumables - at cost	4,545	4,104
Raw materials - at cost	4,074	3,277
Work in progress - at cost	225	16
<b>Total inventories</b>	<b>8,844</b>	<b>7,397</b>

Inventories include property held either for sale, or for distribution at zero or nominal cost, or for consumption in the ordinary course of business operations.

Inventories held for distribution are measured at cost, adjusted for any loss of service potential. All other inventories are measured at the lower of cost and net realisable value. Where inventories are acquired for no cost or nominal consideration, they are measured at current replacement cost at the date of acquisition.

Cost includes an appropriate portion of fixed and variable overhead expenses and measured on the basis of a weighted average cost.

Bases used in assessing loss of service potential for inventories held for distribution include current replacement cost and technical or functional obsolescence. Technical obsolescence occurs when an item still functions for some or all of the tasks it was originally acquired to do, but no longer matches existing technologies. Functional obsolescence occurs when an item no longer functions the way it did when it was first acquired.

## 6.4 Prepayments

	(\$ thousand)	
	2017	2016
Prepayments	11,456	14,373

Prepayments represent payments in advance of receipt of goods or services or that part of expenditure made in one accounting period covering a term extending beyond that period.

## 6.5 Other provisions

	(\$ thousand)	
	2017	2016
Other provisions	8,250	16,265
<b>Total provisions</b>	<b>8,250</b>	<b>16,265</b>
Represented by		
Current other provisions	283	6,902
Non-current other provisions	7,967	9,363

Other provisions are recognised when the department has a present obligation, the future sacrifice of economic benefits is probable, and the amount of the provision can be measured reliably. The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at reporting date, taking into account the risks and uncertainties surrounding the obligation.

Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows, using a discount rate that reflects the time value of money and risks specific to the provision.

## Reconciliation of movements in other provisions

	(\$ thousand)	
	2017	2016
<b>Opening balance</b>	<b>16,265</b>	<b>14,426</b>
Additional provisions recognised	230	5,260
Reductions arising from payments / other sacrifices of future economic benefits	(6,905)	(3,972)
Unwind of discount and effect of changes in the discount rate	(1,340)	551
<b>Closing balance</b>	<b>8,250</b>	<b>16,265</b>

## 7. Financing operations

### Introduction

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

This note includes disclosures of balances that are financial instruments (such as borrowings and cash balances). Notes 8.1 and 8.3 provide additional, specific financial instrument disclosures.

### Structure

- 7.1 Borrowings
- 7.2 Leases
- 7.3 Cash flow information and balances
- 7.4 Trust account balances
- 7.5 Commitments for expenditure

### 7.1 Borrowings

	(\$ thousand)	
	2017	2016
<b>Current borrowings</b>		
Finance lease liabilities <sup>(i)</sup>		
• For Public private partnership (PPP) arrangements	6,588	12,686
• For Non-PPP arrangements	7,495	6,314
<b>Total current borrowings</b>	<b>14,083</b>	<b>19,000</b>
<b>Non-current borrowings</b>		
Finance lease liabilities <sup>(i)</sup>		
• For PPP arrangements	171,174	163,208
• For Non-PPP arrangements	7,400	6,557
<b>Total non-current borrowings</b>	<b>178,574</b>	<b>169,765</b>
<b>Total borrowings</b>	<b>192,657</b>	<b>188,765</b>

<sup>(i)</sup> Secured by the assets leased. Finance leases are effectively secured, as the rights to the leased assets revert to the lessor in the event of default.

Borrowings refer to interest bearing liabilities raised from public borrowings such as through finance leases. Borrowings are classified as financial instruments. All interest bearing borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs. The department classified its interest bearing liabilities at initial recognition as financial liabilities at amortised cost. Therefore the measurement basis subsequent to initial recognition was at amortised cost.

**Maturity analysis of borrowings**

(\$ thousand)

	Carrying amount	Nominal amount	Maturity dates				
			Less than 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	More than 5 years
<b>2017</b>							
Finance lease liabilities							
• For PPP arrangements	177,762	429,199	2,190	4,381	19,712	110,496	292,420
• For Non-PPP arrangements	14,895	15,533	1,486	896	5,508	7,643	0
<b>Total</b>	<b>192,657</b>	<b>444,732</b>	<b>3,676</b>	<b>5,277</b>	<b>25,220</b>	<b>118,139</b>	<b>292,420</b>
<b>2016</b>							
Finance lease liabilities							
• For PPP arrangements	175,894	447,263	2,718	5,436	24,463	108,330	306,316
• For Non-PPP arrangements	12,871	13,546	1,801	788	4,104	6,853	0
<b>Total</b>	<b>188,765</b>	<b>460,809</b>	<b>4,519</b>	<b>6,224</b>	<b>28,567</b>	<b>115,183</b>	<b>306,316</b>

**Interest expense**

(\$ thousand)

	2017	2016
Interest on finance leases		
• For PPP arrangements	19,931	20,592
• For non-PPP arrangements	298	86
<b>Total interest expense</b>	<b>20,229</b>	<b>20,678</b>

Interest expense includes the costs incurred in connection with the borrowing of funds and relates to the interest component of the finance lease repayments. Interest expense is recognised in the period in which it is incurred.

## 7.2 Leases

### 7.2.1 Finance lease liabilities

	(\$ thousand)			
	Minimum future lease payments		Present value of minimum future lease payments	
	2017	2016	2017	2016
<b>Commissioned PPP related finance lease liabilities payable</b>				
Not longer than 1 year	26,283	32,617	6,588	12,686
Longer than 1 year but not longer than 5 years	110,496	108,330	32,107	29,712
Longer than 5 years	292,420	306,316	139,067	133,496
	<u>429,199</u>	<u>447,263</u>	<u>177,762</u>	<u>175,894</u>
<b>Other finance lease liabilities payable</b>				
Not longer than 1 year	7,890	6,693	7,495	6,314
Longer than 1 year but not longer than 5 years	7,643	6,853	7,400	6,557
Longer than 5 years	0	0	0	0
	<u>15,533</u>	<u>13,546</u>	<u>14,895</u>	<u>12,871</u>
	<u>444,732</u>	<u>460,809</u>	<u>192,657</u>	<u>188,765</u>
<b>Minimum future lease payments <sup>(i)</sup></b>				
Less future finance charges	(252,075)	(272,044)	0	0
<b>Present value of minimum lease payments</b>	<b>192,657</b>	<b>188,765</b>	<b>192,657</b>	<b>188,765</b>
Included in the financial statements as:				
Current borrowings lease liabilities (note 7.1)			14,083	19,000
Non-current borrowing lease liabilities (note 7.1)			<u>178,574</u>	<u>169,765</u>
			<u>192,657</u>	<u>188,765</u>

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

At the commencement of the lease term, finance leases are initially recognised as assets and liabilities at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payment, each determined at the inception of the lease. The leased asset is accounted for as a non-financial physical asset and depreciated over its estimated useful life. Minimum finance lease payments are apportioned between the reduction of the outstanding lease liability and the periodic finance 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. The portion of total payments to VCIP relating to the department's right to use the prison assets under the contract are accounted for as a finance lease liability, as disclosed in the above table. In addition, until the contract ends, the department pays VCIP for the ongoing maintenance of the prison assets (refer to note 7.5 for commitments for expenditure for PPPs).

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

## 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)	
	2017	2016
Cash <sup>(i)</sup>	(1,020)	(1,030)
Cash and deposits held in trust <sup>(ii)</sup>		
• Crime prevention and victims' aid fund	41	41
• Domestic builders fund	21,409	21,760
• Victorian property fund	19,797	172,031
• Correctional enterprises working account	12,992	8,986
• Motor car traders' guarantee fund	4,059	2,941
• National gambling research trust	434	648
• Sex work regulation fund	1,335	1,056
• Residential tenancies fund	1,257	16,502
• Treasury trust fund	28,037	31,146
• Victorian consumer law fund	1,695	1,390
<b>Balance as per cash flow statement and balance sheet</b>	<b>90,036</b>	<b>255,471</b>

<sup>(i)</sup> 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 unrepresented cheques at the reporting date. At 30 June 2017, cash at bank included the amount of a shortfall for the payment of unrepresented cheques of \$1.058 million (2016: \$1.074 million).

<sup>(ii)</sup> 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)	
	2017	2016
<b>Net result for the period <sup>(i)</sup></b>	<b>(1,543)</b>	<b>6,764</b>
<b>Non-cash movements</b>		
Net (gain)/loss on disposal of non-current assets	(935)	(1,451)
Depreciation of non-current assets	97,093	108,626
Impairment of non-current assets	0	3,655
Resources (received)/provided free of charge or for nominal consideration	12	(249)
Net (gain)/loss on financial instruments	6,341	(1,421)
Net (gain)/loss from revaluation of provisions	1,598	1,584
<b>Movements in assets and liabilities</b>		
Decrease/(increase) in receivables	(111,441)	(27,902)
Decrease/(increase) in prepayments	2,917	(11,937)
Decrease/(increase) in inventories	(1,448)	(465)
Increase/(decrease) in payables	91,332	15,495
Increase/(decrease) in provisions	16,150	16,805
<b>Net cash flows from/(used in) operating activities <sup>(i)</sup></b>	<b>100,076</b>	<b>109,504</b>

<sup>(i)</sup> The 2015-16 comparative has been adjusted to correct a prior period error (refer to note 9.5).

### 7.3.2 Non-cash financing and investing activities

**Restructuring of administrative arrangements** is not reflected in the cash flow statement.

## 7.4 Trust account balances

### Trust account balances relating to trust accounts controlled and/or administered by the department <sup>(1)</sup>

(\$ thousand)

Cash and deposits, and investments	2017				2016			
	Opening balance as at 1 July 2016	Total receipts	Total payments	Closing balance as at 30 June 2017	Opening balance as at 1 July 2015	Total receipts	Total payments	Closing balance as at 30 June 2016
<b>Controlled trusts</b>								
<b>Crime prevention and victims' aid fund</b> Established under the <i>Confiscation Act 1997</i> to hold monies in accordance with section 134 of that Act.	41	0	0	41	41	0	0	41
<b>Domestic builders fund</b> Established under the <i>Domestic Building Contracts Act 1995</i> to hold monies in accordance with section 124 of that Act.	21,760	13,213	13,564	21,409	18,535	12,689	9,464	21,760
<b>Victorian property fund</b> Established under the <i>Estate Agents Act 1980</i> to hold monies in accordance with sections 73 and 75 of that Act.	422,617	48,572	152,675	318,514	419,017	52,114	48,514	422,617
<b>Correctional enterprises working account</b> Established under the <i>Financial Management Act 1994</i> as a working account for Correctional Enterprises.	8,986	17,083	13,077	12,992	7,494	12,956	11,464	8,986
<b>Motor car traders' guarantee fund</b> Established under the <i>Motor Car Traders Act 1986</i> to hold monies in accordance with section 74 of that Act.	2,941	3,637	2,519	4,059	1,800	3,700	2,559	2,941
<b>National gambling research trust</b> 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.	648	2	216	434	1,203	22	577	648
<b>Sex work regulation fund</b> Established under the <i>Sex Work Act 1994</i> to hold monies in accordance with section 66 of that Act.	1,056	1,660	1,381	1,335	645	1,908	1,497	1,056
<b>Residential tenancies fund</b> Established under the <i>Residential Tenancies Act 1997</i> to hold monies in accordance with sections 492 and 493 of that Act.	37,096	29,082	29,513	36,665	39,097	26,716	28,717	37,096
<b>Vehicle lease trust account</b> Established under the <i>Financial Management Act 1994</i> to process the sales of VicFleet motor vehicles.	0	1,052	1,052	0	0	1,619	1,619	0

(\$ thousand)

Cash and deposits, and investments	2017				2016			
	Opening balance as at 1 July 2016	Total receipts	Total payments	Closing balance as at 30 June 2017	Opening balance as at 1 July 2015	Total receipts	Total payments	Closing balance as at 30 June 2016
<b>Treasury trust fund</b> Established under the <i>Financial Management Act 1994</i> for the receipt and disbursement of unclaimed monies and other funds held in trust.	31,146	24,392	27,501	<b>28,037</b>	26,311	24,214	19,379	<b>31,146</b>
<b>Victorian consumer law fund</b> Established under the <i>Australian Consumer Law and Fair Trading Act 2012</i> to hold monies in accordance with section 134 and Part 6.2 of that Act.	1,390	405	100	<b>1,695</b>	1,134	256	0	<b>1,390</b>
<b>Total controlled trusts</b>	<b>527,681</b>	<b>139,098</b>	<b>241,598</b>	<b>425,181</b>	<b>515,277</b>	<b>136,194</b>	<b>123,790</b>	<b>527,681</b>

(i) Trust account balances include cash and deposits (note 7.3) and investments (note 5.3).

(\$ thousand)

Cash and deposits, and investments	2017				2016			
	Opening balance as at 1 July 2016	Total receipts	Total payments	Closing balance as at 30 June 2017	Opening balance as at 1 July 2015	Total receipts	Total payments	Closing balance as at 30 June 2016
<b>Administered trusts</b>								
<b>Asset confiscation office retained monies trust</b> Established under the <i>Financial Management Act 1994</i> for the Asset Confiscation Office.	14,185	6,504	9,785	<b>10,904</b>	15,695	9,508	11,018	<b>14,185</b>
<b>Victorian government solicitor's trust</b> Established under the <i>Financial Management Act 1994</i> for the Victorian Government Solicitors Office.	37,957	65,915	95,628	<b>8,244</b>	18,170	40,972	21,185	<b>37,957</b>
<b>Departmental suspense</b> Established under the <i>Financial Management Act 1994</i> as a working account for the department.	3,913	145	891	<b>3,167</b>	4,012	381	480	<b>3,913</b>
<b>Revenue suspense</b> Established under the <i>Financial Management Act 1994</i> to temporarily hold monies pending correct identification of receipts.	11	1	0	<b>12</b>	16	0	5	<b>11</b>
<b>Treasury trust fund</b> Established under the <i>Financial Management Act 1994</i> for the receipt and disbursement of unclaimed monies and other funds held in trust.	7,598	698	674	<b>7,622</b>	7,663	666	731	<b>7,598</b>
<b>Public service commuter club</b> Established under the <i>Financial Management Act 1994</i> for the Public Service Commuter Club.	(240)	1,956	2,124	<b>(408)</b>	(206)	1,775	1,809	<b>(240)</b>
<b>Sundry deposits</b> Established under the <i>Financial Management Act 1994</i> to hold term deposits for the Victorian Government Solicitors Office.	29	1	0	<b>30</b>	29	0	0	<b>29</b>
<b>Total administered trusts</b>	<b>63,453</b>	<b>75,220</b>	<b>109,102</b>	<b>29,571</b>	<b>45,379</b>	<b>53,302</b>	<b>35,228</b>	<b>63,453</b>

<sup>(i)</sup> Trust account balances include cash and deposits (note 7.3) and investments (note 5.3).

### 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)	
	2017	2016
<b>Prisoner private monies</b>		
Cash	5,800	5,812
Amounts owing to prisoners	(5,800)	(5,812)
	0	0
<b>Prisoner compensation quarantine</b>		
Cash	252	118
Amounts owing to prisoners	(252)	(118)
	0	0
<b>Non-government fines</b>		
Receivables	276,348	274,371
less provision for doubtful debts	(253,651)	(251,247)
Amounts owing to non-government entities	(22,697)	(23,124)
	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

Nominal values	(\$ thousand)			
	Less than 1 year	1 to 5 years	More than 5 years	Total
<b>2017</b>				
PPP commitments (note 7.5.2)	550,665	1,181,040	7,639,390	9,371,095
Capital expenditure commitments	65,154	13,906	0	79,060
Intangible assets commitments	21,486	0	0	21,486
Operating lease commitments	40,654	145,014	30,900	216,568
Other commitments	486,708	869,234	3,020,062	4,376,004
<b>Total commitments (inclusive of GST)</b>	<b>1,164,667</b>	<b>2,209,194</b>	<b>10,690,352</b>	<b>14,064,213</b>
<b>2016</b>				
PPP commitments (note 7.5.2)	73,031	1,408,112	7,797,517	9,278,660
Capital expenditure commitments	37,404	8,891	0	46,295
Intangible assets commitments	7,116	5,190	0	12,306
Operating lease commitments	40,048	141,993	57,545	239,586
Other commitments	424,740	857,393	3,409,725	4,691,858
<b>Total commitments (inclusive of GST)</b>	<b>582,339</b>	<b>2,421,579</b>	<b>11,264,787</b>	<b>14,268,705</b>

## 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 either PPPs or service concession arrangements (SCAs).

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)					
	2017			2016		
	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	
<b>Commissioned PPPs <sup>(i)(ii)</sup></b>						
Private prisons		1,471,183	1,911,275		1,466,566	1,818,840
		1,471,183	1,911,275		1,466,566	1,818,840
<b>Uncommissioned PPPs <sup>(iii)(iv)</sup></b>						
Private prisons	791,623	2,954,781	7,459,820	791,623	2,799,413	7,459,820
		2,954,781	7,459,820		2,799,413	7,459,820
<b>Total PPP commitments</b>	<b>4,425,964</b>	<b>9,371,095</b>		<b>4,265,979</b>	<b>9,278,660</b>	

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

<sup>(ii)</sup> Refer to note 7.2 for further details on the commissioned PPPs.

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

<sup>(iv)</sup> In September 2014, the State entered into a contract with GEO Consortium to design, construct, operate and maintain a new medium security men's prison for an operating period of 25 years.

### 7.5.3 Commitments other than PPPs

Nominal values	(\$ thousand)	
	2017	2016
Capital expenditure commitments: property, plant and equipment	79,060	46,295
Intangible asset commitments: software	21,486	12,306
Operating lease commitments: accommodation and equipment	216,568	239,586
Other commitments: outsourcing and other	4,376,004	4,691,858
<b>Total commitments other than PPPs</b>	<b>4,693,118</b>	<b>4,990,045</b>

## 8. Risks, contingencies and valuation judgements

### 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.

### Structure

- 8.1 Financial instruments specific disclosures
- 8.2 Contingent assets and contingent liabilities
- 8.3 Fair value determination

### 8.1 Financial instruments specific disclosures

#### Introduction

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*.

#### Categories of financial instruments held by the department

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

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

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

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

- payables (excluding statutory payables)
- borrowings

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

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

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

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

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

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

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

8.1.1 Financial instruments: categorisation <sup>(i)</sup>

(\$ thousand)

2017	Contractual financial assets designated at fair value through profit or loss	Contractual financial assets loans and receivables and cash	Contractual financial liabilities at amortised cost	Total
<b>Contractual financial assets</b>				
Cash and deposits	0	90,036	0	90,036
Receivables				
• Advance to Metropolitan Fire and Emergency Services Board	0	1,427	0	1,427
• Accrued interest income	0	4,357	0	4,357
• Other receivables	0	4,314	0	4,314
Investments and other contractual financial assets				
• Term deposits > 3 months	0	100,000	0	100,000
• Managed investment schemes	234,124	0	0	234,124
<b>Total contractual financial assets</b>	<b>234,124</b>	<b>200,134</b>	<b>0</b>	<b>434,258</b>
<b>Contractual financial liabilities</b>				
Payables				
• Trade creditors and other payables	0	0	196,857	196,857
• Accrued capital works	0	0	21,151	21,151
• Salaries and wages	0	0	14,908	14,908
Borrowings				
• Finance lease liabilities	0	0	192,657	192,657
<b>Total contractual financial liabilities</b>	<b>0</b>	<b>0</b>	<b>425,573</b>	<b>425,573</b>

(\$ thousand)

2016	Contractual financial assets designated at fair value through profit or loss	Contractual financial assets loans and receivables and cash	Contractual financial liabilities at amortised cost	Total
<b>Contractual financial assets</b>				
Cash and deposits	0	255,471	0	255,471
Receivables				
• Advance to Metropolitan Fire and Emergency Services Board	0	1,665	0	1,665
• Accrued interest income	0	3,788	0	3,788
• Other receivables	0	15,253	0	15,253
Investments and other contractual financial assets				
• Managed investment schemes	271,180	0	0	271,180
<b>Total contractual financial assets</b>	<b>271,180</b>	<b>276,177</b>	<b>0</b>	<b>547,357</b>
<b>Contractual financial liabilities</b>				
Payables				
• Trade creditors and other payables	0	0	164,657	164,657
• Accrued capital works	0	0	17,538	17,538
• Salaries and wages	0	0	9,916	9,916
Borrowings				
• Finance lease liabilities	0	0	188,765	188,765
<b>Total contractual financial liabilities</b>	<b>0</b>	<b>0</b>	<b>380,876</b>	<b>380,876</b>

<sup>(1)</sup> Amounts disclosed in this table exclude statutory amounts (e.g. amounts owing from Victorian Government and GST input tax credit recoverable).

### 8.1.2 Financial instruments: net holding gain/(loss) on financial instruments by category<sup>(i)</sup>

(\$ thousand)

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

(\$ thousand)

2016	Net holding gain/(loss)	Total interest income / (expense)	Total
<b>Contractual financial assets</b>			
Designated at fair value through profit or loss <sup>(ii)</sup>	1,980	0	1,980
Loans and receivables	(559)	5,484	4,925
<b>Total contractual financial assets<sup>(ii)</sup></b>	<b>1,421</b>	<b>5,484</b>	<b>6,905</b>
<b>Contractual financial liabilities</b>			
At amortised cost	0	20,678	20,678
<b>Total contractual financial liabilities</b>	<b>0</b>	<b>20,678</b>	<b>20,678</b>

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

<sup>(ii)</sup> The 2015-16 comparative has been adjusted to include the net gain/(loss) on disposal of the financial instruments.

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

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

### 8.1.3 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 the main debtor is the Victorian Government. Credit risk in relation to receivables is also monitored by management by reviewing the ageing of receivables on a monthly basis.

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

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.

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

Except as otherwise detailed in the following table, 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 2016-17.

### Credit quality of contractual financial assets that are neither past due nor impaired <sup>(i)</sup>

	(\$ thousand)			
	Financial institutions	Government agencies	Other	Total
<b>2017</b>				
Cash and deposits	(1,114)	91,150	0	90,036
Receivables	2,125	6,192	1,214	9,531
Investments and other financial assets	0	100,000	234,124	334,124
<b>Total</b>	<b>1,011</b>	<b>197,342</b>	<b>235,338</b>	<b>433,691</b>
<b>2016</b>				
Cash and deposits	(1,113)	81,424	175,160	255,471
Receivables	2,068	11,218	4,948	18,234
Investments and other financial assets	0	0	271,180	271,180
<b>Total</b>	<b>955</b>	<b>92,642</b>	<b>451,288</b>	<b>544,885</b>

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

### Financial instruments: liquidity risk

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

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

### Financial instruments: market risk

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

#### Interest rate risk

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

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

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

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

Interest rate exposure of financial instruments <sup>(i)</sup>

(\$ thousand)					
2017	Weighted average interest rate %	Carrying amount	Fixed interest rate	Variable interest rate	Non- interest bearing
<b>Financial assets</b>					
Cash and deposits	1.61%	90,036	30,754	1,025	58,257
Receivables					
• Advance to Metropolitan Fire and Emergency Services Board		1,427	0	0	1,427
• Accrued interest income	1.62%	4,357	4,357	0	0
• Other receivables		4,314	0	0	4,314
Investments and other contractual financial assets					
• Term deposits > 3 months	2.01%	100,000	100,000	0	0
• Managed investment schemes		234,124	0	0	234,124
<b>Total financial assets</b>		<b>434,258</b>	<b>135,111</b>	<b>1,025</b>	<b>298,122</b>
<b>Financial liabilities</b>					
Payables					
• Trade creditors and other payables		196,857	0	0	196,857
• Accrued capital works		21,151	0	0	21,151
• Salaries and wages		14,908	0	0	14,908
Borrowings					
• Finance lease liabilities	8.03%	192,657	192,657	0	0
<b>Total financial liabilities</b>		<b>425,573</b>	<b>192,657</b>	<b>0</b>	<b>232,916</b>

(\$ thousand)					
2016	Weighted average interest rate %	Carrying amount	Fixed interest rate	Variable interest rate	Non- interest bearing
<b>Financial assets</b>					
Cash and deposits	2.37%	255,471	194,305	7,696	53,470
Receivables					
• Advance to Metropolitan Fire and Emergency Services Board		1,665	0	0	1,665
• Accrued interest income	1.87%	3,788	3,788	0	0
• Other receivables		15,253	0	0	15,253
Investments and other contractual financial assets					
• Managed investment schemes		271,180	0	0	271,180
<b>Total financial assets</b>		<b>547,357</b>	<b>198,093</b>	<b>7,696</b>	<b>341,568</b>
<b>Financial liabilities</b>					
Payables					
• Trade creditors and other payables		164,657	0	0	164,657
• Accrued capital works		17,538	0	0	17,538
• Salaries and wages		9,916	0	0	9,916
Borrowings					
• Finance lease liabilities	8.18%	188,765	188,765	0	0
<b>Total financial liabilities</b>		<b>380,876</b>	<b>188,765</b>	<b>0</b>	<b>192,111</b>

<sup>(i)</sup> 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)				
	Carrying amount	Interest rate risk		Other price risk	
		Net result +1%	Net result -1%	Net result +10%	Net result -10%
<b>2017</b>					
Cash and deposits	1,025	10	(10)	0	0
Managed investment schemes	234,124	0	0	23,412	(23,412)
<b>Total</b>	<b>235,149</b>	<b>10</b>	<b>(10)</b>	<b>23,412</b>	<b>(23,412)</b>
<b>2016</b>					
Cash and deposits	7,696	77	(77)	0	0
Managed investment schemes	271,180	0	0	27,118	(27,118)
<b>Total</b>	<b>278,876</b>	<b>77</b>	<b>(77)</b>	<b>27,118</b>	<b>(27,118)</b>

**8.2 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)	
	2017	2016
Legal proceedings and disputes	540	0
<b>Total</b>	<b>540</b>	<b>0</b>

**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**

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.

### Quantifiable contingent liabilities

	(\$ thousand)	
	2017	2016
Legal proceedings and disputes	2,004	5,211
Make good leased premises	2,192	3,008
Land contamination rectification	80	0
<b>Total</b>	<b>4,276</b>	<b>8,219</b>

## 8.3 Fair value determination

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

The following assets are carried at fair value:

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

### Fair value hierarchy

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

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

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.

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

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

There have been no transfers between levels during the period.

#### 8.3.2 Fair value determination for property, plant and equipment

##### 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 postcode. 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.

### **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 as level 2 under the market approach.

As a managerial revaluation of the department's land has occurred in 2016-17 based on unobservable inputs, the non-specialised land has been classified as level 3 assets.

### **Specialised land and specialised buildings**

For specialised land, the market approach is also used, adjusted for the community service obligation (CSO) to reflect 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 as level 3 assets.

For specialised buildings, the depreciated replacement cost method is used, adjusting for the associated depreciation. As depreciation adjustments are considered as significant, unobservable inputs in nature, specialised buildings are classified as level 3 fair value measurements.

### **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.

There were no changes in valuation techniques throughout the period to 30 June 2017.

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

Fair value measurement hierarchy <sup>(ix)(ii)</sup>

(\$ thousand)

2017	Carrying amount	Fair value measurement		
		Level 1	Level 2	Level 3
<b>Land at fair value</b>				
Non-specialised land	6,419	0	0	6,419
Specialised land	274,044	0	0	274,044
<b>Total land at fair value</b>	<b>280,463</b>	<b>0</b>	<b>0</b>	<b>280,463</b>
<b>Buildings at fair value</b>				
Heritage buildings	5,314	0	0	5,314
Specialised buildings	1,331,703	0	0	1,331,703
<b>Total buildings at fair value</b>	<b>1,337,017</b>	<b>0</b>	<b>0</b>	<b>1,337,017</b>
<b>Leasehold improvements at fair value</b>				
Leasehold improvements	33,000	0	0	33,000
<b>Total leasehold improvements at fair value</b>	<b>33,000</b>	<b>0</b>	<b>0</b>	<b>33,000</b>
<b>Plant and equipment at fair value</b>				
Artwork	27	0	27	0
Other plant and equipment	125,465	0	0	125,465
<b>Total plant and equipment at fair value</b>	<b>125,492</b>	<b>0</b>	<b>27</b>	<b>125,465</b>

(\$ thousand)

2016	Carrying amount	Fair value measurement		
		Level 1	Level 2	Level 3
<b>Land at fair value</b>				
Non-specialised land	4,830	0	4,830	0
Specialised land	143,365	0	0	143,365
<b>Total land at fair value</b>	<b>148,195</b>	<b>0</b>	<b>4,830</b>	<b>143,365</b>
<b>Buildings at fair value</b>				
Heritage buildings	5,575	0	0	5,575
Specialised buildings	1,029,675	0	0	1,029,675
<b>Total buildings at fair value</b>	<b>1,035,250</b>	<b>0</b>	<b>0</b>	<b>1,035,250</b>
<b>Leasehold improvements at fair value</b>				
Leasehold improvements	28,677	0	0	28,677
<b>Total leasehold improvements at fair value</b>	<b>28,677</b>	<b>0</b>	<b>0</b>	<b>28,677</b>
<b>Plant and equipment at fair value</b>				
Artwork	27	0	27	0
Other plant and equipment	139,420	0	0	139,420
<b>Total plant and equipment at fair value</b>	<b>139,447</b>	<b>0</b>	<b>27</b>	<b>139,420</b>

<sup>(i)</sup> Classified in accordance with the fair value hierarchy.

<sup>(ii)</sup> Leased assets are excluded from this table, as the fair value hierarchy does not apply to leased assets.

**Reconciliation of level 3 fair value**

(\$ thousand)

2017	Specialised land	Non-specialised land	Specialised buildings	Heritage buildings	Leasehold improvements	Plant and equipment
<b>Opening balance</b>	<b>143,365</b>	<b>0</b>	<b>1,029,675</b>	<b>5,575</b>	<b>28,677</b>	<b>139,420</b>
Purchases (sales)	0	888	138,932	0	11,386	6,996
Transfers in (out)	86,079	4,830	206,932	0	(377)	350
Depreciation	0	0	(43,836)	(261)	(6,686)	(21,301)
Revaluation	44,600	701	0	0	0	0
<b>Closing balance</b>	<b>274,044</b>	<b>6,419</b>	<b>1,331,703</b>	<b>5,314</b>	<b>33,000</b>	<b>125,465</b>

(\$ thousand)

2016	Specialised land	Non-specialised land	Specialised buildings	Heritage buildings	Leasehold improvements	Plant and equipment
<b>Opening balance</b>	<b>216,533</b>	<b>0</b>	<b>872,643</b>	<b>0</b>	<b>38,739</b>	<b>122,560</b>
Purchases (sales)	21	0	328,725	0	(3,532)	38,291
Transfers in (out)	(125,952)	0	(82,561)	0	0	(1,280)
Depreciation	0	0	(44,504)	0	(6,530)	(20,151)
Revaluation	52,763	0	(44,628)	5,575	0	0
<b>Closing balance</b>	<b>143,365</b>	<b>0</b>	<b>1,029,675</b>	<b>5,575</b>	<b>28,677</b>	<b>139,420</b>

**Description of significant unobservable inputs to level 3 valuations**

	Valuation technique	Significant unobservable inputs
Specialised land	Market approach and managerial revaluation	Community service obligation (CSO) adjustment and Valuer-General Victoria's indicies
Non-specialised land	Market approach and managerial revaluation	Valuer-General Victoria's indicies
Specialised buildings	Depreciated replacement cost	Useful life
Heritage buildings	Depreciated replacement cost	Useful life
Leasehold improvements	Depreciated replacement cost	Useful life
Plant and equipment	Depreciated replacement cost	Useful life

**8.3.3 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. Land held for sale were valued using the techniques referred to in note 8.3.2 for non-specialised land and are categorised within level 2 of the fair value hierarchy. Leased vehicles held for sale were valued using the techniques referred to in note 8.3.2 for plant and equipment. The fair value hierarchy does not apply to leased assets.

## 9. Other disclosures

### Introduction

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

### Structure

- 9.1 Ex-gratia expenses
- 9.2 Other economic flows included in net result
- 9.3 Non-financial assets classified as held for sale
- 9.4 Physical asset revaluation surplus
- 9.5 Correction of a prior period error
- 9.6 Responsible persons
- 9.7 Remuneration of executives
- 9.8 Related parties
- 9.9 Remuneration of auditors
- 9.10 Australian Accounting Standards issued that are not yet effective
- 9.11 Glossary of technical terms
- 9.12 Style conventions

### 9.1 Ex-gratia expenses

	(\$ thousand)	
	2017	2016
Compensation for economic loss	0	29
<b>Total ex-gratia expenses <sup>(i)</sup></b>	<b>0</b>	<b>29</b>

<sup>(i)</sup> Ex-gratia expenses fall under other supplies and services in note 3.4.

## 9.2 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)	
	2017	2016
<b>Net gain/(loss) on non-financial assets</b>		
Impairment of intangible asset	0	(3,655)
Net gain/(loss) on disposal of property, plant and equipment	935	1,451
<b>Total net gain/(loss) on non-financial assets</b>	<b>935</b>	<b>(2,204)</b>
<b>Net gain/(loss) on financial instruments</b>		
Impairment of loans and receivables <sup>(i)</sup>	0	(504)
Bad debts written off by unilateral agreement	(9)	(55)
Net gain/(loss) on disposal of financial instruments	(7,344)	(820)
Net gain/(loss) from revaluation of financial assets at fair value	1,012	2,800
<b>Total net gain/(loss) on financial instruments</b>	<b>(6,341)</b>	<b>1,421</b>
<b>Other gains/(losses) from other economic flows</b>		
Net gain/(loss) from revaluation of long service leave liability <sup>(ii)</sup>	(2,936)	(1,013)
Net gain/(loss) from revaluation of other provisions <sup>(iii)</sup>	1,338	(571)
<b>Total other gains/(losses) from other economic flows</b>	<b>(1,598)</b>	<b>(1,584)</b>

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

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

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

## 9.3 Non-financial assets classified as held for sale

	(\$ thousand)	
	2017	2016
Land held for sale	215	644
Leased vehicles held for sale	104	102
<b>Total non-financial assets classified as held for sale</b>	<b>319</b>	<b>746</b>

Non-financial assets are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when:

- the asset is available for immediate use in the current condition; and
- the sale is highly probable and is expected to be completed within 12 months from the date of classification

Non-financial assets classified as held for sale are not subject to depreciation or amortisation.

## 9.4 Physical asset revaluation surplus <sup>(i)</sup>

	(\$ thousand)	
	2017	2016
<b>Land</b>		
Balance at beginning of financial year	93,335	126,894
Revaluation increment/(decrement) <sup>(ii)</sup>	45,301	57,593
Transfer to accumulated surplus <sup>(iii)</sup>	0	(91,152)
<b>Balance at end of financial year</b>	<b>138,636</b>	<b>93,335</b>
<b>Buildings</b>		
Balance at beginning of financial year	521,896	476,337
Revaluation increment/(decrement)	0	20,189
Reversal of impairment losses	0	5,000
Transfer to accumulated surplus <sup>(iii)</sup>	0	20,370
<b>Balance at end of financial year</b>	<b>521,896</b>	<b>521,896</b>
<b>Artwork</b>		
Balance at beginning of financial year	2	0
Revaluation increment/(decrement) <sup>(ii)</sup>	0	2
<b>Balance at end of financial year</b>	<b>2</b>	<b>2</b>
<b>Total balance at beginning of financial year</b>	<b>615,233</b>	<b>603,231</b>
<b>Total balance at end of financial year</b>	<b>660,534</b>	<b>615,233</b>
<b>Net change</b>	<b>45,301</b>	<b>12,002</b>

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

<sup>(ii)</sup> An independent valuation of the department's land, buildings and artwork was performed by the Valuer-General Victoria as at 30 June 2016. 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 postcode. 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.

<sup>(iii)</sup> The physical asset revaluation surplus (increment or decrement) associated with land and buildings transferred to other entities was reclassified to accumulated surplus in accordance with FRD119A *Transfer Through Contributed Capital*. The adjustment did not affect the Comprehensive Operating Statement, but was reflected in the Statement of Changes in Equity.

## 9.5 Correction of a prior period error

In 2015-16, costs were incorrectly included in a building asset under construction, these costs should have been expensed. These errors have been corrected by restating each of the affected line items in the current set of financial statements for the 2015-16 comparative year.

### Restated line items from the Comprehensive Operating Statement

	(\$ thousand)		
	2016 Published	Adjustment for prior period error	2016 Restated
<b>Expenses from transactions</b>			
Employee expenses	(682,296)	(312)	(682,608)
Depreciation	(108,626)	0	(108,626)
Interest expense	(20,678)	0	(20,678)
Grant expenses	(3,906,440)	0	(3,906,440)
Capital asset charge	(133,421)	0	(133,421)
Supplies and services	(756,046)	(306)	(756,352)
<b>Total expenses from transactions</b>	<b>(5,607,507)</b>	<b>(618)</b>	<b>(5,608,125)</b>
<b>Net result from transactions (net operating balance)</b>	<b>9,749</b>	<b>(618)</b>	<b>9,131</b>
<b>Net result</b>	<b>7,382</b>	<b>(618)</b>	<b>6,764</b>
<b>Comprehensive result</b>	<b>90,166</b>	<b>(618)</b>	<b>89,548</b>

**Restated line items from the Balance Sheet**

	(\$ thousand)		
	2016 Published	Adjustment for prior period error	2016 Restated
<b>Non-financial assets</b>			
Prepayments	14,373	0	14,373
Inventories	7,397	0	7,397
Non-financial assets classified as held for sale	746	0	746
Property, plant and equipment	2,134,113	(618)	2,133,495
Intangible assets	11,805	0	11,805
<b>Total non-financial assets</b>	<b>2,168,434</b>	<b>(618)</b>	<b>2,167,816</b>
<b>Total assets</b>	<b>3,440,041</b>	<b>(618)</b>	<b>3,439,423</b>
<b>Net assets</b>	<b>2,455,115</b>	<b>(618)</b>	<b>2,454,497</b>
<b>Equity</b>			
Accumulated surplus/(deficit)	1,086,945	(618)	1,086,327
Physical asset revaluation surplus	615,233	0	615,233
Contributed capital	752,937	0	752,937
<b>Net worth</b>	<b>2,455,115</b>	<b>(618)</b>	<b>2,454,497</b>

**Restated line items from the Cash Flow Statement**

	(\$ thousand)		
	2016 Published	Adjustment for prior period error	2016 Restated
<b>Cash flows from operating activities</b>			
<b>Payments</b>			
Payments of grant expenses	(3,906,440)	0	(3,906,440)
Payments to suppliers and employees	(1,513,313)	(618)	(1,513,931)
Capital asset charge payments	(133,421)	0	(133,421)
Interest and other costs of finance paid	(20,678)	0	(20,678)
<b>Total payments</b>	<b>(5,573,852)</b>	<b>(618)</b>	<b>(5,574,470)</b>
<b>Net cash flows from/(used in) operating activities</b>	<b>110,122</b>	<b>(618)</b>	<b>109,504</b>
<b>Cash flows from investing activities</b>			
Payments for investments	(130,121)	0	(130,121)
Proceeds from sale of investments	119,484	0	119,484
Purchases of non-financial assets	(298,910)	618	(298,292)
Sales of non-financial assets	4,125	0	4,125
<b>Net cash flows from/(used in) investing activities</b>	<b>(305,422)</b>	<b>618</b>	<b>(304,804)</b>

**Restated line items from the Statement of Changes in Equity**

	(\$ thousand)		
	2016 Published	Adjustment for prior period error	2016 Restated
<b>Accumulated surplus/(deficit)</b>			
<b>Balance at 1 July 2015</b>	<b>1,008,781</b>	<b>0</b>	<b>1,008,781</b>
Net result for year	7,382	(618)	6,764
Transfer to accumulated surplus	70,782	0	70,782
<b>Balance at 30 June 2016</b>	<b>1,086,945</b>	<b>(618)</b>	<b>1,086,327</b>

## 9.6 Responsible persons

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

### Names

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

Attorney-General	The Hon. Martin Pakula, MP	1 July 2016	to 30 June 2017
Acting Attorney-General	The Hon. Natalie Hutchins, MP	1 July 2016	to 5 July 2016
	The Hon. Jill Hennessy, MP	6 July 2016	to 10 July 2016
	The Hon. Lisa Neville, MP	2 September 2016	to 13 September 2016
	The Hon. Steve Herbert, MP	16 September 2016	to 25 September 2016
	The Hon. Gayle Tierney, MP	17 December 2016	to 20 December 2016
	The Hon. Lisa Neville, MP	21 December 2016	to 24 December 2016
	The Hon. Jill Hennessy, MP	25 December 2016	to 29 December 2016
	The Hon. Gayle Tierney, MP	30 December 2016	to 8 January 2017
	The Hon. Lisa Neville, MP	23 January 2017	to 29 January 2017
	The Hon. Lisa Neville, MP	24 February 2017	to 1 March 2017
Minister for Consumer Affairs, Gaming and Liquor Regulation	The Hon. Marlene Kairouz, MP	1 July 2016	to 30 June 2017
Acting Minister for Consumer Affairs, Gaming and Liquor Regulation	The Hon. John Eren, MP	27 July 2016	to 31 July 2016
	The Hon. Martin Pakula, MP	27 September 2016	to 7 October 2016
	The Hon. Liliana D'Ambrosio	22 December 2016	to 9 January 2017
	The Hon. Lisa Neville, MP	10 January 2017	to 17 January 2017
Minister for Corrections	The Hon. Steve Herbert, MP	1 July 2016	to 9 November 2016
	The Hon. Gayle Tierney, MP	10 November 2016	to 30 June 2017
Acting Minister for Corrections	The Hon. James Merlino, MP	1 July 2016	to 1 July 2016
	The Hon. Lisa Neville, MP	2 July 2016	to 6 July 2016
	The Hon. Fiona Richardson, MP	13 July 2016	to 5 August 2016
	The Hon. Jenny Mikakos, MP	22 December 2016	to 29 December 2016
	The Hon. Lisa Neville, MP	9 April 2017	to 19 April 2017
Minister for Emergency Services	The Hon. James Merlino, MP	1 July 2016	to 30 June 2017
Acting Minister for Emergency Services	The Hon. Lisa Neville, MP	28 March 2017	to 7 April 2017
Minister for Police	The Hon. Lisa Neville, MP	1 July 2016	to 30 June 2017
Acting Minister for Police	The Hon. Gavin Jennings, MP	1 January 2017	to 8 January 2017
	The Hon. Martin Pakula, MP	10 February 2017	to 19 February 2017
	The Hon. Richard Wynne, MP	30 June 2017	to 30 June 2017
Minister for Racing	The Hon. Martin Pakula, MP	1 July 2016	to 30 June 2017
Acting Minister for Racing	The Hon. Natalie Hutchins, MP	1 July 2016	to 5 July 2016
	The Hon. Jill Hennessy, MP	6 July 2016	to 10 July 2016
	The Hon. Lisa Neville, MP	2 September 2016	to 13 September 2016
	The Hon. Steve Herbert, MP	16 September 2016	to 25 September 2016
	The Hon. Gayle Tierney, MP	17 December 2016	to 20 December 2016
	The Hon. Lisa Neville, MP	21 December 2016	to 24 December 2016
	The Hon. Jill Hennessy, MP	25 December 2016	to 29 December 2016
	The Hon. Gayle Tierney, MP	30 December 2016	to 8 January 2017

	The Hon. Lisa Neville, MP	23 January 2017	to	29 January 2017
	The Hon. Lisa Neville, MP	24 February 2017	to	1 March 2017
Minister for Families and Children <sup>(a)</sup>	The Hon. Jenny Mikakos, MP	1 April 2017	to	30 June 2017
Acting Minister for Families and Children	The Hon. Jill Hennessy, MP	10 April 2017	to	17 April 2017
Secretary	Greg Wilson	1 July 2016	to	30 June 2017
Acting Secretary	Donald Speagle	16 January 2017	to	1 February 2017

<sup>(a)</sup> The youth services and youth justice output group transferred from the Department of Health and Human Services to the Department of Justice and Regulation, for financial purposes on 1 April 2017, as a result of a machinery of government change.

## 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: \$530,000 - \$539,999 (\$480,000 - \$489,999 in 2015-16).

## 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, paid annual leave and non-monetary benefits such as motor vehicle allowances and free or subsidised goods or services.

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

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

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

Several factors affected total remuneration payable to executives over the year. A number of employment contracts were completed and renegotiated and a number of executive officers retired, resigned or were retrenched in the past year. This had a significant impact on remuneration figures for the termination benefits category. In addition, a number of executive roles which were vacant in the previous reporting period were filled during the course of the year with pro-rata remuneration accordingly included in the short-term employee benefits category.

(\$ thousand)

<b>Remuneration of executive officers (including key management personnel disclosed in note 9.8)</b>	<b>2017 <sup>(i)</sup></b>
Short-term employee benefits	14,610
Post-employment benefits	1,202
Other long-term benefits	948
Termination benefits	768
<b>Total remuneration <sup>(ii)(iii)</sup></b>	<b>17,528</b>
<b>Total number of executives <sup>(ii)(iii)</sup></b>	<b>69</b>
<b>Total annualised employee equivalents <sup>(iv)</sup></b>	<b>63.7</b>

(\$ thousand)

**Remuneration of executive officers**

**(including key management personnel disclosed in note 9.8)**

2017 <sup>(i)</sup>

<sup>(i)</sup> No comparatives have been reported because remuneration in the prior year was determined in line with the basis and definition under FRD 21B. Refer to the prior year's financial statements for executive remuneration for the 2015-16 reporting period.

<sup>(ii)</sup> Includes six executive officers from the Victorian Government Solicitor's Office.

<sup>(iii)</sup> 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).

<sup>(iv)</sup> 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** of the department includes:

- Portfolio Ministers (refer to note 9.6)
- Secretary, Greg Wilson
- Deputy Secretary Civil Justice, Donald Speagle
- Deputy Secretary Criminal Justice Strategy and Coordination, Kylie Kilgour
- Deputy Secretary Criminal Law Policy and Operations, Ryan Phillips
- Deputy Secretary Youth Justice, Julia Griffith
- Deputy Secretary Emergency Management, Neil Robertson
- Deputy Secretary Regulation, Simon Cohen
- Deputy Secretary Service Strategy Reform, Carolyn Gale
- Deputy Secretary Finance Infrastructure and Governance, Shaun Condron
- Deputy Secretary Commercial and Advisory (until 26 April 2017), Gail Moody
- Deputy Secretary Criminal Justice (until 11 December 2016), Marisa De Cicco
- Corrections Victoria Commissioner, Jan Shuard
- Emergency Management Commissioner, Craig Lapsley
- Road Safety Camera Commissioner, John Voyage
- Executive Director Infringement Management and Enforcement Services, Brendan Facey
- Executive Director People and Culture, Miya Chiba
- Executive Director Liquor, Gaming and Racing, Catherine Carr
- Executive Director North West Metropolitan Area, Peter Ewer
- Executive Director West Area, Leanne Barnes
- Executive Director Youth Justice Operations, Jodi Henderson
- Executive Director South Area, Gabrielle Levine
- Executive Director Police and Crime Prevention, Camille Kingston
- Director Built Environment and Business Sustainability, Justin Sawyers
- Chief Information Officer, Michael Cornelius
- Chief Procurement Officer, Phillip Chalkley
- Chief Finance Officer, Christopher Breitzkreuz

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)
<b>Compensation of KMPs</b>	<b>2017 <sup>(i)</sup></b>
Short-term employee benefits	6,472
Post-employment benefits	491
Other long-term benefits	429
Termination benefits	370
<b>Total</b>	<b>7,762</b>

<sup>(i)</sup> KMPs 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 2.3, and income from government-related-entities such as grant income as shown in note 2.4.2, and other income as shown in note 2.4.3. The department pays government-related-entities grants as shown in note 3.2, the capital asset charge as shown in note 3.3, some of the technology services as shown in note 3.4 and for payments into the consolidated fund as shown in note 4.2.

## 9.9 Remuneration of auditors

	(\$ thousand)	
	2017	2016
<b>Victorian Auditor-General's Office</b>		
Audit of the financial statements	331	323
<b>Total remuneration of auditors</b>	<b>331</b>	<b>323</b>

## 9.10 Australian Accounting Standards issued that are not yet effective

Certain new Australian Accounting Standards (AAS) have been published that are not mandatory for the 30 June 2017 reporting period. The Department of Treasury and Finance (DTF) assesses the impact of these new standards and advises the department of their applicability and early adoption where applicable.

As at 30 June 2017, the following standards that are applicable to the department had been issued but were not mandatory for the financial year ending 30 June 2017. Standards that are not applicable to the department have been omitted. The department has not early adopted these standards.

Standard	Summary	Applicable for annual reporting periods beginning after	Impact
AASB 9 <i>Financial Instruments</i>	The key changes include the simplified requirements for the classification and measurement of financial assets, a new hedging accounting model and a revised impairment loss model to recognise impairment losses earlier, as opposed to the current approach that recognises impairment only when incurred.	1 January 2018	While the preliminary assessment has not identified any material impact arising from AASB 9, it will continue to be monitored and assessed.
AASB 15 <i>Revenue from Contracts with Customers</i>	The core principle of AASB 15 requires an entity to recognise revenue when the entity satisfies a performance obligation by transferring a promised good or service to a customer.	1 January 2018	The changes in revenue recognition requirements in AASB 15 may result in changes to the timing and amount of revenue recorded in the financial statements. The Standard will also require additional disclosures on service revenue and contract modifications. A potential impact will be the upfront recognition of revenue from licenses that cover multiple reporting periods. Revenue that was deferred and amortised over a period may now need to be recognised immediately as a transitional adjustment against the opening returned earnings if there are no former performance obligations outstanding.
AASB 16 <i>Leases</i>	The key changes introduced by AASB 16 include the recognition of most operating leases (which are currently not recognised) on balance sheet.	1 January 2019	The assessment has indicated that as most operating leases will come on balance sheet, recognition of lease assets and lease liabilities will cause net debt to increase. Depreciation of lease assets and interest on lease liabilities will be recognised in the income statement with marginal impact on the operating surplus. The amounts of cash paid for the principal portion of the lease liability will be presented within financing activities and the amounts paid for the interest portion will be presented within operating activities in the cash flow statement. No change for lessors.

## 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 instrument, or, where appropriate, a shorter period.

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

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

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

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

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

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

- a contractual obligation: to deliver cash or another financial asset to another entity; or to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the entity; or

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

**Financial statements** comprises:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

## 9.12 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 2016-17 Model Report for Victorian Government Departments.