Financial statements

These financial statements cover the Department of Education and Training as an individual entity.

The Department of Education and Training is a government department of the State of Victoria.

A description of the nature of the Department's operations and its principal activities is included in the Report of Operations.

Contents

Accountable Officer's and Chief Finance and Accounting Officer's declaration

Accountable Officer's and Chief Finance and Accounting Officer's declaration

The attached financial statements for the Department of Education and Training have been prepared in accordance with Direction 4.2 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, statement of changes in equity, cash flow statement and accompanying notes, presents fairly the financial transactions during the year ended 30 June 2016 and financial position of the Department as at 30 June 2016.

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 2016.

Gill Callister
Secretary
Department of Education and Training

Melbourne
12 September 2016

Cynthia M. Lahiff
Chief Finance and Accounting Officer
Department of Education and Training

Melbourne
12 September 2016

Auditor-General's independent auditor's report

VAGO

Victorian Auditor-General's Office

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INDEPENDENT AUDITOR'S REPORT

To the Secretary, Department of Education and Training

The Financial Report

I have audited the accompanying financial report for the year ended 30 June 2016 of the Department of Education and Training which comprises the comprehensive operating statement, balance sheet, statement of changes in equity, cash flow statement, notes comprising a summary of significant accounting policies and other explanatory information, and the Accountable Officer's and Chief Finance and Accounting Officer's declaration.

The Secretary's Responsibility for the Financial Report

The Secretary of the Department of Education and Training is responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards, and the financial reporting requirements of the *Financial Management Act 1994*, and for such internal control as the Secretary determines is necessary to enable the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

As required by the *Audit Act 1994*, my responsibility is to express an opinion on the financial report based on the audit, which has been conducted in accordance with Australian Auditing Standards. Those standards require compliance with relevant ethical requirements relating to audit engagements and that the audit be planned and performed to obtain reasonable assurance about whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The audit procedures selected depend on judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, consideration is given to the internal control relevant to the entity's preparation and fair presentation of the financial report 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 entity's internal control. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made by the Secretary, as well as evaluating the overall presentation of the financial report.

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

Independent Auditor's Report (continued)

Independence

The Auditor-General's independence is established by the *Constitution Act 1975*. The Auditor-General is not subject to direction by any person about the way in which his powers and responsibilities are to be exercised. In conducting the audit, I and my staff and delegates have complied with the applicable independence requirements of the Australian Auditing Standards and relevant ethical pronouncements.

Basis for Qualified Opinion

Last year, I did not express an opinion on the financial report for 2014–15. This was because the Department of Education and Training was unable to provide, and consequently I was unable to obtain, sufficient appropriate evidence in relation to the 2014–15 property, plant and equipment transactions and balances and the 2014–15 transactions and balances of the 1 569 government schools which are incorporated into its financial report.

This year the Department's substantial corrective action has allowed me to obtain sufficient appropriate evidence for the 2014–15 comparative amounts of the property, plant and equipment balances and transactions. These comparatives are fairly presented in the 2015–16 financial report.

However, the Department has not been able to provide me sufficient appropriate evidence for certain school based comparative amounts for 2014–15. Consequently, readers of the financial report are unable to compare the relevant current period's amounts, which are fairly stated, and the prior year's amounts, for the following financial statement line items:

- Supplies and services expenditure ($1 107.1 million of a total of $2 687.9 million)
- Other income ($510.1 million of a total of $523.3 million)
- Sales of goods and services revenue ($160.9 million of a total $214.4 million).

My opinion on the current period's financial report is only modified in respect to these 2014–15 comparative amounts.

Qualified Opinion

In my opinion, except for the effects of the matter described in the Basis for Qualified Opinion paragraph, the financial report presents fairly, in all material respects, the financial position of the Department of Education and Training as at 30 June 2016 and its financial performance and its cash flows for the year then ended in accordance with applicable Australian Accounting Standards, and the financial reporting requirements of the *Financial Management Act 1994*.

MELBOURNE
29 September 2016

Andrew Greaves
Auditor-General

Comprehensive operating statement for the financial year ended 30 June 2016

	Note	2016 $m	2015 $m
Income from transactions			
Output appropriations	6(a)	**11,172.0**	10,683.3
Special appropriations	6(b)	**22.0**	0.2
Interest		**17.2**	19.9
Grants	4(a)	**23.4**	19.7
Sales of goods and services	4(b)	**209.6**	214.4
Other	4(c)	**526.7**	523.3
Total income from transactions		**11,970.9**	11,460.7
Expenses from transactions			
Employee expenses	4(d)	**(5,817.9)**	(5,477.5)
Depreciation and amortisation	4(e)	**(310.5)**	(316.7)
Interest expenses		**(14.3)**	(14.2)
Grants and other expense transfers	4(f)	**(1,466.4)**	(1,374.2)
Capital asset charge		**(1,291.7)**	(1,287.1)
Supplies and services	4(g)	**(2,677.3)**	(2,687.9)
Other operating expenses	4(h)	**(162.0)**	(122.6)
Total expenses from transactions		**(11,740.0)**	(11,280.3)
Net result from transactions (net operating balance)		**230.9**	180.5
Other economic flows included in net result			
Net gain/(loss) on non-financial assets	5(a)	**0.1**	20.3
Net gain/(loss) on financial instruments	5(b)	**(17.4)**	(7.7)
Other gains/(losses) from other economic flows	5(c)	**(31.1)**	(34.2)
Total other economic flows included in net result		**(48.4)**	(21.7)
Net result		**182.5**	158.8
Other economic flows—other comprehensive income **Items that will not be classified to net result**			
Changes in physical asset revaluation surplus	16	**3,018.4**	815.5
Total other economic flows—other comprehensive income		**3,018.4**	815.5
Comprehensive result		**3,200.9**	974.3

The above comprehensive operating statement should be read in conjunction with the accompanying notes.

Balance sheet as at 30 June 2016

	Note	2016 $m	2015 $m
Assets			
Financial assets			
Cash and deposits	7	**703.3**	715.3
Receivables	8	**1,990.8**	1,725.9
Other financial assets	7	**274.9**	132.5
Total financial assets		**2,969.0**	2,573.7
Non-financial assets			
Non-financial physical assets classified as held for sale	9	**7.8**	107.9
Intangible assets	10	**67.7**	65.7
Property, plant and equipment	11	**19,869.9**	16,830.2
Prepayments		**17.6**	20.1
Other non-financial assets		**23.5**	11.0
Total non-financial assets		**19,986.5**	17,034.9
Total assets		**22,955.5**	19,608.5
Liabilities			
Payables	12	**461.4**	342.4
Borrowings	13	**249.6**	255.1
Provisions	14	**1,425.1**	1,332.4
Unearned income		**30.7**	11.0
Total liabilities		**2,166.9**	1,940.8
Net assets		**20,788.6**	17,667.7
Equity			
Accumulated surplus/(deficit)		**1,710.8**	1,478.6
Physical asset revaluation surplus	16	**10,400.7**	7,382.3
Contributed capital		**8,677.1**	8,806.8
Net worth		**20,788.6**	17,667.7
Contingent assets and contingent liabilities	21		
Commitments for expenditure	22		

The above balance sheet should be read in conjunction with the accompanying notes.

Statement of changes in equity for the financial year ended 30 June 2016

	Physical asset revaluation surplus $m	Accumulated surplus/ (deficit) $m	Contributed capital $m	Total equity $m
Balance at 1 July 2014	**6,566.9**	**1,319.8**	**8,741.2**	**16,627.9**
Net result for the year	-	158.8	-	158.8
Other comprehensive income for the year	815.5	-	-	815.5
Capital appropriations	-	-	155.8	155.8
Contributed capital transfers in	-	-	276.1	276.1
Contributed capital transfers (out)	-	-	(366.3)	(366.3)
Balance at 30 June 2015	**7,382.4**	**1,478.6**	**8,806.8**	**17,667.7**
Net result for the year	-	182.5	-	182.5
Prior year adjustments	(165.4)	49.8	-	(115.6)
Other comprehensive income for the year	3,183.8	-	-	3,183.8
Capital appropriations	-	-	3.5	3.5
Contributed capital transfers in	-	-	0.1	0.1
Contributed capital transfers (out)	-	-	(133.3)	(133.3)
Balance at 30 June 2016	**10,400.7**	**1,710.8**	**8,677.1**	**20,788.6**

The above statement of changes in equity for the financial year ended 30 June 2016 should be read in conjunction with the accompanying notes.

Cash flow statement for the financial year ended 30 June 2016

	Note	2016 $m	2015 $m
Cash flows from operating activities			
Receipts			
Receipts from government		**10,999.1**	10,316.4
Receipts from other entities		**746.2**	794.4
Goods and Services Tax recovered from the ATO		**269.7**	306.0
Interest received		**17.2**	19.9
Total receipts		**12,032.2**	11,436.7
Payments			
Payments of grants and other transfers		**(1,461.3)**	(1,395.0)
Payments to suppliers and employees		**(8,798.4)**	(8,529.4)
Goods and Services Tax paid to the ATO		**(11.1)**	(23.2)
Capital asset charge payments		**(1,291.7)**	(1,287.1)
Interest and other costs of finance paid		**(14.3)**	(14.2)
Total payments		**(11,576.8)**	(11,249.0)
Net cash flows from/(used in) operating activities	**23**	**455.4**	187.8
Cash flows from investing activities			
Purchases of non-financial assets		**(288.0)**	(311.5)
Net payments for investments[1]		**-**	(5.4)
Proceeds from investments		**44.8**	-
Payments for investments		**(58.7)**	-
Sales of plant and equipment		**3.4**	1.6
Proceeds from Loan and advances		**3.6**	5.9
Payment of Loan and advances		**(21.8)**	(34.1)
Other adjustments[2]		**(143.8)**	-
Net cash flows from/(used in) investing activities		**(460.5)**	(343.5)
Cash flows from financing activities			
Owner contributions received from State Government		**3.5**	155.8
Proceeds from borrowings		**0.5**	11.2
Repayment of borrowings and finance leases		**(10.9)**	(14.4)
Net cash flows from/(used in) financing activities		**(6.9)**	152.7
Net increase/(decrease) in cash and deposits		**(12.0)**	(3.0)
Cash and deposits at the beginning of the financial year		**715.3**	718.3
Cash and deposits at the end of the financial year	**7**	**703.3**	715.3

The above cash flow statement should be read in conjunction with the accompanying notes.

[1] Net payments from investments represents for schools' term deposits with a maturity of three months or more. The Department did not have information available from each school to determine these gross cash flows; therefore, investment movement has been disclosed on a net basis in 2014–15. In 2015–16, this item is represented on a gross basis across two lines: 'Proceeds from investments' and 'Payments for investments'.

[2] Due to the limitation of available information, schools' term deposits with a maturity of three months or more were based on estimates in the past. In 2015–16, the Department has collected this data from schools, and adjusted the cash flows statement to reflect the movement from an estimate to actuals.

Notes to the financial statements

Contents

Note 1 Summary of significant accounting policies

These annual financial statements represent the audited general purpose financial statements for the Department of Education and Training (the Department) for the year ended 30 June 2016. The purpose of the report is to provide users with information about the Department's stewardship of resources entrusted to it.

(a) Statement of compliance

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

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

Accounting policies are selected and applied in a manner which ensures 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.

To gain a better understanding of the terminology used in this report, a glossary of terms and style conventions can be found in Note 27 Glossary of terms and style conventions.

These annual financial statements were authorised for issue by the Secretary of the Department on 12 September 2016.

(b) Basis of accounting preparation and measurement

The accrual basis of accounting has been applied in the preparation of 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.

Judgements, estimates and assumptions are required to be made about the carrying values of assets and liabilities that are not readily apparent from other sources. The 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 the application of AASs that have significant effects on the financial statements and estimates relate to:

- the fair value of land, buildings, plant and equipment, (Note 1(k))
- impairment of buildings, plant and equipment, and intangibles (Note 1(g))
- depreciation and amortisation expense (Note 1(f))
- assumptions for employee benefit provisions based on likely tenure of existing staff, patterns of leave claims, future salary movements and future discount rates (Note 1(l)).

These financial statements are presented in Australian dollars, and prepared in accordance with the historical cost conventions, except for:

- non-financial physical assets which, subsequent to acquisition, are measured at a revalued amount being their fair value (Note 1(k)). Revaluations are made with sufficient regularity to ensure that the carrying amounts do not materially differ from their fair value
- certain liabilities, most notably employee entitlements.

Consistent with AASB 13 *Fair Value Measurement*, the Department determines the policies and procedures for both recurring fair value measurements such as property, plant and equipment, and financial instruments and for non-recurring fair value measurements such as non-financial physical assets held for sale, in accordance with the requirements of AASB 13, AASB 5 *Assets Held for Sale and Discontinued Operations* and relevant Financial Reporting Directions (FRDs).

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

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

For the purpose of fair value disclosures, the Department has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

In addition, the Department determines whether transfers have occurred between levels in the hierarchy by re-assessing 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 Valuer-General Victoria is the Department's independent valuation agency.

The Department, in conjunction with the Valuer-General Victoria, monitors changes in the fair value of each asset and liability through relevant data sources to determine whether revaluations are required. The recurring fair value measurements of non-financial physical assets, such as land and school buildings, are based on level 3 unobservable inputs due to the nature and characteristics of the school assets. School assets are specialised assets where there is little or no observable market evidence of the market-selling price as a community service obligation (CSO) is applied to such assets (Note 1(k)).

Administered items

Certain resources are administered by the Department on behalf of the State. While the Department is accountable for the transactions involving administered items, it does not have the discretion to deploy the resources for its own benefit or the achievement of its objectives. Accordingly, transactions and balances relating to administered items are not recognised as departmental income, expenses, assets or liabilities within the body of the main financial statements. They are disclosed separately in Note 3.

Administered income includes Commonwealth on-passing grants, fees and the proceeds from the sale of administered surplus land and buildings. Administered assets include government income earned but yet to be collected. Administered liabilities include government expenses incurred but yet to be paid. Disclosures related to administered items can be found in Note 3.

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.

Funds held in Administered trust

Other trust activities on behalf of parties external to the Victorian Government

The Department has responsibility for transactions and balances relating to trust funds on behalf of third parties external to the Victorian Government. The Department has received monies in a trustee capacity for various trusts including prizes and scholarships. Income, expenses, assets and liabilities managed on behalf of third parties are not recognised in these financial statements as they are managed on a fiduciary and custodial basis, and therefore not controlled by the Department or the Victorian Government.

(c) Reporting entity

The Department is a government department of the State of Victoria, established pursuant to an order made by the Premier under the *Administrative Arrangements Act 1983*.

Its principal address is:

Department of Education and Training
2 Treasury Place
Melbourne VIC 3002

The Department is an administrative agency acting on behalf of the Crown.

The financial statements include all the controlled activities of the Department.

A description of the nature of the Department's operations and its principal activities is included in the Report of Operations which does not form part of these financial statements.

The financial statements cover the Department as an individual reporting entity.

The financial statements exclude bodies in the Department's portfolio that are not controlled by the Department, and therefore are not consolidated. Bodies and activities that are administered (see explanation below under administered items) are also not controlled and not consolidated. In preparing consolidated financial statements for the Department, all material transactions and balances between consolidated entities are eliminated.

The financial statements include all transactions of the Department and the Victorian Government's primary and secondary schools. All transactions between the Department and these schools have been eliminated as required by AASs. Transactions with non-government schools are not eliminated.

Objectives and funding

The Department leads the delivery of education and development services to children, young people and adults both directly through government schools and indirectly through the regulation and funding of early childhood services, non-government schools and training programs.

The Department implements Victorian Government policy on early childhood services, school education and training and higher education services. The Department manages Victorian government schools and drives improvement in primary and secondary government education.

The Department provides support and advisory services to the Minister for Education, Minister for Training and Skills and the Minister for Families and Children, as well as a number of statutory bodies.

The Department is predominantly funded by accrual-based parliamentary appropriations for the provision of outputs that are further described in Note 2.

Outputs of the Department

Information about the Department's output activities and the expenses, income, assets and liabilities which are reliably attributable to those output activities is set out in the Departmental outputs schedule (Note 2). Information about expenses, income, assets and liabilities administered by the Department are given in the schedule of administered items (Note 3).

(d) Scope and presentation of financial statements

Comprehensive operating statement

The comprehensive operating statement comprises three components, being:

- Net result from transactions (also termed net operating balance)

- Other economic flows included in net result
- Other economic flows—other comprehensive income.

The sum of the former two represents the net result, which is equivalent to profit or loss derived in accordance with AAS.

Other economic flows are changes arising from market re-measurements. They include:

- gains and losses from disposals of non-financial assets
- revaluations and impairments of non-financial physical and intangible assets
- assets reinstated
- fair value changes of financial instruments; and
- gains and losses from revaluation of long service leave liability.

This classification is consistent with the whole-of-government reporting format and is allowed under AASB 101 *Presentation of Financial Statements*.

Balance sheet

Assets and liabilities are presented in liquidity order with assets aggregated into financial assets and non-financial assets.

Current and non-current assets and liabilities are disclosed in the notes, where relevant. In general, non-current assets or liabilities are expected to be recovered or settled more than 12 months after the reporting period, except for the provisions of employee benefits, which are classified as current liabilities if the Department does not have the unconditional right to defer the settlement of the liabilities within 12 months after the end of the reporting period.

Statement of changes in equity

The statement of changes in equity presents reconciliations of each non-owner and owner equity opening balance at the beginning of the reporting period to the closing balance at the end of the reporting period. It also shows separately changes due to amounts recognised in the 'Comprehensive result' and amounts related to 'Transactions with owner in its capacity as owner''.

Cash flow statement

Cash flows are classified according to whether or not they arise from operating, investing or financing activities. This classification is consistent with requirements under AASB 107 *Statement of Cash Flows*.

Proceeds from/payments for investments represent flows of schools' term deposits with a maturity of three months or more.

Rounding of amounts

Amounts in the financial statements have been rounded to the nearest $100,000, unless otherwise stated. Figures in the financial statements may not equate due to rounding (Note 27—Style conventions).

(e) Income from transactions

Income is recognised to the extent that it is probable that the economic benefits will flow to the entity and the income can be reliably measured at fair value.

Appropriation income

Appropriation income becomes controlled and is recognised by the Department when it is appropriated from the consolidated fund by the Treasurer and applied to the purposes defined under the relevant appropriations Act. Additionally, the Department is permitted under Section 29 of the *Financial Management Act 1994* (FMA) 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. Examples of receipts which can form part of a Section 29 agreement are Commonwealth specific purpose grants, the proceeds from the sale of assets and income from the sale of products and services.

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 in the schedule of administered income and expenses (Note 3). Income is recognised for each of the Department's major activities as follows:

Output appropriations

Income from the outputs the Department provides to the 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

Under Section 5.6.8 of the *Education and Training Reform Act 2006*, revenue related to Volunteer Workers' Compensation is recognised when the amount appropriated for that purpose is due and payable by the Department.

Under Section 10 of the *Financial Management Act 1994*, revenue related to the Commonwealth funding for Digital Education Revolution and Occasional Care is recognised when the amount appropriated for that purpose is due and payable by the Department.

Interest

Interest includes interest received on bank term deposits and other investments. The Department does not accrue for interest. Interest revenue is recognised upon receipt.

Grants

Income from grants (other than contributions by owners) is recognised when the Department obtains control over the contribution.

Where such grants are payable into the consolidated fund, they are reported as administered income (Note 1(b) and 1(h)). For reciprocal grants (that is, equal value is given back by the Department to the provider), the Department is deemed to have assumed control when the Department has satisfied its performance obligations under the terms of the grant. For non-reciprocal grants, the Department is deemed to have assumed control when the grant is receivable or received. Conditional grants may be reciprocal or non-reciprocal depending on the terms of the grant.

Sales of goods and services

Income from the supply of services is recognised when:

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

Income from sale of goods and services

Sales of goods and services income derived from schools includes sales of classroom materials, before and after school care, and other trading operations.

Cash received in schools is recognised upon receipt by the school and is processed in accordance with controls established by the schools council.

Other

Other income relates mainly to income derived from schools including parents' voluntary contributions and other locally raised funds.

Income from the sale of goods and other income relates mainly to income derived from schools and is recognised when:

- the Department (or school) no longer has any of the significant risks and rewards of ownership of the goods transferred to the buyer;
- the Department (or school) no longer has continuing 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.

(f) Expenses from transactions

Expenses are recognised as they are incurred and reported in the financial year to which they relate.

Employee expenses

See Note 1(l) regarding employee benefits.

These expenses include all forms of considerations (other than superannuation which is accounted for separately) given by the Department in exchange for service rendered by employees or for the termination of employment. This includes wages and salaries, fringe benefits tax, leave entitlements, termination payments and WorkCover premiums.

Superannuation

The amount recognised in the comprehensive operating statement is the employer contributions for members of both defined benefit and defined contribution superannuation plans that are paid or payable during the reporting period.

The Department of Treasury and Finance, in its Administered note disclosure, discloses on behalf of the State as the sponsoring employer, the net defined benefit cost related to the members of these plans as an administered liability. See the Department of Treasury and Finance's *Annual Financial Statements* for more detailed disclosures in relation to these plans.

Depreciation and amortisation

All buildings, heritage buildings, plant and equipment and other non-financial physical assets (excluding items under operating leases and assets held-for-sale or distribution) that have a finite useful life are depreciated. Depreciation is generally calculated on a straight-line basis, at rates that allocate the asset's value, less any estimated residual value, over its estimated useful life. Leasehold improvements are depreciated over the period of the lease or estimated useful life, whichever is the shorter, using the straight-line method.

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

The following are estimated useful lives for the different asset classes for both current and prior years.

Asset Class	Useful life Years
Buildings	10–60
Heritage buildings	40–60
Leasehold buildings	60
Leasehold improvements	3–10
Plant and equipment (including vehicles leased assets)	3–10
Software	3–10

Land is considered to have an indefinite life and is not depreciated. Depreciation is not recognised in respect of land assets as their service potential has not, in any material sense, been consumed during the reporting period.

Where items of buildings have separately identifiable components that have materially different useful lives and subject to regular replacement, those components are assigned useful lives distinct from the item of buildings to which they relate. For the Department, identifiable components include different building materials and structures such as an annex or a wing and landscaping for each site. These components are then depreciated separately in accordance with useful life of assets. The useful lives for these items are between 10 and 60 years.

Intangible produced assets with finite useful lives, i.e. capitalised software development costs (software), are amortised as an expense from transactions on a systematic (straight-line) basis over the asset's useful life. 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. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at the end of each annual reporting period.

Interest expense

Interest expense represents costs incurred in connection with borrowings. It includes interest on loans, interest components of finance lease repayments and amortisation of discounts or premiums in relation to borrowings.

Interest expenses are recognised as expenses in the period in which they are incurred.

Grants and other expense transfers

Grants and other expense transfers to third parties (other than contributions to owners) are recognised as an expense in the reporting period in which they are paid or payable. They include transactions such as grants and other transfer payments made to State-owned agencies, local government, non-government schools, and community groups.

Capital asset charge

The capital asset charge represents the opportunity cost of capital invested in the non-current physical assets used in the provision of outputs. The charge is calculated on the budgeted carrying amount of applicable non-current physical assets.

Supplies and services

Supplies and services generally represent cost of goods sold and the day-to-day running costs, including school requisites and maintenance costs, incurred in the normal operations of the Department. These items are recognised as an expense in the reporting period in which they are incurred.

Other operating expenses

Other operating expenses generally represent the day-to-day running costs incurred in normal operations, and include:

Bad and doubtful debts

Bad and doubtful debts are assessed on a regular basis. Those bad debts written off by mutual consent are classified as a transaction expense. Those written off unilaterally (not by mutual agreement between debtor and creditor) are classified as other economic flows.

Fair value of assets and services provided free of charge or for nominal consideration

Contributions of assets and services provided free of charge or for nominal consideration are recognised at their fair value when the transferee obtains control over them, irrespective of whether restrictions or conditions are imposed over the use of the contributions, unless received from another government department or agency as a consequence of a restructuring of administrative arrangements. In the latter case, such a transfer will be recognised at its carrying value.

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 donated.

(g) Other economic flows

Other economic flows measure the change in volume or value of assets or liabilities that do not result from transactions.

Net gain/(loss) on non-financial assets

Net gain/(loss) on non-financial assets and liabilities includes realised and unrealised gains and losses as follows:

Revaluation gains/(losses) of non-current physical assets

Refer to Note 1(k).

Net gain/(loss) on disposal of non-financial assets

Any gain or loss on the disposal of non-financial assets is recognised at the date of disposal and is determined after deducting the proceeds from the carrying value of the asset at the time.

Impairment of non-financial assets

Intangible assets not yet available for use or with indefinite useful lives are tested annually for impairment and whenever there is an indication that the asset may be impaired.

All other assets are assessed annually for indications of impairment, except for non-financial physical assets held for sale (Note 1(k)).

If there is an indication of impairment, 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 other economic flow, except to the extent that the write-down 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 the estimate of an asset's recoverable amount since the last impairment loss was recognised, the carrying amount shall be increased to its recoverable amount. The impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised in prior years.

It is deemed that, 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. The recoverable amount for most assets is measured at the higher of depreciated replacement cost and fair value less costs to sell.

See Note 1(k) in relation to the recognition and measurement of non-financial assets.

Assets previously not recognised

Where it is found that an asset has been omitted from the financial records, it is recognised as 'assets previously not recognised'.

Net gain/(loss) on financial instruments

Net gain/(loss) on financial instruments includes impairment and reversal of impairment for financial instruments at amortised cost.

Other gains/(losses) from other economic flows

Other gains/(losses) from other economic flows include the gains or losses from the revaluation of the present value of the long service leave liability due to changes in the bond interest rate.

(h) Administered income

Commonwealth grants

The Department's administered grants mainly comprise funds provided by the Commonwealth to assist the State Government in meeting general or specific service delivery obligations, primarily for the purpose of aiding in the financing of the operations of the recipient, capital purposes and/or for on-passing to other recipients. The Department also receives on-passing grants from other jurisdictions. The Department does not have control over these grants and the income is not recognised in the Department's financial statements. Administered grants are disclosed in the schedule of administered items in Note 3.

Other income

Other income includes regulatory fees such as fees charged to schools for alarm call-out and quarterly monitoring fee for security service, contributions for Public Sector Commuter Club, and rental income from Victoria YMCA. The Department does not gain control over assets arising from these transactions, therefore no income is recognised in the Department's financial statements.

(i) Financial instruments

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. Such financial assets and financial liabilities do not meet the definition of financial instruments in AASB 132 *Financial Instruments: Presentation*. For example, statutory receivables arising from taxes, fines and penalties do not meet the definition of financial instruments as they do not arise under contract.

However, guarantees issued by the Treasurer on behalf of the Department are financial instruments because, although authorised under statute, the terms and conditions for each financial guarantee may vary and are subject to an agreement.

Where relevant, for note disclosure purposes, a distinction is made between those financial assets and financial liabilities that meet the definition of financial instruments in accordance with AASB 132 and those that do not.

The following refers to financial instruments unless otherwise stated.

Categories of non-derivative financial instruments

Loans and receivables

Loans and receivables are financial instrument assets with fixed and determinable payments that are not quoted on an active market. These assets 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, less any impairment.

The loans and receivables category includes cash and deposits (Note 1(j)), term deposits with maturity greater than three months, trade receivables, loans and other receivables; but not statutory receivables.

Fair value is determined in the manner described in Note 17.

Financial liabilities at amortised cost

Financial instrument liabilities 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 (Note 27).

Financial instrument liabilities measured at amortised cost include all of the Department's contractual payables, advances received, and interest bearing arrangements other than those designated at fair value through profit or loss.

(j) Financial assets

Cash and deposits

Cash and deposits recognised on the balance sheet comprise cash on hand and cash at bank, deposits at call and those highly liquid investments with an original maturity of three months or less, which are held for the purpose of meeting short-term cash commitments rather than for investment purposes, and readily convertible to known amounts of cash with an insignificant risk of changes in value.

Receivables

Receivables consist of:

- statutory receivables, which include predominantly amounts owing from the Victorian Government and goods and services tax (GST) input tax credits recoverable
- contractual receivables, which include mainly debtors in relation to goods and services, loans to third parties, and finance lease receivables (Note 1(m)).

Contractual receivables are classified as financial instruments (Note 1(i)). Statutory receivables are recognised and measured similarly to contractual receivables (except for impairment), but are not classified as financial instruments because they do not arise from a contract.

An allowance for doubtful receivables is made when there is objective evidence that the debts may not be collected. Bad debts are written off when identified.

Other financial assets

Other financial assets include term deposits with maturity greater than three months.

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. Objective evidence includes financial difficulties of the debtor, default payments and changes in debtor credit ratings. All financial assets, except those measured at fair value through profit or loss, are subject to annual review for impairment.

Receivables are assessed for bad and doubtful debts on a regular basis. Those bad debts considered as written off by mutual consent are classified as a transaction expense. Bad debts written off not by mutual consent and the allowance for doubtful receivables are classified as Other economic flows—other comprehensive income in the net result.

The amount of 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 judgment is applied in assessing materiality and using estimates in accordance with AASB 136 *Impairment of Assets*.

(k) Non-financial assets

Non-financial assets classified as held for sale

Non-financial assets are treated as current and classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use.

This condition is regarded as met only when:

- the asset is available for immediate sale in the current condition; and
- the sale is highly probable, the asset is actively marketed and the asset's sale is expected to be completed within 12 months from the date of classification.

These non-financial physical assets, related liabilities and financial assets are measured at the lower of carrying amount and fair value less costs to sell, and are not subject to depreciation or amortisation.

Property, plant and equipment

All non-financial physical assets, except land 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 consideration, the cost is the asset's fair value at the date of acquisition. Assets transferred as part of a machinery of government change are transferred at their carrying amount.

The initial cost for non-financial physical assets under a finance lease (Note 1(m)) 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.

Non-financial physical assets such as Crown land and heritage buildings are measured at fair value with regard to the property's highest and best use after due consideration is made for any legal or constructive restrictions imposed on the asset, public announcements or commitments made in relation to the intended use of the asset. Theoretical opportunities that may be available in relation to the asset are not taken into account until it is virtually certain that the restrictions will no longer apply. Therefore, unless otherwise disclosed, the current use of these non-financial physical assets will be their highest and best uses.

Land and buildings of the Department are considered as specialised land and buildings.

Specialised land has no feasible alternative use because it is restricted to only provide education services to the community group. There is also little or no observable market evidence of the market-selling price as a community service obligation (CSO) is applied to such assets.

Specialised buildings are buildings designed for a specific limited purpose. In the State Government Sector, these buildings include school sites and heritage/historic properties owned by the Department.

Plant and equipment is capitalised when the individual asset value is $5,000 or greater.

The fair value of plant and equipment is normally determined by reference to the asset's depreciated replacement cost.

Certain assets are acquired under finance leases, which may form part of a service concession arrangement (i.e. public private partnership). Refer to Notes 1(m) Leases and 1(o) Commitments for more information.

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.

For the accounting policy on impairment of non-financial physical assets, refer to Note 1(g) Impairment of non financial assets.

More details about the valuation techniques and inputs used in determining the fair value of non-financial physical assets are discussed in Note 11 Property, plant and equipment.

Leasehold improvements

The cost of a leasehold improvement is capitalised as an asset and depreciated over the shorter of the remaining term of the lease or the estimated useful life of the improvements.

Restrictive nature of heritage buildings and Crown land

During the reporting period, the Department also held heritage buildings and other non-financial physical assets (including Crown land and infrastructure assets) that the Department intends to preserve because of their unique historical, cultural or environmental attributes.

The cost of some heritage and iconic assets 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. In addition, as there are limitations and restrictions imposed on those assets use and/or disposal, they may impact the fair value of those assets, and should be taken into account when the fair value is determined.

(i) Revaluations of non-financial physical assets

Non-financial physical assets are measured at fair value on a cyclical basis, in accordance with Financial Reporting Direction (FRD) 103F Non-financial physical assets issued by the Minister for Finance. A full revaluation normally occurs every five years, based upon the asset's government purpose classification but may occur more frequently if fair value assessments indicate material changes in values. Independent valuers are generally used to conduct these scheduled revaluations. Any interim revaluations are determined in accordance with the requirements of the FRD. Revaluation increases or decreases arise from differences between an asset's carrying value and fair value.

In a non-revaluation year, land is measured at each reporting date by applying industry indices to the values to ensure there has been no material movement. Where there has been a material movement (more than 10 per cent), the fair value is adjusted accordingly.

Net revaluation increases (where the carrying amount of a class of assets is increased as a result of a revaluation) are recognised in 'other economic flows—other comprehensive income' and accumulated in equity under the asset revaluation surplus. However, the net revaluation increase is recognised in the net result to the extent that it reverses a net revaluation decrease in respect of the same class of property, plant and equipment previously recognised as an expense (other economic flows) in the net result.

Net revaluation decrease is recognised in 'other economic flows—other comprehensive income' to the extent that a credit balance exists in the asset revaluation surplus in respect of the same class of property, plant and equipment. Otherwise, the net revaluation decreases are recognised immediately as other economic flows in the net result. The net revaluation decrease recognised in 'other economic flows—other comprehensive income' reduces the amount accumulated in equity under the asset revaluation surplus.

Revaluation increases and decreases relating to individual assets within a class of property, plant and equipment, are offset against one another within that class but are not offset in respect of assets in different classes. The asset revaluation surplus is not transferred to accumulated funds on de-recognition of the relevant asset.

Land

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

The CSO is an adjustment for the difference in value between unrestricted assets (e.g. freehold land) and assets held by the public sector, taking into account any legal, financial or physical restrictions imposed on the use or sale of the assets. As adjustments of CSO are considered as significant unobservable inputs, specialised land is classified as Level 3 assets.

An independent valuation of the Department's specialised land was performed by the Valuer-General Victoria. The valuation was performed using the market approach adjusted for CSO. The effective date of the valuation is 30 June 2016.

Buildings

The valuations are undertaken by the Valuer-General Victoria in accordance with the Department's policies. School buildings are specialised assets that are restricted to primarily providing education services, with some ancillary community services also provided. As such, there is generally little or no observable market-based evidence for determining the fair value of such assets. Accordingly, school buildings and other improvements are valued under the Depreciated Replacement Cost (DRC) method which represents the highest and best use under AASB 13 *Fair Value Measurement*.

DRC is the current replacement cost of an asset less where applicable, accumulated depreciation calculated on the basis of such cost to reflect age and the already consumed or expired future economic benefits of the asset. For the majority of the Department's specialised buildings, the depreciated replacement cost method is used, adjusting associated depreciation. Depreciation adjustments are considered as significant and unobservable inputs in nature, therefore these specialised buildings are classified as level 3 fair value measurements.

Where assets acquired within 12 months of the relevant scheduled revaluation have not been revalued, the acquisition cost is deemed to be fair value.

An independent valuation of the Department's specialised buildings was performed by the Valuer-General Victoria. The valuation was performed using the depreciated replacement cost approach. The effective date of the valuation is 30 June 2016.

Vehicles

Vehicles are valued using the depreciated replacement cost method. The Department acquires new vehicles and at times disposes of them before the end of their economic life. The process of acquisition, use and disposal in the market is managed by experienced fleet managers in the Department who set relevant depreciation rates during use to reflect the utilisation of the vehicles.

(ii) Plant and equipment

Plant and equipment assets are measured at fair value (equating to cost) less accumulated depreciation and impairment.

The fair value of plant and equipment is normally determined by reference to the asset's depreciated replacement cost. Existing depreciated historical cost is generally a reasonable approximation for depreciated replacement cost because of the short lives of the assets concerned.

For the accounting policy on impairment of non-financial physical assets, see Impairment of non-financial assets under Net gain/(loss) on disposal of non-financial assets in Note 1(g).

Non-financial physical assets arising from finance leases

The initial cost for non-financial physical assets under a finance lease (Note 1(m)) 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 are acquired under finance leases, which may form part of a service concession arrangement. See Note 1(m) and 1(o) in relation to such assets and arrangements.

Intangibles

Intangible assets are initially recognised at cost. Subsequently, intangible assets with finite useful lives are carried at cost less accumulated depreciation/amortisation and accumulated impairment losses. Costs incurred subsequent to initial acquisition are capitalised when it is expected that additional future economic benefits will flow to the Department.

When the recognition criteria in AASB 138 *Intangible Assets* are met, internally generated intangible assets are recognised and measured at cost less accumulated depreciation/amortisation and impairment.

See Note 1(f) and 1(g).

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development (or from the development phase of an internal project) 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 distribution
- an intention to complete the intangible asset and use or distribute 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 distribute the intangible asset
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

Other non-financial assets

Prepayments

Other non-financial assets include prepayments which 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.

(l) Liabilities

Payables

Payables consist of:

- contractual payables, such as accounts payable which represent liabilities for goods and services provided to the Department prior to the end of the financial year that are unpaid, and arise when the Department becomes obliged to make future payments in respect of the purchase of those goods and services. Contractual payables are classified as financial instruments and categorised as financial liabilities at amortised cost
- statutory payables, such as GST and fringe benefits tax payables. Statutory payables 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 a contract.

Borrowings

All interest bearing liabilities are initially recognised at the fair value of the consideration received; less directly attributable transaction costs (Note 1(m)).

Subsequent to initial recognition, borrowings are measured at amortised cost with any difference between the initial recognised amount and the redemption value being recognised in net result over the period of the borrowing using the effective interest rate method.

Provisions

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 the 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.

When some or all of the economic benefits required to settle a provision are expected to be received from a third party, the receivable is recognised as an asset if it is virtually certain that recovery will be received and the amount of the receivable can be measured reliably.

Employee benefits

Provision is made for benefits accruing to employees in respect of wages and salaries, annual leave and long service leave for services rendered to the reporting date.

i. Wages and salaries, and annual leave

Liabilities for wages and salaries, including non-monetary benefits annual leave, are recognised in the provision for employee benefits as 'current liabilities', because the Department does not have an unconditional right to defer settlements of these liabilities.

Based upon the expectation of the timing of settlement, liabilities for annual leave are measured at present value, as the Department does not expect to wholly settle within 12 months.

ii. Long service leave

Liability for long service leave is recognised in the provision for employee benefits.

Unconditional long service leave is disclosed in the notes to the financial statements as a current liability even where the Department does not expect to settle the liability within 12 months because it does 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:

- nominal value—if the Department expects to wholly settle within 12 months; and
- 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 liability is measured at present value.

Any gain or loss following revaluation of the present value of long service leave liability measured at present value is recognised in the 'net result from transactions', 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. See Note 1(g).

iii. Sabbatical leave

The Department's sabbatical leave scheme provides an arrangement for staff members to fund their own leave. The scheme consists of two components:

- a work period (of four times the leave period requested) during which the staff member receives annual salary at a reduced rate of 80 per cent
- a leave period, immediately following the completion of the work period, during which the staff member receives the accumulated salary.

Liability for sabbatical leave is recognised in the provision for sabbatical leave. The provision is calculated by adding up the unpaid portion of the accrued salaries of all staff members who have commenced the scheme, plus on-costs. It is updated each year to reflect the increase in salary accruals during the year less the amount of salaries paid out to staff that have commenced sabbatical leave.

Based upon the expectation of the timing of settlement, liabilities for sabbatical leave are measured at present value, as the Department does not expect to wholly settle within 12 months.

iv. Termination benefits

Termination benefits are payable when employment is terminated before the normal retirement date, or when an employee decides to accept an offer of benefits in exchange for the termination of employment. The Department recognises termination benefits when it is demonstrably committed to either 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.

On-costs related to employee expenses

On-costs (payroll tax, workers' compensation and superannuation) are recognised separately from provision for employee benefits.

The measurement of employee benefits on-costs mirrors the employee benefit provisions to which they relate, and therefore they are measured at present value as the Department does not expect to wholly settle within 12 months.

(m) Leases

A lease is a right 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 infrastructure leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership from the lessor to the lessee. For service concession arrangements (Note 1(q)), the commencement of the lease term is deemed to be the date of the asset is commissioned. All other leases are classified as operating leases.

Finance leases

Department as lessee

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 lease property or, if lower, the present value of the minimum lease payment, each determined at the inception of the lease. The lease asset is accounted for as a non-financial physical asset. If there is certainty that the Department will obtain the ownership of the lease asset by the end of the lease term, the asset shall be depreciated over the useful life of the asset. If there is no reasonable certainty that the lessee will obtain ownership by the end of the lease term, the asset shall be fully depreciated over the shorter of the lease term and its useful life.

Minimum finance lease payments are apportioned between reduction of the outstanding lease liability and 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.

Operating leases

Department as lessor

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease.

All incentives for the agreement of a new or renewed operating lease are recognised as an integral part of the net consideration agreed for the use of the leased asset, irrespective of the incentive’s nature or form or the timing of payments.

In the event that lease incentives are given to the lessee, the aggregate cost of incentives is recognised as a reduction of rental income over the lease term, on a straight-line basis unless another systematic basis is more representative of the time pattern over which the economic benefit of the leased asset is diminished.

Department as lessee

Operating lease payments, including any contingent rentals, are recognised as an expense in the comprehensive operating statement on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern of the benefits derived from the use of the leased asset. The leased asset is not recognised in the balance sheet.

All incentives for the agreement of a new or renewed operating lease are recognised as an integral part of the net consideration agreed for the use of the leased asset, irrespective of the incentive’s nature or form or the timing of payments.

In the event that lease incentives are received to enter into operating leases, the aggregate cost of incentives is recognised as a reduction of rental expense over the lease term on a straight-line basis, unless another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

(n) Equity

Contributions by owners

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 or distributions have also been designated as contributions by owners.

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

(o) Commitments

Commitments for future expenditure include operating and capital commitments arising from contracts. These commitments are disclosed by way of note (Note 22) at their nominal value and inclusive of GST payable. These future expenditures cease to be disclosed as commitments once the related liabilities are recognised in the balance sheet.

(p) Contingent assets and contingent liabilities

Contingent assets and contingent liabilities are not recognised in the balance sheet, but are disclosed by way of a note (Note 21) and, if quantifiable, are measured at nominal value. Contingent assets and liabilities are presented inclusive of GST receivable or payable respectively.

(q) Public Private Partnerships (Service concession arrangements)

The Department sometimes enters into arrangements with private sector participants, to design and construct or upgrade an asset used to provide public services. These arrangements are typically complex and usually include the provision of operational and maintenance services for a specified period of time. These arrangements are often referred to as either public-private partnerships or service concession arrangements.

The Department's service concession arrangements pay the operator over the period of the arrangement, 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 (Note 1(m)). The remaining components are accounted for as commitments for operating costs (Note 1(o)), which are expensed in the comprehensive operating statement as they are incurred.

(r) Accounting for goods and services tax

Income, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the taxation authority. In this case, the GST payable is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the taxation authority is included with other receivables or payables in the balance sheet.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the taxation authority, are presented as operating cash flow.

Commitments and contingent assets and liabilities are also stated inclusive of GST (Note 1(o) and 1(p)).

(s) Foreign currency

All foreign currency transactions during the financial year are brought to account using the exchange rate in effect at the date of the transaction. Foreign monetary items at reporting date are translated at the exchange rate existing at reporting date.

(t) Events after reporting date

Assets, liabilities, income or expenses arise from past transactions or other past events. Where the transactions result from an agreement between the Department and other parties, the transactions are only recognised when the agreement is irrevocable at or before balance date. Adjustments are made to amounts recognised in the financial statements for events which occur after the reporting date and before the date the statements are authorised for issue, where those events provide information about conditions which existed at the reporting date. Note disclosure is made about events between the balance date and the date the statements are authorised for issue where the events relate to conditions which arose after the reporting date that are considered to be of material interest.

(u) Correction of prior year errors

(i) Property, plant and equipment

For the financial report for the year ended 30 June 2015, the Victorian Auditor - General's Office (VAGO) issued a disclaimer of opinion, partly due to asset balances. VAGO identified that the Department had not maintained proper accounts and records to support its property, plant and equipment balances.

In response, the Department has allocated dedicated resources to review the property, plant and equipment balances including undertaking a full asset revaluation (Note 1 (k)).

In addition, the review identified that corrections were required to the Department’s property, plant and equipment work in progress balances, and the accounting treatment for trade training centres, plant and equipment, intangibles and non-financial assets classified as held for sale.

The Department has undertaken detailed analysis over the historical transactions that form part of the Department's property, plant and equipment, and non-financial assets classified as held for sale balances.

The analysis has been undertaken based on available transactions and supporting evidence. Where appropriate, judgements and estimates have been used to determine the corrections required to ensure the 30 June 2016 closing balances are fairly reported.

The work in progress balance corrections, for buildings, plant and equipment, and intangibles, specifically related to the requirement to capitalise completed assets from the work in progress account and the recognition of the associated depreciation expenditure. In addition, some of the work in progress balances have been deemed to be operating in nature and therefore have been expensed to the Operating Statement in the current year expenditure and to Equity (Accumulated Surplus/ (deficit)) in the Balance Sheet where it related to prior year expenditure.

The Department has identified that for the Trade Training Centre program, a Federal Government initiative project managed by schools, there was inconsistent accounting treatments for the:

- recognition of assets constructed in this program
- recognition of grant income by the schools
- determination of the control of assets, in some instances the funding passed through Government schools for assets that are situated on third party sites such as TAFEs or Catholic schools.

Based on analysis performed on the Trade Training Centre program that was delivered through 42 lead schools, it was determined that there were errors in the accounting for the program and financial statement adjustments are necessary.

The Department has identified that in the prior year not all non-financial assets classified as held for sale met the recognition requirements of AASB 5 Non-current Assets Held for Sale and Discontinued Operations. The Department has ensured these requirements have been met in the current financial year.

The Department has commenced implementation of significantly improved processes for the ongoing management of property, plant and equipment balances.

It is impracticable to restate the opening positions of the property, plant and equipment, and non-financial assets classified as held for sale balances, as well as any related balance (such as depreciation, reserves or accumulated surpluses). That is, opening position at 1 July 2014, and the comparative position as at 30 June 2015. Restatement is impracticable due to the following:

- many of the errors, in most instances, originally arose several years past
- there have been limitations in gathering supporting evidence, as it has not been available for aged transactions
- the volume of issues, and thereby corrections, is high at a transactional level.

Based on the work performed for Property, Plant and Equipment, it was determined that the net impact of the errors (corrected in the current year only) which require adjusting is as follows:

- decrease to intangible assets $4.2 million (assets)
- decrease to property, plant and equipment of $99.4 million (assets)
- increase to accumulated surplus/(deficit) of $61.8 million (equity)

- decrease to asset revaluation reserve of $165.4 million (equity).

All adjustments were processed against the opening balances of the current financial year, 1 July 2015.

(v) Reclassification of financial information

The Department has elected to reclassify some items in the financial statements for the year ended 30 June 2016 to appropriately reflect the nature of transactions. This has had an impact on the comparative information presented in the financial statements. The reclassification of comparative financial information is as followed:

(i) Motor vehicle sold under finance lease

The Department has reclassified the value of motor vehicle sold under finance lease from supplies and services to net gain/(loss) on non-financial assets.

The following 2015 comparative balances have been restated:

- decrease to supplies and services of $2.5 million (expenses)
- decrease to net gain/(loss) on non-financial assets of $2.5 million (other economic flows included in net result).

(ii) Conveyance and Education Maintenance Allowance payments

The Department has separated Education Maintenance Allowance payments and Conveyance payments in Note 4. The reclassification has no impact on the overall balance of expenses.

(iii) Other IT related expenses

The Department has reclassified other IT related expenses from other expenses in Note 4. The reclassification has no impact on the overall balance of expenses.

The following 2015 comparative balances have been restated:

- increase in other IT related expenses of $105.6 million (expenses)
- decrease in other expenses of $105.6 million (expenses).

(iv) Purchase of other non-financial assets

The Department has reclassified purchase of other non-financial assets to purchase of non-financial assets in the cash flow statements. The reclassification has no impact on the overall movement of cash flows from investing activities.

The following 2015 comparative balances have been restated:

- increase in purchase of non-financial assets of $11.0 million (cash flows from investing activities)
- decrease in purchase of other non-financial assets of $11.0 million (cash flows from investing activities)

(w) Australian Accounting Standards and interpretation issues that are not yet effective

Certain new Australian Accounting Standards and interpretations have been published that are not mandatory for the 30 June 2016 reporting period. The Department of Treasury and Finance assesses the impact of these new standards and advises the Department of their applicability and early adoption where applicable.

As at 30 June 2016, the following Australian Accounting Standards have been issued by the AASB, but are not mandatory for financial year ending 30 June 2016. The Department has not, and does not intend to, adopt these standards early.

Standard/ Interpretation	Summary	Applicable for annual reporting periods beginning on	Impact on public sector entity financial statements
AASB 9 *Financial Instruments*	The key changes include the simplified requirements for the classification and measurement of financial assets, a new hedging accounting model and a revised impairment loss model to recognise impairment losses earlier, as opposed to the current approach that recognises impairment only when incurred.	1 January 2018	The assessment has identified that the financial impact of available for sale (AFS) assets will now be reported through other comprehensive income (OCI) and no longer recycled to the profit and loss. While the preliminary assessment has not identified any material impact arising from AASB 9, it will continue to be monitored and assessed.
AASB 2010–7 *Amendments to Australian Accounting Standards arising from AASB 9* (December 2010)	The requirements for classifying and measuring financial liabilities were added to AASB 9. The existing requirements for the classification of financial liabilities and the ability to use the fair value option have been retained. However, where the fair value option is used for financial liabilities the change in fair value is accounted for as follows: • The change in fair value attributable to changes in credit risk is presented in other comprehensive income (OCI); and • Other fair value changes are presented in profit and loss. If this approach creates or enlarges an accounting mismatch in the profit or loss, the effect of the changes in credit risk are also presented in profit or loss.	1 January 2018	The assessment has identified that the amendments are likely to result in earlier recognition of impairment losses and at more regular intervals. Changes in own credit risk in respect of liabilities designated at fair value through profit and loss will now be presented within other comprehensive income (OCI). Hedge accounting will be more closely aligned with common risk management practices making it easier to have an effective hedge. For entities with significant lending activities, an overhaul of related systems and processes may be needed.
AASB 2014–1 *Amendments to Australian Accounting Standards* ***[Part E Financial Instruments]***	Amends various AASs to reflect the AASB's decision to defer the mandatory application date of AASB 9 to annual reporting periods beginning on or after 1 January 2018 as a consequence of Chapter 6 Hedge Accounting, and to amend reduced disclosure requirements.	1 January 2018	This amending standard will defer the application period of AASB 9 to the 2018–19 reporting period in accordance with the transition requirements.
AASB 2014–7 *Amendments to Australian Accounting Standards arising from AASB 9*	Amends various AASs to incorporate the consequential amendments arising from the issuance of AASB 9.	1 January 2018	The assessment has indicated that there will be no significant impact for the public sector.

Standard/ Interpretation	Summary	Applicable for annual reporting periods beginning on	Impact on public sector entity financial statements
AASB 14 *Regulatory Deferral Accounts* [11]	AASB 14 permits first-time adopters of Australian Accounting Standards who conduct rate-regulated activities to continue to account for amounts related to rate regulation in accordance with their previous GAAP.	1 January 2016	The assessment has indicated that there is no expected impact, as those that conduct rate-regulated activities have already adopted Australian Accounting Standards.
AASB 15 *Revenue from Contracts with Customers*	The core principle of AASB 15 requires an entity to recognise revenue when the entity satisfies a performance obligation by transferring a promised good or service to a customer.	1 January 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 licences 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 retained earnings if there are no former performance obligations outstanding.
AASB 2014–5 *Amendments to Australian Accounting Standards arising from AASB 15*	Amends the measurement of trade receivables and the recognition of dividends. Trade receivables that do not have a significant financing component, are to be measured at their transaction price, at initial recognition. Dividends are recognised in the profit and loss only when: • the entity's right to receive payment of the dividend is established • it is probable that the economic benefits associated with the dividend will flow to the entity; and • the amount can be measured reliably.	1 January 2017, except amendments to AASB 9 (December 2009) and AASB 9 (December 2010) apply from 1 January 2018.	The assessment has indicated that there will be no significant impact for the public sector.

[1] This Standard of Amendment may not be relevant to Victorian not-for-profit entities when operative.

Standard/ Interpretation	Summary	Applicable for annual reporting periods beginning on	Impact on public sector entity financial statements
AASB 2015–8 ***Amendments to Australian Accounting Standards—Effective Date of AASB 15***	This Standard defers the mandatory effective date of AASB 15 from 1 January 2017 to 1 January 2018.	1 January 2018	This amending standard will defer the application period of AASB 15 to the 2018–19 reporting period in accordance with the transition requirements.
AASB 2016–3 ***Amendments to Australian Accounting Standards—Clarifications to AASB 15***	This Standard amends AASB 15 to clarify the requirements on identifying performance obligations, principal versus agent considerations and the timing of recognising revenue from granting a licence. The amendments require: • A promise to transfer to a customer a good or service that is 'distinct' to be recognised as a separate performance obligation • for items purchased online, the entity is a principal if it obtains control of the good or service prior to transferring to the customer; and • for licences identified as being distinct from other goods or services in a contract, entities need to determine whether the licence transfers to the customer over time (right to use) or at a point in time (right to access).	1 January 2018	The assessment has indicated that there will be no significant impact for the public sector, other than the impact identified in AASB 15.
AASB 16 ***Leases***	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 be recognised on the balance sheet. 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.

Standard/ Interpretation	Summary	Applicable for annual reporting periods beginning on	Impact on public sector entity financial statements
AASB 2014–4 *Amendments to Australian Accounting Standards—Clarification of Acceptable Methods of Depreciation and Amortisation* [AASB 116 & AASB 138]	Amends AASB 116 *Property, Plant and Equipment* and AASB 138 *Intangible Assets* to: • establish the principle for the basis of depreciation and amortisation as being the expected pattern of consumption of the future economic benefits of an asset • prohibit the use of revenue-based methods to calculate the depreciation or amortisation of an asset, tangible or intangible, because revenue generally reflects the pattern of economic benefits that are generated from operating the business, rather than the consumption through the use of the asset.	1 January 2016	The assessment has indicated that there is no expected impact as the revenue-based method is not used for depreciation and amortisation.
AASB 2014-9 *Amendments to Australian Accounting Standards—Equity Method in Separate Financial Statements* [AASB 1, 127 & 128]	Amends AASB 127 *Separate Financial Statements* to allow entities to use the equity method of accounting for investments in subsidiaries, joint ventures and associates in their separate financial statements.	1 January 2016	The assessment indicates that there is no expected impact as the entity will continue to account for the investments in subsidiaries, joint ventures and associates using the cost method as mandated if separate financial statements are presented in accordance with FRD 113A.
AASB 2014- 10 *Amendments to Australian Accounting Standards—Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* [AASB 10 & AASB 128]	AASB 2014-10 amends AASB 10 *Consolidated Financial Statements* and AASB 128 *Investments in Associates* to ensure consistent treatment in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require that: • a full gain or loss to be recognised by the investor when a transaction involves a business (whether it is housed in a subsidiary or not); and • a partial gain or loss to be recognised by the parent when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary.	1 January 2016	The assessment has indicated that there is limited impact, as the revisions to AASB 10 and AASB 128 are guidance in nature.

Standard/ Interpretation	Summary	Applicable for annual reporting periods beginning on	Impact on public sector entity financial statements
AASB 2015-1 *Amendments to Australian Accounting Standards—Annual Improvements to Australian Accounting Standards 2012–2014 Cycle* [AASB 1, AASB 2, AASB 3, AASB 5, AASB 7, AASB 11, AASB 110, AASB 119, AASB 121, AASB 133, AASB 134, AASB 137 & AASB 140]	Amends the methods of disposal in AASB 5 *Non-current Assets held for sale and discontinued operations*. Amends AASB 7 *Financial Instruments* by including further guidance on servicing contracts.	1 January 2016	The assessment has indicated that when an asset (or disposal group) is reclassified from 'held to sale' to 'held for distribution', or vice versa, the asset does not have to be reinstated in the financial statements. Entities will be required to disclose all types of continuing involvement the entity still has when transferring a financial asset to a third party under conditions which allow it to derecognise the asset.
AASB 2015-6 *Amendments to Australian Accounting Standards—Extending Related Party Disclosures to Not-for-Profit Public Sector Entities* [AASB 10, AASB 124 & AASB 1049]	The Amendments extend the scope of AASB 124 *Related Party Disclosures to Not-for-Profit Public Sector Entities*. A guidance has been included to assist the application of the Standard by not-for-profit public sector entities.	1 January 2016	The amending standard will result in extended disclosures on the entity's key management personnel (KMP), and the related party transactions.
AASB 2016-4 *Amendments to Australian Accounting Standards—Recoverable Amount of Non-Cash-Generating Specialised Assets of Not-for-Profit Entities*	The standard amends AASB 136 *Impairment of Assets* to remove references to using depreciated replacement cost (DRC) as a measure of value in use for not-for-profit entities.	1 January 2017	The assessment has indicated that there is minimal impact. Given the specialised nature and restrictions of public sector assets, the existing use is presumed to be the highest and best use (HBU), hence current replacement cost under AASB 13 *Fair Value Measurement* is the same as the depreciated replacement cost concept under AASB 136.

In addition to the new standards and amendments above, the AASB has issued a list of other amending standards that are not effective for the 2015-16 reporting period (as listed below). In general, these amending standards include editorial and references changes that are expected to have insignificant impacts on public sector reporting.

AASB 1056 *Superannuation Entities*
AASB 1057 *Application of Australian Accounting Standards*
AASB 2014–1 *Amendments to Australian Accounting Standards [PART D—Consequential Amendments arising from AASB 14 Regulatory Deferral Accounts only]* [1]
AASB 2014–3 *Amendments to Australian Accounting Standards—Accounting for Acquisitions of Interests in Joint Operations* [AASB 1 & AASB 11]
AASB 2014–6 *Amendments to Australian Accounting Standards—Agriculture: Bearer Plants* [AASB 101, AASB 116, AASB 117, AASB 123, AASB 136, AASB 140 & AASB 141]
AASB 2015–2 *Amendments to Australian Accounting Standards—Disclosure Initiative: Amendments to AASB 101* [AASB 7, AASB 101, AASB 134 & AASB 1049]
AASB 2015–5 *Amendments to Australian Accounting Standards—Investment Entities: Applying the Consolidation Exception* [AASB 10, AASB 12, AASB 128] [1]
AASB 2015–9 *Amendments to Australian Accounting Standards—Scope and Application Paragraphs* [AASB 8, AASB 133 & AASB 1057]
AASB 2015–10 *Amendments to Australian Accounting Standards—Effective Date of Amendments to AASB 10 and AASB 128*
AASB 2016–1 *Amendments to Australian Accounting Standards—Recognition of Deferred Tax Assets for Unrealised Losses* [AASB 112]
AASB 2016–2 *Amendments to Australian Accounting Standards—Disclosure Initiative: Amendments to AASB 107*

[1] This Standard or Amendment may not be relevant to Victorian not-for-profit entities when operative.

Note 2 Departmental (controlled) outputs

A description of departmental outputs performed during the year ended 30 June 2016, and the objectives of these outputs, are summarised below.

(a) Strategy, Review and Regulation

The strategy, review and regulation output group develops, plans and monitors strategic policy settings across all stages of learning. It also includes inter-governmental negotiations as well as research, data and performance evaluations. This output group also supports regulation that ensures quality education and training is delivered and contributes to all the Department's objectives of achievement, engagement, wellbeing and productivity.

(b) Early Childhood Development

The early childhood development output group provides funding for a range of services that support children in the early years, including kindergarten and children's services, maternal and child health, and early intervention services for children with a disability. These outputs make a significant contribution to the Government's key outcomes in early childhood services. This output group and its outputs contribute towards providing and improving services to support all the Department's objectives of achievement, engagement, wellbeing and productivity.

(c) School Education

The school education output group consists of two outputs. The School Education—primary output provides services to develop essential skills and learning experiences to engage young minds in the primary sector. The School Education—secondary output delivers services to consolidate literacy and numeracy competencies including creative and critical thinking, as well as physical, social, emotional and intellectual development in adolescence. It also provides education services as well as varied pathways and support for transition across sectors to further study or employment. This output group contributes towards providing and improving services to support all the Department's objectives of achievement, engagement, wellbeing and productivity.

School Education—primary

This output provides education and other associated services designed to improve the quality of learning of students in Prep to Year 6 in government and non-government schools.

School Education—secondary

This output involves provision of education and other associated services designed to improve the quality of student learning and transition of students in Year 7 to 12 in government and non-government schools. It also covers the provision of cross-sectoral services to improve the transition to further education, training and employment.

(d) Higher Education and Skills

The higher education and skills output supports Victorians to gain the skills and capabilities essential for a rewarding life and helps create a globally competitive workforce. This output includes the functions of system design, market facilitation, consumer information, contracting and monitoring of vocational education and training services. It also involves the development and implementation of effective strategies for accredited and pre-accredited vocational education and training through adult community education. This output group contributes towards providing and improving services to support all the Department's objectives of achievement, engagement, wellbeing and productivity.

(e) Support Services Delivery

The support services delivery output group covers the Regional Support Group and provides student welfare and support, education maintenance allowance, student transport (excluding transport for special needs students) and health services. This output group contributes towards providing and improving services to support all the Department's objectives of achievement, engagement, wellbeing and productivity.

(f) Support for Students with Disabilities

The support for students with disabilities output group covers the Program for Students with Disabilities, transport for special need students and welfare and support services for students with special needs. This output group contributes towards providing and improving services to support all the Department's objectives of achievement, engagement, wellbeing and productivity.

Table 1—Departmental outputs schedule—controlled income and expenses for the year ended 30 June 2016

	Strategy, Review and Regulation	Early Childhood Develop-ment	School Education	Higher Education and Skills	Support Services Delivery	Support for Students with Disabilities	Depart-mental total
	$m	$m	$m	$m	$m	$m	$m
Income from transactions							
Output appropriations	84.6	532.9	7,774.1	1,578.8	342.3	859.3	**11,172.0**
Special appropriations	-	1.1	20.9	-	-	-	**22.0**
Interest	-	-	17.2	-	-	-	**17.2**
Grants	0.4	0.4	22.4	0.2	-	-	**23.4**
Sales of goods and services	1.7	0.1	206.6	0.3	-	0.9	**209.6**
Other income	1.4	-	524.4	0.2	0.6	0.1	**526.7**
Total income from transactions	**88.1**	**534.5**	**8,565.6**	**1,579.5**	**342.9**	**860.3**	**11,970.9**
Expenses from transactions							
Employee expenses	(44.6)	(42.3)	(4,841.5)	(38.1)	(160.3)	(691.0)	**(5,817.9)**
Depreciation and amortisation	(4.9)	(4.0)	(284.8)	(3.1)	(1.4)	(12.4)	**(310.5)**
Interest expenses	-	-	(14.3)	-	-	-	**(14.3)**
Grants and other expense transfers	(14.1)	(19.5)	(677.3)	(618.1)	(130.9)	(6.5)	**(1,466.4)**
Capital asset charge	(0.4)	(2.4)	(1,029.3)	(216.5)	(0.1)	(42.9)	**(1,291.7)**
Supplies and services	(23.8)	(465.7)	(1,400.1)	(652.6)	(42.2)	(92.8)	**(2,677.3)**
Other operating expenses	(0.3)	(0.5)	(131.8)	(6.7)	(8.1)	(14.7)	**(162.0)**
Total expenses from transactions	**88.1**	**534.5**	**8,379.1**	**1,535.1**	**342.9**	**860.3**	**11,740.0**
Net result from transactions (net operating balance)	**0.0**	**0.0**	**186.5**	**44.4**	**0.0**	**0.0**	**230.9**
Other economic flows included in net result							
Net gain/(loss) on non-financial assets	0.0	0.0	0.1	0.0	0.0	0.0	**0.1**
Net gain/(loss) on financial instruments	-	-	(14.8)	(2.6)	-	-	**(17.4)**
Other gains/(losses) from other economic flows	(0.2)	(0.2)	(25.9)	(0.2)	(0.9)	(3.7)	**(31.1)**
Total other economic flows included in net result	**(0.2)**	**(0.2)**	**(40.6)**	**(2.8)**	**(0.9)**	**(3.7)**	**(48.4)**
Net result	**(0.2)**	**(0.2)**	**145.9**	**41.6**	**(0.9)**	**(3.6)**	**182.5**
Other economic flows—other comprehensive income							
Changes in physical asset revaluation surplus	-	-	2,744.5	-	1.1	272.7	**3,018.4**
Total other economic flows—other comprehensive income	**-**	**-**	**2,744.5**	**-**	**1.1**	**272.7**	**3,018.4**
Comprehensive result	**(0.2)**	**(0.2)**	**2,890.4**	**41.6**	**0.2**	**269.1**	**3,200.9**

Table 2—Departmental outputs schedule—controlled assets and liabilities as at 30 June 2016

Assets and Liabilities	Strategy, Review and Regulation $m	Early Childhood Development $m	School Education $m	Higher Education and Skills $m	Support Services Delivery $m	Support for Students with Disabilities $m	Departmental total $m
Assets							
Financial assets	17.4	76.0	2,315.9	223.3	96.6	239.7	**2,969.0**
Non-financial assets	12.7	75.1	17,976.9	6.7	125.7	1,789.4	**19,986.5**
Total assets	**30.1**	**151.1**	**20,292.8**	**230.0**	**222.3**	**2,029.1**	**22,955.5**
Liabilities							
Liabilities	14.3	22.8	1,789.5	**43.5**	63.2	233.7	**2,166.9**
Total liabilities	**14.3**	**22.8**	**1,789.5**	**43.5**	**63.2**	**233.7**	**2,166.9**
Net assets/(liabilities)	**15.9**	**128.3**	**18,503.3**	**186.5**	**159.2**	**1,795.5**	**20,788.6**

Table 3—Departmental outputs schedule—controlled income and expenses for the year ended 30 June 2015

	Strategy, Review and Regulation $m	Early Childhood Development $m	School Education $m	Higher Education and Skills $m	Support Services Delivery $m	Support for Students with Disabilities $m	Departmental total $m
Income from transactions							
Output appropriations	83.5	509.4	7,340.3	1,659.7	273.7	816.7	**10,683.3**
Special appropriations	-	-	0.2	-	-	-	**0.2**
Interest	-	-	19.9	-	-	-	**19.9**
Grants	0.4	0.3	18.4	0.6	-	-	**19.7**
Sales of goods and services	1.6	0.1	211.6	0.3	-	0.7	**214.4**
Other income	0.9	-	519.4	0.1	2.7	0.1	**523.3**
Total income from transactions	**86.4**	**509.8**	**8,109.8**	**1,660.7**	**276.4**	**817.5**	**11,460.7**
Expenses from transactions							
Employee expenses	(41.3)	(45.6)	(4,540.5)	(34.0)	(175.2)	(641.0)	**(5,477.5)**
Depreciation and amortisation	(4.6)	(4.0)	(290.1)	(3.1)	(1.3)	(13.5)	**(316.7)**
Interest expenses	-	-	(14.2)	-	-	-	**(14.2)**
Grants and other expense transfers	(15.5)	(8.8)	(769.3)	(525.5)	(48.9)	(6.3)	**(1,374.2)**
Capital asset charge	(0.4)	(2.4)	(1,021.7)	(216.5)	(0.1)	(46.0)	**(1,287.1)**
Supplies and services	(24.3)	(448.4)	(1,284.0)	(793.7)	(42.7)	(94.7)	**(2,687.9)**
Other operating expenses	(0.2)	(0.6)	(94.6)	(3.7)	(8.0)	(15.6)	**(122.6)**
Total expenses from transactions	**(86.3)**	**(509.8)**	**(8,014.3)**	**(1,576.6)**	**(276.2)**	**(817.1)**	**(11,280.3)**
Net result from transactions (net operating balance)	**0.1**	**0.0**	**95.5**	**84.1**	**0.2**	**0.4**	**180.5**
Other economic flows included in net result							
Net gain/(loss) on non-financial assets	0.0	0.1	17.9	0.0	0.2	2.0	**20.3**
Net gain/(loss) on financial instruments	-	-	(7.7)	-	-	-	**(7.7)**
Other gains/(losses) from other economic flows	(0.3)	(0.3)	(28.4)	(0.2)	(1.1)	(4.0)	**(34.2)**
Total other economic flows included in net result	**(0.2)**	**(0.2)**	**(18.2)**	**(0.2)**	**(0.9)**	**(2.0)**	**(21.7)**
Net result	**(0.1)**	**(0.1)**	**77.3**	**83.9**	**(0.7)**	**(1.6)**	**158.8**
Other economic flows—other comprehensive income							
Changes in physical asset revaluation surplus	-	-	578.0	-	3.4	234.1	**815.5**
Total other economic flows—other comprehensive income	**-**	**-**	**578.0**	**-**	**3.4**	**234.1**	**815.5**
Comprehensive result	**(0.1)**	**(0.1)**	**655.3**	**83.9**	**2.7**	**232.5**	**974.3**

Table 4—Departmental outputs schedule—controlled assets and liabilities as at 30 June 2015

Assets and Liabilities	Strategy, Review and Regulation $m	Early Childhood Develop-ment $m	School Education $m	Higher Education and Skills $m	Support Services Delivery $m	Support for Students with Disabilities $m	Depart-mental total $m
Assets							
Financial assets	15.9	69.7	2,034.8	167.1	72.9	213.3	**2,573.7**
Non-financial assets	11.2	76.9	15,295.5	5.0	124.6	1,521.5	**17,034.9**
Total assets	**27.1**	**146.5**	**17,330.4**	**172.1**	**197.6**	**1,734.8**	**19,608.5**
Liabilities							
Liabilities	13.4	24.1	1,621.0	1.2	63.0	218.1	**1,940.8**
Total liabilities	**13.4**	**24.1**	**1,621.0**	**1.2**	**63.0**	**218.1**	**1,940.8**
Net assets/(liabilities)	**13.7**	**122.4**	**15,709.4**	**170.9**	**134.6**	**1,516.7**	**17,667.7**

Note 3 Administered (non-controlled) items

In addition to the specific departmental operations which are included in the comprehensive operating statement, balance sheet, statement of changes in equity and cash flow statement, the Department administers or manages other activities on behalf of the State. All the Department's administered activities relate to school education output. The transactions relating to these activities are reported as administered items (Note 1(b) and Note 1(h)).

	Departmental total	
	2016 $m	2015 $m
Administered income from transactions		
Commonwealth on-passing to non-government schools		
General recurrent grants	**2,777.7**	2,632.7
Other	**51.9**	49.7
Prizes and scholarships	**0.3**	0.3
Other income	**29.5**	4.1
Amounts received via Consolidated Fund	**98.4**	-
Total administered income from transactions	**2,957.7**	2,686.8
Administered expenses from transactions		
Commonwealth on-passing to non-government schools		
General recurrent grants	**(2,777.7)**	(2,632.7)
Other	**(51.9)**	(49.7)
Prizes and scholarships	**(0.4)**	(0.9)
Amounts paid to Consolidated Fund	**-**	(52.3)
Other	**(0.8)**	(0.8)
Total administered expenses from transactions	**(2,830.7)**	(2,736.5)
Total administered net result from transactions (net operating balance)	**126.9**	(49.7)
Administered other economic flows included in the administered net result		
Net gain/(loss) on non-financial assets	**(124.1)**	54.3
Total administered other economic flows	**(124.1)**	54.3
Administered net result	**2.9**	4.7
Administered other economic flows—other comprehensive income		
Items that will not be classified to net result	**-**	-
Total administered other economic flows—other comprehensive income	**-**	-
Total administered comprehensive result	**2.9**	4.7
Administered financial assets		
Receivables	**13.5**	10.5
Investments	**1.3**	1.5
Total administered financial assets	**14.9**	12.0
Administered non-financial assets		
Property, plant and equipment	**-**	8.3
Total administered non-financial assets	**-**	8.3
Total administered assets	**14.9**	20.3
Administered liabilities		
Total administered liabilities	**-**	-
Total administered net assets	**14.9**	**20.3**

Note 4 Net result from transactions (net operating balance)

	2016 $m	2015 $m
Income from transactions		
(a) Grants		
Commonwealth	**18.8**	15.7
Other public bodies	**4.7**	4.1
Total grants	**23.4**	19.7
(b) Sales of goods and services		
Schools revenue – including sales of classroom material, before and after school care, and other trading operations	**141.7**	160.9
Provision of services	**68.0**	53.4
Total sales of goods and services	**209.6**	214.4
(c) Other income		
Schools revenue – including parents' voluntary contributions and other locally raised funds	**512.3**	510.1
Other revenue	**14.4**	13.2
Total other income	**526.7**	523.3
Expenses from transactions		
(d) Employee expenses		
Salaries and wages—departmental employees	**4,499.7**	4,226.0
Salaries and wages—staff employed by school councils	**231.3**	226.2
Superannuation	**473.2**	451.9
Annual leave and long service leave expense	**298.7**	276.3
Other on-costs (fringe benefits tax, payroll tax and WorkCover levy)	**315.1**	297.1
Total employee expenses	**5,817.9**	5,477.5
(e) Depreciation and amortisation		
Depreciation		
Buildings	**248.6**	238.2
Heritage buildings	**2.6**	2.5
Leasehold buildings	**3.2**	3.2
Leasehold improvements	**1.3**	0.2
Plant and equipment	**39.1**	52.3
	294.8	296.4
Amortisation		
Software	**15.7**	20.3
	15.7	20.3
Total depreciation and amortisation	**310.5**	316.7

	2016 $m	2015 $m
(f) Grants and other expense transfers		
Grants to Victorian Curriculum and Assessment Authority	**49.9**	47.3
Grants to Victorian Registration and Qualifications Authority	**12.2**	9.1
Grants to Technical and Further Education	**548.5**	495.7
Grants to Adult, Community and Further Education Board	**29.0**	25.4
Grants to non-government schools	**661.5**	669.3
Grants to external organisations	**129.2**	95.0
Education Maintenance Allowance payments	**0.0**	10.9
Camps Sports and Excursions Fund payments	**15.9**	-
Conveyance payments	**20.1**	21.5
Total grants and other expense transfers	**1,466.4**	1,374.2
(g) Supplies and services		
Administration	**273.3**	243.4
Maintenance	**252.5**	240.2
School requisites	**945.0**	886.2
Service agreement payments	**1,072.8**	1,186.2
Student transport	**68.1**	67.4
Rental expense relating to operating leases—Minimum lease payments	**65.5**	64.5
Total supplies and services	**2,677.3**	2,687.9
(h) Other operating expenses		
Fair value of assets and services provided free of charge or for nominal consideration		
Rent provided free of charge—Victorian Curriculum and Assessment Authority	**2.3**	2.3
Rent provided free of charge—Victorian Registration and Qualifications Authority	**0.5**	0.5
Total fair value of assets and services provided free of charge or for nominal consideration	**2.9**	2.8
Victorian Auditor-General's Office audit fees		
Audit of the financial statements	**0.8**	0.6
Total audit fees	**0.8**	0.6
Ex-gratia expenses	**–**	–
Teachers notebook program reimbursement	**37.2**	_
Other expenses	**15.5**	13.7
Other IT related expenses	**105.6**	105.6
Total other operating expenses	**162.0**	122.6

Note 5 Other economic flows included in net result

	2016 $m	2015 $m
(a) Net gain/(loss) on non-financial assets		
Net gain/(loss) on disposals of non-financial assets	**0.1**	0.7
Assets previously not recognised	**-**	22.0
Impairment of non-financial assets	**-**	(2.4)
Total net gain/(loss) on non-financial assets	**0.1**	20.3
(b) Net gain/(loss) on financial instruments		
Impairment of loans and receivables	**(17.4)**	(7.7)
Total net gain/(loss) on financial instruments	**(17.4)**	(7.7)
(c) Other gains/(losses) from other economic flows		
Net gain/(loss) arising from revaluation of long service leave liability	**(31.1)**	(34.2)
Total other gains/(losses) from other economic flows	**(31.1)**	(34.2)

Note 6 Summary of compliance with annual parliamentary and special appropriations

(a) Summary of compliance with annual parliamentary appropriations

The following table discloses the details of the various parliamentary appropriations received by the Department for the year. In accordance with accrual output-based management procedures, 'provision for 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.

	Appropriation Act		*Financial Management Act* 1994							
	Annual appropriation	Advance from Treasurer	Section 3(2)	Section 29	Section 30	Section 32	Section 35 advances	Total parliamentary authority	Appropriations applied	Variance[1]
	$m	$m	$m	$m	$m	$m	$m	$m	$m	$m
2016										
Controlled										
Provision for outputs	10,840.3	212.0	–	493.0	4.0	325.1	–	11,874.4	11,172.0	702.4
Additions to net assets	–	–	–	25.5	(4.0)	–	–	21.5	3.5	18.0
Total	10,840.3	212.0	–	518.5	–	325.1	–	11,895.8	11,175.4	720.4
	Annual appropriation	Advance from Treasurer	Section 3(2)	Section 29	Section 30	Section 32	Section 35 advances	Total parliamentary authority	Appropriations applied	Variance[2]
	$m	$m	$m	$m	$m	$m	$m	$m	$m	$m
2015										
Controlled										
Provision for outputs	10,211.9	182.3	–	482.9	–	229.2	41.3	11,147.6	10,683.3	464.3
Additions to net assets	–	–	–	145.6	–	10.2	–	155.8	155.8	–
Total	10,211.9	182.3	–	628.6	–	239.4	41.3	11,303.5	10,839.1	464.3

[1] The provision of outputs variance of $702.4 million primarily reflects a $246.0 million carryover of provisions of outputs appropriation related to initiatives including Non-Government schools and early childhood grants of $40.0 million, Schools infrastructure including maintenance related projects of $37.8 million, reform activities of $29.9 million, IT systems licencing and maintenance payments of $22.5 million, TAFE Structural Adjustment Fund of $17.9 million, Early childhood and education programs of $14.2 million, and other Departmental programs of $83.6 million. In addition, savings of $91.3 million and lapsed prior year's appropriation and carryover, Treasurer Advance and VTG funding totalling $365.1 million also contribute to the variance.
The additions to net assets variance of $18.0 million reflects the carryover of the Commonwealth funding for the Trade Training Centre initiative.

[2] The provision of outputs variance of $464.3 million primarily reflects the carryover of provisions of outputs appropriation related to initiatives including Victoria Training Guarantee of $134.1 million and grant payments to non-government schools of $25.7 million and the rollout of maintenance funding to schools following the condition assessment process of $24.0 million. The appropriation rephasing and lapsed Treasurer Advance and the section 35 advance totalling $79.8 million also contribute to the variance.

(b) Summary of compliance with special appropriations

Authority controlled	Purpose	Appropriations applied 2016 $m	2015 $m
Section 5.6.8 of the *Education and Training Reform Act 2006*	Volunteers workers' compensation	**0.3**	0.2
Section 10 of the *Financial Management Act 1994*	Digital Education Revolution	**20.6**	-
Section 10 of the *Financial Management Act 1994*	Occasional Care	**1.1**	-
Total		**22.0**	0.2

Note 7 Cash and deposits/other financial assets

	2016 $m	2015 $m
Cash and deposits		
Amounts held by schools[1]	**497.8**	557.8
Bank accounts held in trust	**196.9**	152.2
Other bank accounts	**8.6**	5.2
Total cash and deposits (a)	**703.3**	715.3
Other financial assets held by schools[1] (b)	**274.9**	132.5

1 Due to limitation of available information, the value of instruments from schools with 0-3-month maturity as ay June 2015 was apportioned to *Cash and Deposits*, from *Other Financial Assets,* based on estimates.

(a) Cash at bank

Amounts held by schools at the end of the financial year disclosed as 'Cash and deposits' include bank accounts and short-term deposits with a maturity of less than three months.

Due to the State of Victoria's investment policy and government funding arrangements, the Department generally does not hold a large cash reserve in its bank accounts. The Departmental operating bank accounts hold funds on behalf of trusts and for working accounts (Note 26).

Cash received by the Department from the generation of income is generally paid into the State's bank account, known as the Public Account. Similarly, any Departmental expenditure, including those payments for 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 to cover its transactions. This remittance by the Public Account occurs upon the electronic transfer of funds and the presentation of the cheques by the Department's suppliers or creditors.

(b) Other financial assets

Amounts held by schools with a maturity of three months or more are disclosed as 'Other financial assets'.

Note 8 Receivables

	2016 $m	2015 $m
Current Receivables		
Statutory		
Amounts owing from Victorian Government[1]	**1,627.0**	1,434.0
GST receivables	**64.3**	41.8
Total	**1,691.3**	1,475.8
Contractual		
Other debtors[2,3]	**52.5**	30.6
Loan receivables	**4.9**	12.3
Total	**57.4**	43.0
Allowance for doubtful debts[2]	**(32.0)**	(14.6)
Total current receivables	**1,716.8**	1,504.2
Non-current receivables		
Statutory		
Amounts owing from Victorian Government[1]	**213.5**	190.1
Contractual		
Loan receivables	**60.5**	31.6
Total non-current receivables	**274.0**	221.7

	2016 $m	2015 $m
Aggregate carrying number of receivables		
Current	**1,716.8**	1,504.2
Non-current	**274.0**	221.7
Total aggregate carrying number of receivables	**1,990.8**	1,725.9

1 The amounts recognised from Victorian Government represent funding for all commitments incurred through the appropriations and are drawn from the Consolidated Fund as the commitments fall due.
2 The average credit period on sales of goods and services is 30 days. No interest is charged on other receivables for the first 30 days from the date of the invoice. An allowance has been made for estimated irrecoverable amounts from the sale of goods debtors when there is objective evidence that an individual receivable is impaired. The increase/decrease was recognised in the operating result for the current financial year.
3 There is inadequate supporting documentation maintained by the Department to confirm the existence and collectability of school debtors and unearned income. The Department has not recognized on the balance sheet any amounts that may be collectable, or services that the Department is obliged to provide. As a result, the Department has not complied with AASB 139 *Financial Instruments: Recognition and Measurement.*

(a) Movement in the allowance for doubtful debts

	2016 $m	2015 $m
Balance at beginning of the year	**(14.6)**	**(5.2)**
Reversal of unused provision recognised in the net result	**2.3**	0.9
Increase in provision recognised in the net result	**(19.7)**	(10.6)
Reversal of provision of receivables written off during the year as uncollectable	**0.1**	0.2
Balance at end of the year	**(32.0)**	(14.6)

(b) Ageing analysis of contractual receivables

See Table 11 in Note 17 for the ageing analysis of contractual receivables.

(c) Nature and extent of risk arising from contractual receivables

See Note 17 for the ageing analysis of contractual receivables.

Note 9 Non-financial physical assets classified as held for sale

(a) Non-financial physical assets classified as held for sale

	2016 $m	2015 $m
Non-current assets		
Land	**7.1**	107.5
Buildings	**0.4**	0.0
Plant and equipment	**0.2**	0.4
Total non-financial physical assets classified as held for sale	**7.8**	107.9

(b) Fair value measurement of non-financial physical assets held for sale

The following table provides the fair value measurement hierarchy of the Department's non-financial physical assets held for sale.

		Fair value measurement at end of reporting period using:[1]		
	Carrying amount as at 30 June 2016 $m	Level 1 $m	Level 2 $m	Level 3 $m
Land	7.1	-	-	7.1
Buildings	0.4	-	-	0.4
Plant and equipment	0.2	-	-	0.2
Total	**7.8**	-	-	**7.8**

		Fair value measurement at end of reporting period using:[1]		
	Carrying amount as at 30 June 2015 $m	Level 1 $m	Level 2 $m	Level 3 $m
Land	107.5	-	-	107.5
Plant and equipment	0.4	-	-	0.4
Total	**107.9**	**-**	-	**107.9**

1 Classified in accordance with the fair value hierarchy (Note 1(b))

Note 10 Intangible assets

2016	Note	Software at cost $m	Software work in progress $m	Total $m
Opening balance		**110.9**	**38.5**	**149.4**
Prior year adjustments		11.8	(11.6)	0.2
Additions		0.6	21.2	21.8
Disposals		(0.4)	-	(0.4)
Impairment		-	-	-
Transfer to completed assets		16.6	(16.6)	-
Closing balance		**139.6**	**31.5**	**171.1**
Accumulated Amortisation				
Opening balance		(83.7)	-	(83.7)
Prior year amortisation adjustments		(4.2)	-	(4.2)
Amortisation expense	4(e)	(15.7)	-	(15.7)
Write back due to disposals		0.3	-	0.3
Closing balance		**(103.3)**	**-**	**(103.3)**
Net book value at end of financial year		**36.2**	**31.5**	**67.7**

2015	Note	Software at cost $m	Software work in progress $m	Total $m
Opening balance		92.6	34.7	127.3
Additions		0.6	24.3	24.9
Disposals		(0.4)	-	(0.4)
Impairment[1]		-	(2.4)	(2.4)
Transfer to completed assets		18.1	(18.1)	-
Closing balance		**110.9**	**38.5**	**149.4**
Accumulated Amortisation				
Opening balance		(63.8)	-	(63.8)
Amortisation expense	4(e)	(20.3)	-	(20.3)
Write back due to disposals		0.3	-	0.3
Closing balance		**(83.7)**	**-**	**(83.7)**
Net book value at end of financial year		**27.2**	**38.5**	**65.7**

1 Impairment losses are included in the line item 'net gain/(loss) on non-financial assets' in the comprehensive operating statement. The annual impairment review performed by the Department on intangible assets for 2015 resulted in an impairment of the Enterprise online assessment system following a determination to not implement this system.

Note 11 Property, plant and equipment—Education purpose group[1]

	2016 $m	2015 $m
Land		
At fair value[2]	**9,367.6**	7,895.7
Buildings		
At fair value	**10,014.0**	8,756.9
Less accumulated depreciation	**-**	(490.1)
Total buildings	**10,014.0**	8,266.8
Heritage Buildings		
At fair value	**104.1**	63.1
Less accumulated depreciation	**-**	(5.0)
Total heritage buildings	**104.1**	58.1
Leasehold buildings		
Leasehold buildings - at fair value	**145.0**	205.7
Less accumulated depreciation	**-**	(14.7)
Total leasehold buildings	**145.0**	191.0
Leasehold improvements		
Leasehold improvements - at fair value	**10.1**	2.1
Less accumulated depreciation	**(6.4)**	(1.6)
Total leasehold improvements	**3.7**	0.5
Plant and equipment		
At fair value	**563.1**	759.0
Less accumulated depreciation	**(489.9)**	(661.2)
	73.2	97.8
Plant and equipment under finance lease	**18.9**	17.3
Less accumulated depreciation	**(7.6)**	(6.2)
	11.3	11.1
Total plant and equipment	**84.5**	109.0
Work in progress		
Buildings at cost	**148.2**	266.9
Plant and equipment at cost	**2.8**	42.1
Total work in progress	**150.9**	309.0
Total property, plant and equipment	**19,869.9**	16,830.2

1 Property, plant and equipment are classified primarily by the ‘purpose’ for which the assets are used, according to one of six ‘Purpose Groups’ based upon government purpose classifications (GPC). All assets within a purpose group are further sub-categorised according to the asset’s ‘nature’ (that is, buildings, plant and equipment, and so forth), with each sub-category being classified as a separate class of asset for financial reporting purposes.

2 In accordance with FRD 103F the Department conducts fair value assessments based upon the cumulative indices supplied by the Valuer-General since the last formal revaluation. Where fair value assessments indicate that the changes in valuations are greater than 10 per cent and less than 40 per cent, a management valuation is to be undertaken. As part of the fair value assessment of land for the year ended 30 June 2015, land indices were applied to land parcels which resulted in a material movement in the fair value of 12%. A managerial revaluation of $852.9 million was recognised.

(a) Independent valuation of land and buildings

An interim independent revaluation of Department land and building assets was conducted by the Valuer-General Victoria (VGV) for the financial year ending 30 June 2016. The revaluation was conducted in accordance with policy set out in Note 1(k). A full revaluation normally occurs every five years, with the next scheduled revaluation to occur in 2018.

(b) Reconciliations

Reconciliations of the carrying amounts of each class of property, plant and equipment at the beginning and end of the financial year are set out on the following page:

2016	Land $m	Buildings $m	Heritage Buildings $m	Leasehold buildings $m	Leasehold improvements $m	Plant and equipment $m	Work in progress $m	Total $m
Opening balance	7,895.7	8,266.8	58.1	191.0	0.5	109.0	309.0	**16,830.2**
Prior year adjustments	(32.6)	79.4	-	-	4.3	3.5	(142.0)	**(87.5)**
Additions	2.5	0.3	-	-	0.1	21.9	260.1	**284.9**
Fair value of assets received free of charge or for nominal considerations	0.1	-	-	-	-	-	-	**0.1**
Transfers to completed assets	-	273.3	-	-	0.1	2.7	(276.1)	**0.0**
Disposals	(4.8)	(18.1)	-	-	-	(13.5)	-	**(36.4)**
Disposal identified through revaluation	(0.4)	(110.1)	-	-	-	-	-	**(110.4)**
Additions identified through revaluation	255.7	176.3	-	-	-	-	-	**432.0**
Revaluation increments/(decrements)	1,151.1	1,595.1	48.7	(42.8)	0.0	-	-	**2,752.1**
Impairment	-	-	-	-	-	-	-	**-**
Transfer (to)/from assets held for sale	100.2	(0.6)	-	-	-	0.1	-	**99.8**
Depreciation	-	(248.6)	(2.6)	(3.2)	(1.3)	(39.1)	-	**(294.8)**
Closing balance	**9,367.6**	**10,014.0**	**104.1**	**145.0**	**3.7**	**84.5**	**150.9**	**19,869.9**

2015	Land $m	Buildings $m	Heritage Buildings $m	Leasehold buildings $m	Leasehold improvements $m	Plant and equipment $m	Work in progress $m	Total $m
Opening balance	7,098.9	8,309.7	60.6	194.2	0.7	132.9	347.0	**16,144.0**
Additions	5.8	0.5	-	-	0.0	30.6	219.6	**256.6**
Assets previously not recognised	20.8	1.1	-	-	-	-	-	**22.0**
Transfers to completed assets	-	256.2	-	-	-	1.3	(257.5)	**-**
Disposals	(68.2)	(22.5)	-	-	-	(3.4)	-	**(94.0)**
Revaluation increments/(decrements)	855.5	-	-	-	-	-	-	**855.5**
Impairment[1]	-	(40.0)	-	-	-	-	-	**(40.0)**
Transfer (to)/from assets held for sale	(17.1)	-	-	-	-	(0.3)	-	**(17.3)**
Depreciation	-	(238.2)	(2.5)	(3.2)	(0.2)	(52.3)	-	**(296.4)**
Closing balance	**7,895.7**	**8,266.8**	**58.1**	**191.0**	**0.5**	**109.0**	**309.0**	**16,830.2**

1 The change in accounting policy to the fair value measurement of closed school buildings on surplus land resulted in the impairment of school buildings of $40.0 million in 2015. For closed school buildings on surplus land, the highest and best use is to demolish the buildings and sell the land as a vacant site. On this basis, the recoverable amount of closed school buildings is zero as there are no future economic benefits associated with the buildings.

Tables 5 to 8 provide the fair value measurement hierarchy of the Department's property, plant and equipment.

Table 5—Fair value measurement hierarchy for assets as at 30 June 2016

2016	Carrying amount as at 30 June 2016 $m	Fair value measurement at end of reporting period using: Level 1[1] $m	Level 2[1] $m	Level 3[1] $m
Land at fair value				
Land	9,367.6	–	–	9,367.6
Total land at fair value	**9,367.6**	–	–	**9,367.6**
Buildings at fair value				
Buildings	10,014.0	–	–	10,014.0
Total of buildings at fair value	**10,014.0**	–	–	**10,014.0**
Heritage buildings at fair value				
Heritage Buildings	104.1	–	–	104.1
Total of heritage buildings at fair value	**104.1**	–	–	**104.1**
Leasehold buildings at fair value				
Leasehold buildings	145.0	–	–	145.0
Total of leasehold buildings at fair value	**145.0**	–	–	**145.0**
Leasehold improvements at fair value				
Leasehold improvements	3.7	–	–	3.7
Total of leasehold improvements at fair value	**3.7**	–	–	**3.7**
Plant and equipment at fair value				
Plant and equipment	84.5	–	11.3	73.2
Total of plant and equipment at fair value	**84.5**	–	11.3	**73.2**

[1] Classified in accordance with the fair value hierarchy, see Note 1(b).

Table 6—Reconciliation of Level 3 fair value 30 June 2016

2016	Land $m	Buildings $m	Heritage buildings $m	Leasehold buildings $m	Leasehold improvements $m	Plant and equipment $m
Opening balance	**7,895.7**	**8,266.8**	**58.1**	**191.0**	**0.5**	**97.8**
Prior year adjustments	(32.6)	79.4	–	–	4.3	3.5
Purchases (sales)	(2.2)	(17.8)	–	–	0.1	5.0
Assets previously not recognised	–	–	–	–	–	–
Transfers to completed assets	–	273.3	–	–	0.1	2.7
Transfer (to)/from assets held for sale	100.2	(0.6)	–	–	–	–
Depreciation	–	(248.6)	(2.6)	(3.2)	(1.3)	(35.7)
Impairment loss	–	–	–	–	–	–
Disposals identified through revaluation	(0.4)	(110.1)	–	–	–	–
Additions identified through revaluation	255.7	176.3	–	–	–	–
Revaluation	1,151.1	1,595.1	48.7	(42.8)	0.0	–
Closing balance	**9,367.6**	**10,014.0**	**104.1**	**145.0**	**3.7**	**73.2**

Table 7—Fair value measurement hierarchy for assets as at 30 June 2015

2015	Carrying amount as at 30 June 2015 $m	Fair value measurement at end of reporting period using: Level 1[1] $m	Level 2[1] $m	Level 3[1] $m
Land at fair value				
Land	7,895.7	–	–	7,895.7
Total land at fair value	**7,895.7**	–	–	**7,895.7**
Buildings at fair value				
Buildings	8,266.8	–	–	8,266.8
Total of buildings at fair value	**8,266.8**	–	–	**8,266.8**
Heritage buildings at fair value				
Heritage buildings	58.1	–	–	58.1
Total of heritage buildings at fair value	**58.1**	–	–	**58.1**
Leasehold buildings at fair value				
Leasehold buildings	191.0	–	–	191.0
Total of leasehold buildings at fair value	**191.0**	–	–	**191.0**
Leasehold improvements at fair value				
Leasehold improvements	0.5	–	–	0.5
Total of leasehold improvements at fair value	**0.5**	–	–	**0.5**
Plant and equipment at fair value				
Plant and equipment	109.0	–	11.1	97.8
Total of plant and equipment at fair value	**109.0**	–	**11.1**	**97.8**

[1] Classified in accordance with the fair value hierarchy, see Note 1(b).

Table 8—Reconciliation of Level 3 fair value 30 June 2015

2015	Land $m	Buildings $m	Heritage buildings $m	Leasehold buildings $m	Leasehold improvements $m	Plant and equipment $m
Opening balance	7,098.9	8,309.7	60.6	194.2	0.7	121.1
Purchases (sales)	(62.4)	(22.0)	–	–	0.0	24.5
Assets previously not recognised	20.8	1.1	–	–	–	–
Transfers to completed assets	–	256.2	–	–	–	1.3
Transfer (to)/from assets held for sale	(17.1)	–	–	–	–	–
Depreciation	–	(238.2)	(2.5)	(3.2)	(0.2)	(49.1)
Impairment loss	–	(40.0)	–	–	–	–
Revaluation	855.5	–	–	–	–	–
Closing balance	**7,895.7**	**8,266.8**	**58.1**	**191.0**	**0.5**	**97.8**

Table 9—Description of significant unobservable inputs to Level 3 valuations

2016 and 2015	Valuation technique	Significant unobservable inputs
Land	Market approach	Community Service Obligation (CSO)
Buildings	Depreciation replacement cost	Direct cost per square metre
		Useful life of specialised buildings
Heritage buildings	Reproduction cost	Direct cost per square metre
		Useful life of heritage buildings
Leasehold buildings	Depreciation replacement cost	Direct cost per square metre
		Useful life of leasehold buildings
Leasehold improvements	Depreciation replacement cost	Direct cost per square metre
		Useful life of leasehold buildings
Plant and equipment	Depreciation replacement cost	Cost per unit
		Useful life of plant and equipment

The significant unobservable inputs have remained unchanged from 2015.

Note 12 Payables

	2016 $m	2015 $m
Current payables		
Contractual		
Salaries, wages and on-costs	**97.9**	66.4
Accrued grants and transfer payments	**43.9**	38.8
Other accruals	**8.7**	7.4
Schools creditors	**12.1**	10.8
Capital expenditure	**41.0**	13.0
Operating expenditure	**190.1**	159.6
Total	**393.8**	296.1
Statutory		
Taxes payable	**23.7**	23.9
Advance payable to Public Account	**43.9**	22.4
Total	**67.6**	46.3
Total current payables	**461.4**	342.4
Total payables	**461.4**	342.4

(a) Maturity analysis of contractual payables

See Table 12 in Note 17 for the ageing analysis of contractual payables.

(b) Nature and extent of risk arising from contractual payables

See Note 17 for the nature and extent of financial risk arising from contractual payables.

Note 13 Borrowings

	2016 $m	2015 $m
Current borrowings		
Finance lease liabilities[1]		
PPP related finance lease liabilities	**15.2**	15.2
Motor vehicles related finance lease liabilities	**4.0**	3.7
Advance from Public Account[2]	**7.4**	14.4
Other current[3]	**1.6**	-
Total current borrowings	**28.2**	33.3
Non-current borrowings		
Finance lease liabilities		
PPP related finance lease liabilities	**160.1**	164.5
Motor vehicles related finance lease liabilities	**4.6**	4.2
Advance from Public Account[2]	**48.3**	41.7
Other non-current[3]	**8.4**	11.5
Total non-current borrowings	**221.4**	221.8
Total Borrowings	**249.6**	255.1

1 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. Refer to Note 18 Leases for further information on finance lease liabilities.
2 These are unsecured loans which bear no interest. The terms of the loans are generally agreed by the Treasurer at the time the advance was provided.
3 Other borrowings are made up of co-operative loans. Due to limitation of available information, the split between current and non-current other borrowings was not available in 2015.

(a) Maturity analysis of borrowings

See Table 12 in Note 17 for the ageing analysis of borrowings.

(b) Nature and extent of risk arising from borrowings

See Note 17 for the nature and extent of risks arising from borrowings.

(c) Defaults and breaches

During the current and prior year, there were no defaults and breaches of any of the loans.

Note 14 Provisions

	Note	2016 $m	2015 $m
Current provisions			
Employee benefits[1]—annual leave			
Unconditional and expected to be settled within 12 months		**77.7**	75.6
Unconditional and expected to be settled after 12 months		**10.1**	9.7
Employee benefits[1]—long service leave			
Unconditional and expected to be settled within 12 months		**141.6**	125.1
Unconditional and expected to be settled after 12 months		**809.6**	761.7
Employee benefits[1]—other			
Unconditional and expected to be settled within 12 months		**3.3**	2.5
Total	14(a)	**1,042.2**	974.6
Provisions related to employee benefit on-costs			
Unconditional and expected to be settled within 12 months		**33.4**	33.2
Unconditional and expected to be settled after 12 months		**134.4**	132.5
Total	14(a)	**167.8**	165.6
Make good[2]	14(b)	**0.3**	0.2
Sabbatical leave	14(b)	**0.9**	1.5
Total current provisions		**1,211.3**	1,142.0
Non-current Provisions			
Employee benefits[1]	14(a)	**183.4**	163.0
Employee benefit on-costs	14(a)	**30.1**	27.1
Make good[2]	14(b)	**0.3**	0.3
Total non-current provisions		**213.8**	190.4
Total Provisions		**1,425.1**	1,332.4

1 Provisions for employee benefits consist of amounts for annual leave, long service leave and other employee benefits accrued by employees, not including on-costs.
2 In accordance with the lease agreements over the property facilities, the Department must remove any leasehold improvements from the leased buildings and restore the premises to its original condition at the end of the lease term.

(a) Employee benefits and related on-costs

	Note	2016 $m	2015 $m
Current employee benefits			
Annual leave entitlements		**87.8**	85.3
Long service leave entitlements		**951.2**	886.8
Other		**3.3**	2.5
Total		**1,042.2**	974.6
Non-current employee benefits			
Long service leave entitlements		**183.4**	163.0
Total employee benefits		**1,225.7**	1,137.6
On-costs			
Current on-costs		**167.8**	165.6
Non-current on-costs		**30.1**	27.1
Total on-costs	14(b)	**197.9**	192.8
Total employee benefits and related on-costs		**1,423.6**	1,330.4

(b) Movements in provisions

Movements in each class of provision during the financial year, other than employee benefits, are set out below:

2016	On-costs $m	Make good $m	Sabbatical leave $m	Total $m
Opening balance	192.8	0.5	1.5	**194.8**
Additional provisions recognised	35.7	-	(0.6)	**35.1**
Reductions arising from payments/other sacrifices of future economic benefits	(39.3)	-	-	**(39.3)**
Reductions resulting from re-measurement	(3.9)	0.1	-	**(3.8)**
Unwind of discount and effect of changes in the discount rate	12.6	-	-	**12.6**
Closing balance	197.9	0.6	0.9	**199.4**

Note 15 Superannuation

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.

The Department does not recognise any defined benefit liability in respect of the plans because the entity has no legal or constructive obligation to pay future benefits relating to its employees; its only obligation is to pay superannuation contributions as they fall due. The Department of Treasury and Finance discloses the State's defined benefit liabilities in its disclosure for administered items.

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.

The basis for contributions is determined by the various schemes. The name, details and amounts expensed in relation to the major employee superannuation funds and contributions made by the Department are as follows:

Funds	Paid contributions for the year 2016 $m	Paid contributions for the year 2015 $m
Defined benefit plans		
State Superannuation Schemes	**98.8**	103.1
Other—State Employees Retirement Benefits Scheme	**2.3**	2.5
Defined contribution plans		
Vic Super	**302.3**	279.5
Other	**69.8**	66.7
Total	**473.2**	451.8

There are no contributions outstanding as at June 2016 and June 2015.

Note 16 Physical asset revaluation surplus

	2016 $m	2015 $m
Physical asset revaluation surplus		
Balance at beginning of financial year	**7,382.3**	6,566.9
Revaluation increment/(decrement) of land during the year[1]	**1,406.7**	855.5
Revaluation increment/(decrement) of buildings during the year	**1,777.2**	-
Prior year adjustments	**(165.4)**	
Impairment losses[2]	**-**	(40.0)
Balance at the end of the financial year	**10,400.7**	7,382.3

1 2015 figures include land managerial revaluation.
2 See Note 11.

The physical asset revaluation surplus is used to record increments and decrements on the revaluation of non-financial physical assets.

Note 17 Financial instruments

(a) Financial risk management objectives and policies

The Department's principal financial instruments comprise cash assets, term deposits, receivables (excluding statutory receivables), payables (excluding statutory payables) and finance lease payables.

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, with respect to each class of financial asset, financial liability and equity instrument are disclosed in Note 1 to the financial statements.

The main purpose in holding financial instruments is to prudentially manage the Department's financial risks within the government's policy parameters.

The Department's main financial risks include credit risk, liquidity risk, interest rate risk and foreign currency risk. The Department manages these financial risks in accordance with its financial risk management policy. Each school manages its financial risks in accordance with its policies as determined by its school council.

The Department uses different methods to measure and manage the different risks to which it is exposed. The strategic responsibility for the identification and management of financial risks rests with the Executive Board of the Department.

The carrying amounts of the Department's contractual financial assets and financial liabilities by category are disclosed in Table 10 below.

Table 10—Categorisation of financial instruments

	Note	2016 $m	2015 $m
Contractual financial assets—loans and receivables			
Cash and deposits—Department	7	**205.4**	157.5
Cash and deposits—Schools	7	**497.8**	557.8
Receivables	8	**86.0**	59.9
Term deposits	7	**274.9**	132.5
Total contractual financial assets		**1,064.2**	907.7
Contractual financial liabilities at amortised cost			
Payables	12	**393.8**	296.1
Borrowings	13	**249.6**	255.1
Total contractual financial liabilities		**643.4**	551.2

(b) Credit risk

Credit risk arises from the financial assets of the Department, which comprise cash and deposits and non-statutory receivables. The Department's exposure to credit risk arises from the potential default of a counter party 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. In addition, the Department does not engage in hedging for its contractual financial assets and mainly obtains contractual financial assets that are on fixed interest, except for cash and deposits, which are mainly cash at bank. As with the policy for debtors, the Department's policy is to only deal with financial institutions with high credit ratings.

Credit risk arises at schools for amounts due from parents and individuals and is managed by each school.

Provision of impairment for contractual financial assets is recognised when there is objective evidence that the Department will not be able to collect a receivable. Objective evidence includes financial difficulties of the debtor, default payments and changes in debtor credit ratings.

Except as otherwise detailed in Table 11, 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.

Contractual financial assets that are either past due or impaired

There are no material financial assets which 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. The following table discloses the ageing only of contractual financial assets that are past due but not impaired.

Table 11—Ageing analysis of contractual financial assets

			Past due but not impaired			
2016	**Carrying amount $m**	**Not past due and not impaired $m**	**Less than 1 month $m**	**1–3 months $m**	**3 months–1 year $m**	**Over 1 year $m**
Receivables[1]	86.0	9.4	3.2	1.8	19.7	52.0
Term deposits	274.9	274.9	-	-	-	-
Total	**360.9**	**284.3**	**3.2**	**1.8**	**19.7**	**52.0**

			Past due but not impaired			
2015	**Carrying amount $m**	**Not past due and not impaired $m**	**Less than 1 month $m**	**1–3 months $m**	**3 months–1 year $m**	**Over 1 year $m**
Receivables[1]	59.9	8.4	0.2	3.6	10.9	37.0
Term deposits	132.5	132.5	-	-	-	-
Total	**192.4**	**140.9**	**0.2**	**3.6**	**10.9**	**37.0**

1 Ageing analysis of financial assets excludes the types of statutory receivables (for example, amounts owing from Victorian Government and GST input tax credit recoverable).

(c) Liquidity risk

Liquidity risk is the risk that the Department would be unable to meet its financial obligations as and when they fall due. The Department operates under the Government 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 on the face of the balance sheet. The Department manages its liquidity risk by:

- close monitoring of its short-term and long-term borrowings by senior management, including monthly reviews on current and future borrowing levels and requirements
- maintaining an adequate level of uncommitted funds that can be drawn at short notice to meet its short-term obligations
- holding investments and other contractual financial assets that are readily tradable in the financial markets
- careful maturity planning of its financial obligations based on forecasts of future cash flows
- a high credit rating for the State of Victoria (Moody's Investor Services and Standards and Poor's Triple-A) which assists in accessing the debt market at a lower rate.

The Department's exposure to liquidity risk is deemed insignificant based on prior periods' data and current assessment of risk.

Table 12 discloses the contractual maturity analysis for the Department's contractual financial liabilities.

Table 12—Maturity analysis of contractual financial liabilities

			Maturity dates				
2016	**Carrying amount $m**	**Nominal amount $m**	**Less than 1 month $m**	**1–3 months $m**	**3 months–1 year[1] $m**	**Over 1 year[1] $m**	**> 5 years[1] $m**
Payables	393.8	393.8	398.7	0.4	(0.4)	(4.8)	0.0
Borrowings	249.6	383.4	2.0	4.9	18.9	110.7	247.0
Total	**643.4**	**777.3**	**400.7**	**5.2**	**18.5**	**105.8**	**247.0**

			Maturity dates				
2015	**Carrying amount $m**	**Nominal amount $m**	**Less than 1 month $m**	**1–3 months $m**	**3 months–1 year[1] $m**	**Over 1 year[1] $m**	**> 5 years[1] $m**
Payables	296.1	296.1	301.7	1.4	(4.4)	(0.8)	(1.9)
Borrowings	255.1	400.5	1.3	4.4	27.6	90.3	276.8
Total	**551.2**	**696.5**	**303.0**	**5.8**	**23.3**	**89.6**	**274.9**

[1] Includes credit notes from registered training providers arising from reporting issues (other than compliance). The Department will review its processes during 2016-17 to determine whether these credit notes are likely to be redeemed.

(d) Market risk

The Department's exposure to market risk is primarily through interest rate risk with minimal exposure to foreign currency and other price risks. Objectives, policies and processes used to manage each of these risks are disclosed in the paragraphs below.

Foreign currency risk

The Department is exposed to insignificant foreign currency risk through its payables relating to purchases of supplies and consumables from overseas. This is because of a limited amount of purchases denominated in foreign currencies as it is not the Department's ordinary business to enter such transactions, and a short timeframe between commitment and settlement.

The Department is also exposed to foreign currency risk through purchases that are linked to currency other than the functional currency.

When the Department is exposed to significant foreign currency risk, the Department manages its risk through continuous monitoring of movements in exchange rates against the US dollar and ensures availability of funds through rigorous cash flow planning and monitoring. Based on past and current assessment of economic outlook, it is deemed unnecessary for the Department to enter into any hedging arrangements to manage the 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, therefore has nil exposure to fair value interest rate risk.

Cash flow interest rate risk is the risk that the 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, term deposits, bank overdrafts and schools' co-operative loans that are at floating rate.

The Department manages this risk by mainly undertaking fixed rate or non-interest bearing financial instruments with relatively even maturity profiles, with only insignificant amounts of financial instruments at floating rate. Management has concluded that cash at bank, as a financial asset, can be left at floating rate without necessarily exposing the Department to significant adverse risk. Management monitors movement in interest rates.

The carrying amounts of financial assets and financial liabilities that are exposed to interest rates are set out in Table 13. In addition, the Department's sensitivity to interest rate risk is set out in the Table 14.

Table 13—Interest rate exposure of financial instruments

			Interest rate exposure		
2016	Weighted average effective interest rate %	Carrying amount $m	Fixed interest rate $m	Variable interest rate $m	Non-interest bearing $m
Financial assets					
Cash and deposits—Department	-	205.4	-	-	205.4
Cash and deposits—Schools	1.9	497.8	23.5	474.3	-
Receivables	-	86.0	-	-	86.0
Term deposits	4.7	274.9	273.6	1.3	-
Total		**1,064.2**	**297.0**	**475.5**	**291.4**
Financial liabilities					
Payables	-	393.8	-	-	393.8
Borrowings	6.4	249.6	193.9	-	55.7
Total		**643.4**	**193.9**	**-**	**449.5**

2015	Weighted average effective interest rate %	Carrying amount $m	Interest rate exposure		
			Fixed interest rate $m	Variable interest rate $m	Non-interest bearing $m
Financial assets					
Cash and deposits—Department	-	157.5	-	-	157.5
Cash and deposits—Schools	2.6	557.8	153.0	404.8	-
Receivables	-	59.9	-	-	59.9
Term deposits	3.9	132.5	131.5	1.0	-
Total		**907.7**	**284.5**	**405.8**	**217.4**
Financial liabilities					
Payables	-	296.1	-	-	296.1
Borrowings	6.4	255.1	199.0	-	56.0
Total		**551.2**	**199.0**	**-**	**352.1**

Sensitivity disclosure analysis and assumptions

The Department's sensitivity to market risk is determined based on the observed range of actual historical data for the preceding five-year period, with all variables other than the primary risk variable held constant. The Department cannot be expected to predict movements in market rates and prices. Sensitivity analyses shown are for illustrative purposes only. A movement of 100 basis points up and down (2015: 100 down and 100 up) in market interest rates (AUD) is 'reasonably possible' over the next 12 months.

Table 14 discloses the impact on the Department's net result and equity for each category of financial instrument held by the Department at year-end as presented to key management personnel, if the above movements were to occur.

The interest rates applied to the vehicle leases are not variable or floating in nature. Therefore, the vehicle leases are not subject to the sensitivity analysis prescribed under this standard.

Table 14—Market risk exposure

2016	Carrying amount $m	Interest rate risk	
		(-100 basis points) Net result $m	(+100 basis points) Net result $m
Financial assets			
Cash and deposits—Department	**205.4**	-	-
Cash and deposits—Schools[1]	**497.8**	(5.0)	5.0
Receivables	**86.0**	-	-
Term deposits[2]	**274.9**	(2.8)	2.8
Financial liabilities	**-**	-	-
Payables	**393.8**		
Borrowings	**249.6**	-	-
Total increase/(decrease)		**(7.7)**	**7.7**

2015	Carrying amount $m	Interest rate risk (-100 basis points) Net result $m	Interest rate risk (+100 basis points) Net result $m
Financial assets			
Cash and deposits—Department	**157.5**	-	-
Cash and deposits—Schools[3]	**557.8**	(5.6)	5.6
Receivables	**59.9**	-	-
Term deposits[4]	**132.5**	(1.3)	1.3
	-	-	-
Financial liabilities			
Payables	**296.1**	-	-
Borrowings	**255.1**	-	-
Total increase/(decrease)		**(6.9)**	**6.9**

1 Sensitivity of cash and equivalents: sensitivity impact on net result due to a +/-100 basis points movement in market interest rate is $497.8 million x +/- 1 per cent = +/- $5.0 million.
2 Sensitivity of term deposits: sensitivity impact on net result due to a +/-100 basis points movement in market interest rate is $274.9 million x +/- 1 per cent = +/- $2.8 million.
3 Sensitivity of cash and equivalents: sensitivity impact on net result due to a +/-100 basis points movement in market interest rate is $557.8 million x +/- 1 per cent = +/- $5.6 million.
4 Sensitivity of term deposits: sensitivity impact on net result due to a +/-100 basis points movement in market interest rate is $132.5million x +/- 1 per cent = +/- $1.3 million.

(e) Fair value

The fair values and net fair values of financial assets and financial liabilities are determined as follows:

- Level 1: the fair value of financial assets and financial liabilities with standard terms and conditions and traded in active liquid markets are determined with reference to quoted market prices.
- Level 2: the fair value is determined using inputs other than the quoted price that are observable for the financial asset or liability, either directly or indirectly.
- Level 3: the fair value is determined in accordance with generally accepted pricing models based on discounted cash flow analysis using unobservable market inputs.

The Department considers that the carrying amount of financial instrument assets and liabilities recorded in the financial statements to be a fair approximation of their fair values, because of the short-term nature of the financial instruments and the expectation that they will be paid in full.

The Department’s contractual financial assets and liabilities are measured at amortised cost; none of the classes of financial assets and liabilities are readily traded on organised markets in standardised form; hence the fair value disclosures are not required. (Note 1(i))

Note 18 Leases

The Department's Leases are made up of finance leases for public-private partnership (PPP) arrangements and motor vehicles.

Under the PPP arrangement the portions of the payments that relate to the right to use the assets are accounted for as finance leases and are disclosed below:

	Minimum future lease payments		Present value of minimum future lease payments	
	2016 $m	2015 $m	2016 $m	2015 $m
PPP related finance lease liabilities				
Not longer than one year	15.8	15.8	15.2	15.2
Longer than one year but not longer than five years	63.4	63.4	52.1	52.1
Longer than five years	229.6	245.5	108.2	112.4
Motor vehicles lease liabilities payable				
Not longer than one year	4.2	4.0	4.0	3.7
Longer than one year but not longer than five years	4.7	4.3	4.6	4.3
Minimum future lease payments	**317.8**	**333.0**	**184.0**	**187.6**
Less future finance charges	(133.8)	(145.3)	-	-
Present value of minimum lease payments	**184.0**	**187.6**	**184.0**	**187.6**
Included in the financial statements as:				
Current borrowings finance lease liabilities (Note 13)	-	-	19.2	18.9
Non-current borrowings finance lease liabilities (Note 13)	-	-	164.8	168.7
Total aggregate carrying amount of borrowings	-	-	**184.0**	**187.6**

Lease liabilities are effectively secured as the rights to the leased assets revert to the lessor in the event of default.

	2016 $m	2015 $m
Assets pledged as security		
Motor vehicles under finance lease	**8.3**	7.4
Partnership Victoria in Schools assets	**148.7**	179.4
Total assets pledged as security	**157.0**	186.8

In December 2008, the State of Victoria entered into a 26-year agreement with Axiom Education Victoria Pty Ltd, under the Partnerships Victoria policy, for the financing, design, construction, and maintenance of 12 schools. The schools were constructed on sites that were purchased by the Department. At the end of the lease period, the Department will continue to own all the assets.

All 12 schools have been opened since 2011 and the Department has assumed responsibility for education provision, staffing, curriculum and teacher practice, and a commitment in regard to these assets is recognised as a finance lease with related finance lease assets.

Note 19 Ministers and accountable officers (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.

(a) Names

The persons who held the positions of ministers and accountable officers in the Department are as follows:

Position	Name	Dates they were Minister/Secretary
Minister for Education	The Hon. James Merlino MP	1 July 2015 to 30 June 2016
Minister for Training and Skills (International Education)	The Hon. Steve Herbert MP	1 July 2015 to 30 June 2016
Minister for Families and Children	The Hon. Jenny Mikakos MP	1 July 2015 to 30 June 2016
Secretary	Gill Callister	1 July 2015 to 30 June 2016

- The Hon. Steve Herbert MP acted in the office of the Minister for Education for the period of 21 to 30 September 2015, 30 October to 3 November 2015, 5 to 10 January 2016, and 25 to 29 March 2016.
- The Hon. Jenny Mikakos MP acted in the office of the Minister for Education for the period of 28 December 2015 to 4 January 2016.
- The Hon. James Merlino MP acted in the office of the Minister for Training and Skills for the period 1 to 9 July 2015, 10 to 31 January 2016, 11 to 18 May 2016 and 25 to 30 June 2016.
- The Hon. Fiona Richardson MP acted in the office of the Minister for Training and Skills for the period 20 to 22 September 2015.
- The Hon. Jenny Mikakos MP acted in the office of the Minister for Training and Skills for the period 23 to 27 September 2015.
- The Hon. Jill Hennessy MP acted in the office of the Minister for Families and Children for the period of 29 to 30 October 2015 and 30 March to 1 April 2016.
- The Hon. Martin Foley MP acted in the office of the Minister for Families and Children for the period of 31 October to 8 November 2015 and 5 to 8 January 2016.
- The Hon. John Eren MP acted in the office of the Minister for Families and Children for the period of 13 to 26 July 2015.
- Mr Craig Robertson, Deputy Secretary, Higher Education and Skills Group acted as Secretary from 24 to 31 December 2015.
- Ms Katy Haire, Deputy Secretary, Early Childhood and School Education Group acted as Secretary from 1 to 18 January 2016 and 29 February to 7 March 2016.

(b) Remuneration

Remuneration received or receivable by the accountable officers in connection with the management of the Department during the reporting period was in the range:

Income band ($)	2016 Number	2015 Number
$480,000–$489,999	1	-
$270,000–$279,999		1
$210,000–$219,999		1

Amounts relating to ministers are reported in the financial statements of the Department of Premier and Cabinet. For information regarding related party transactions of ministers, the register of members' interests is publicly available from: www.parliament.vic.gov.au/publications/register of interests.

(c) Related party transactions included in the reconciliation amount

The Secretary is an ex-officio member of the boards of the Victorian Registration and Qualifications Authority and the Victorian Curriculum and Assessment Authority, to which the Department paid grants on normal commercial terms during the financial year. As these roles are ex-officio the Secretary receives no remuneration to perform these roles.

The Secretary is the president of The Institute of Public Administration Australia's Victorian Branch. The Institute of Public Administration Australia provides services to the Department on normal commercial terms.

The Secretary is on the Advisory Board for the Melbourne Institute of Applied Economic and Social Research. The Secretary receives no remuneration for her role on this advisory board.

	2016 $m	2015 $m
Grants paid during the year		
Victorian Registration and Qualifications Authority	**12.2**	9.1
Victorian Curriculum and Assessment Authority	**49.9**	47.3
Rent provided free of charge during the year		
Victorian Registration and Qualifications Authority	**0.5**	0.5
Victorian Curriculum and Assessment Authority	**2.3**	2.3
Payments made during the year		
The Institute of Public Administration Australia Victoria	**0.1**	0.1

(d) Other transactions

Other related transactions and loans requiring disclosures under the Directions of the Minister for Finance have been considered and there are no matters to report.

Note 20 Remuneration of executives and payments to other personnel (that is, contractors with significant management responsibilities)

(a) Remuneration of executives

The numbers of executive officers, other than Ministers and the Accountable Officer, whose total remuneration exceeded $100,000 during the reporting period are shown in the first two columns in the table below in their relevant income bands. The base remuneration of executive officers is shown in the third and fourth columns. Base remuneration is exclusive of bonus payments, long service leave payments, redundancy payments and retirement benefits. The total annualised employee equivalent provides a measure of full-time equivalent executive officers over the reporting period.

Income Band ($)	Total remuneration 2016 Number	Total remuneration 2015[1] Number	Base remuneration 2016 Number	Base remuneration 2015[1] Number
$40,000–$49,999	-	-	-	1
$50,000–$59,999	-	-	1	-
$60,000–$69,999	-	-	1	-
$100,000–$109,999	1	-	8	-
$110,000–$119,999	6	-	2	-
$120,000–$129,999	2	1	5	1
$130,000–$139,999	4	1	2	4
$140,000–$149,999	4	6	3	4
$150,000–$159,999	5	5	4	10
$160,000–$169,999	4	2	8	4
$170,000–$179,999	6	7	5	6
$180,000-$189,999	5	8	4	5
$190,000–$199,999	4	4	3	7
$200,000–$209,999	-	1	2	9
$210,000–$219,999	7	12	7	3
$220,000–$229,999	5	3	3	2
$230,000–$239,999	4	2	3	5
$240,000–$249,999	2	8	3	3
$250,000–$259,999	2	2	3	1
$260,000–$269,999	5	1	2	1
$270,000–$279,999	4	2	2	1
$280,000–$289,999	-	1	-	-
$290,000–$299,999	-	-	-	1
$300,000–$309,999	1	-	-	-
$310,000–$319,999	-	1	-	-
$330,000–$339,000	-	-	-	1
$350,000–$359,999	-	1	-	1
$370,000–$379,999	-	1	-	-
$830,000–$839,999	-	1	-	-
Total Number	**71**	**70**	**71**	**70**
Total annualised employee equivalents	**61.9**	**66.7**	**61.9**	**66.7**
Total remuneration $m	**13.7**	**15.1**	**12.6**	**13.5**

1 The 2015 comparatives have been adjusted to reflect the removal of data relating to the Victorian Registration and Qualifications Authority (2 executive officers), and the Victorian Curriculum and Assessment Authority (6 executive officers), both of which report this data in their respective annual reports. This maintains parity with data presented in 2016.

(b) Payments to other personnel (that is, contractors with significant management responsibilities)

The following disclosures are made in relation to other personnel of the Department of Education and Training, i.e. contractors charged with significant management responsibilities.

Payments have been made to contractors with significant management responsibilities, which are disclosed in the $10,000 expense band. These contractors are responsible for planning, directing or controlling, directly or indirectly, of the Department’s activities.

	Total expenses (exclusive of GST)	
Expenses band ($)	2016 Number	2015 Number
$130,000–$139,999	1	-
$250,000–$ 259,999	-	1
Total expenses (exclusive of GST) $m	**0.1**	**0.3**

Note 21 Contingent assets and contingent liabilities

The Department does not have any quantifiable or unquantifiable contingent assets.

Details and estimates of maximum amounts of contingent liabilities are as follows:

(a) Quantifiable contingent liabilities

Table 15—Quantifiable contingent liabilities

Quantifiable contingent liabilities	2016 $m	2015 $m
Claims for damages	**18.8**	48.5
TAFE Structural Adjustment Fund (TSAF) arrangement[1]	**-**	82.0
Total quantifiable contingent liabilities	**18.8**	**130.5**

1The Department has entered into funding agreements with TAFEs. The release of these funds is contingent on the TAFEs demonstrating that they have achieved agreed milestones in 2014-15. The funding related to 2015–16 is disclosed as other expenditure commitments in Note 22(d).

(b) Unquantifiable contingent liabilities

The Department has a number of unquantifiable contingent liabilities as follows.

Indemnities are provided by the Department to:

- Volunteer school workers and volunteer student workers: *The Education and Training Reform Act 2006* provides a specific indemnity for personal injuries suffered by volunteer school workers and volunteer student workers arising out of or in the course of engaging in school work or community work respectively.
- Members of school councils: *The Education and Training Reform Act 2006* provides an indemnity to members of school councils for any legal liability, whether in contract, negligence or defamation.
- Teachers: If a teacher is named as a defendant in a student personal injury claim, any costs and damages will generally be paid by the Department provided the teacher was not drunk, under the influence of illicit drugs or engaging in a criminal offence and the behaviour was not outrageous and was related to their employment.
- School councils: The Department will usually indemnify school councils in claims of common law negligence, and will often indemnify in relation to employment disputes, for the cost of settlement and legal representation. The Department will take into account the impact of payment upon the school's educational program and any insurance cover for the school council, and will likely indemnify if the Department is satisfied that:
  - the school council acted in good faith and according to issued guidelines and directions; and
  - the school council has insufficient funds to pay the claim.

Note 22 Commitments for expenditure

The following commitments have not been recognised as liabilities in the financial statements. All amounts shown in this note are nominal amounts inclusive of GST.

(a) Service concession (public–private partnership)-related commitments

Commissioned public-private partnership

The Department entered into a 26-year public-private partnership arrangement under Partnerships Victoria in Schools. The portions of the payments that relate to the right to use the assets are accounted for as finance leases and are disclosed in Note 13.

The Department pays a base charge for delivery of contracted services (subject to the performance criteria set out in the agreement). Where the contract is amended to provide for additional services, such as an extension to the facilities, which are at the Department's discretion, this is charged at a rate agreed between the Department and the consortium. The nominal amounts for the operating and maintenance commitment below represents the charges payable under the agreement at the end of the reporting period.

Uncommissioned public-private partnership

In October 2015, the State of Victoria entered into a 25-year agreement with Learning Communities Victoria under the new Schools Public-Private Partnership (PPP) Project. 15 schools will open in 2017 and 2018 school years. Under the PPP model, Learning Communities Victoria is responsible for the finance, design, construction, and maintenance of the new schools over a 25-year period. The Department retains school ownership and responsibility for delivering educational service. The construction projects are yet to commence as at June 2016.

The total commitments for public private partnerships are as follows:

		Other Commitments		Other Commitments	
		Present value 2016 $m	**Nominal value 2016 $m**	**Present value 2015 $m**	**Nominal value 2015 $m**
Commissioned public private partnerships—other commitments					
Partnerships Victoria in Schools—Operations, maintenance and contingent rental commitments		174.4	388.6	171.4	397.8
Sub-total		**174.4**	**388.6**	**171.4**	**397.8**
	Minimum lease payments	**Other commitments**	**Total commitments[1]**		
	Discounted value $m	**Present value $m**	**Nominal value $m**		
Uncommissioned public private partnerships—total commitments[2]					
New Schools PPP	393.6	176.0	1,088.0		
Sub-total	393.6	176.0	1,088.0		
Total commitments for public private partnerships	**393.6**	**350.4**	**1,476.6**	**171.4**	**397.8**

1 Total commitment will not equal the sum of the minimum lease payments and other commitments because they are discounted, whereas total commitments are at nominal value.
2 Figures exclude Operating Phase Insurance because the quantum of these costs is unknown until the schools are operational.

Total commitments are payable as follows:

	2016 $m	2015 $m
Within one year	**23.1**	11.9
Later than one year but not later than five years	**195.9**	52.8
Later than five years	**1,257.7**	333.1
Total operation and maintenance commitments	**1,476.6**	**397.8**

(b) Capital commitments

Commitments for the acquisition of buildings, plant and equipment contracted for at the reporting date but not recognised as liabilities as follows:

	2016 $m	2015[1] $m
Capital commitments		
Commitments for the acquisition of buildings, plant and equipment contracted for at the reporting date but not recognised as liabilities, payable as follows:		
Within one year	**133.0**	49.2
Later than one year but not later than five years	**17.2**	2.0
Total capital commitments	**150.2**	**51.2**

1 Due to the limitation of available information, capital commitments for 2015 were based on estimated unspent budgets as at June 2015.

(c) Operating leases

The Department and schools lease equipment including photocopiers, computers, motor vehicles and property with varying lease terms. All operating lease contracts contain market review clauses in the event that the Department exercises its option to renew. The Department does not have a contractual option to purchase the leased assets at the expiry of the lease period.

Commitments for minimum lease payments in relation to non-cancellable operating leases but not recognised as liabilities, are payable as follows:

	2016 $m	2015 $m
Within one year	**12.2**	11.0
Later than one year but not later than five years	**21.4**	22.0
Later than five years	**43.1**	39.2
Total operating leases commitments	**76.7**	**72.3**

(d) Other expenditure commitments

Other commitments include agreements entered into for provision of financial information technology and human resource services to the Department and grants to non-government schools as follows:

	2016 $m	2015 $m
Other expenditure commitments		
Within one year[1]	**703.0**	271.2
Later than one year but not later than five years	**53.6**	48.1
Total other expenditure commitments	**756.6**	**319.3**
Total commitments for expenditure	**2,460.1**	840.6

1 Figures include a commitment to pay grants to non-government schools of $559.4 million (2015: $189.3 million). The variance is due to the timing of the grant payments to non-government schools.

All amounts shown in the commitments note above are nominal amounts inclusive of GST.

Note 23 Cash flow information

Reconciliation of net result for the reporting period to net cash inflow from operating activities:

	2016 $m	2015 $m
Net result for the reporting period	**182.5**	158.8
Non-cash movements		
Net (gain)/loss on sale of non-financial assets	**(0.1)**	(20.3)
Depreciation and amortisation	**310.5**	316.7
Movements in assets and liabilities		
Decrease/(increase) in current receivables	**(220.1)**	(331.7)
Decrease/(increase) in prepayments	**2.5**	(1.7)
Decrease/(increase) in non-current receivables	**(23.4)**	(11.0)
Increase/(decrease) in current payables	**91.1**	(17.4)
Increase/(decrease) in other liabilities	**19.8**	(2.7)
Increase/(decrease) in current employee entitlements	**69.3**	86.1
Increase/(decrease) in non-current employee entitlements	**23.4**	11.0
Net cash inflow from/(used in) operating activities	**455.4**	187.8

Note 24 Subsequent events

The Department has no material or significant events occurring after the reporting date to the date of these Financial Statements that would affect significantly the figures included in them.

Note 25 Annotated income agreements

The following is a listing of the *Financial Management Act 1994* Section 29 annotated income agreements approved by the Treasurer:

	Note	2016 $m	2015 $m
Sales of goods and services			
Alarms		0.1	0.1
Housing rent		1.1	1.1
Total		**1.1**	**1.2**
Asset sales			
Sale of land		4.6	136.6
Total		**4.6**	**136.6**
Commonwealth Specific Purpose Payments			
Trade Training Centres		20.9	9.0
National Skills and Workforce Development		364.7	357.2
TAFE fee waivers for childcare qualifications		5.3	2.4
More support for students with disabilities		-	11.1
Universal access to early education		98.4	85.9
National Quality Agenda for Early Childhood Education and Care		2.3	6.9
Joint group training program		2.5	3.1
MoneySmart Teaching		0.3	0.2
Independent Public Schools		4.5	2.3
National School Chaplaincy Program		12.6	12.6
National Occasional Care Programme		1.2	-
Total		**512.7**	**490.7**
Total annotated income agreements	6(a)	**518.5**	**628.6**

Note 26 Trust account balances

The following is a listing of trust account balances relating to trust accounts controlled or administered by the Department:

2016	Opening balance as at 1 July 2015 $m	Total receipts $m	Total payments $m	Closing balance as at 30 June 2016 $m
Controlled trusts				
State Treasury Trust	135.2	125.6	(99.6)	161.2
Commonwealth Treasury Trust	17.0	38.0	(19.3)	35.7
Total controlled trusts	**152.2**	**163.6**	**(118.9)**	**196.9**
Administered trusts				
Prizes and scholarships	1.6	0.3	(0.4)	1.5
Commuter club	0.0	0.7	(0.8)	0.0
On-passing from the Commonwealth	0.6	2,829.6	(2,829.6)	0.6
Total administered trusts	**2.3**	**2,830.6**	**(2,830.7)**	**2.1**

2015	Opening balance as at 1 July 2014 $m	Total receipts $m	Total payments $m	Closing balance 30 June 2015 $m
Controlled trusts				
State Treasury Trust	132.7	71.3	(68.8)	135.2
Commonwealth Treasury Trust	10.0	15.5	(8.4)	17.0
Total controlled trusts	**142.7**	**86.8**	**(77.3)**	**152.2**
Administered trusts				
Prizes and scholarships	2.3	0.3	(0.9)	1.6
Commuter club	(0.1)	0.9	(0.8)	-
On-passing from the Commonwealth	0.6	2,682.5	(2,682.5)	0.6
Total administered trusts	**2.8**	**2,683.6**	**(2,684.2)**	**2.3**

There were no trust accounts opened and closed by the Department during 2016.

The State trust fund of the State of Victoria operates by virtue of Section 19 of the *Financial Management Act 1994*.

The trust fund is comprised of individual trust accounts approved by the Minister for Finance under Section 19(1) of the *Financial Management Act 1994* and trust accounts created by other Acts of Parliament.

Trust accounts are used as the legal mechanism to record and access monies for specific, clearly-identified purposes and are not funded by State Appropriation unless approved by the Department of Treasury and Finance or provided by specific legislation.

Monies recorded in the trust accounts have been recently reviewed by the Department. Upon this review, some categories of monies have been identified as needing to be corrected which will include creating separate authorities. During the 2016/17 financial year, the Department will continue to work through these monies and re-allocate them where appropriate.

Note 27 Glossary of terms and style conventions

Active and Liquid Market

Active liquid market refers to any market in which there are many buyers and sellers present and in which transactions can take place with relative ease and low costs.

Actuarial gains or losses on superannuation defined benefit plans

Actuarial gains or losses are changes in the present value of the superannuation defined benefit liability resulting from:

- experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred)
- the effects of changes in actuarial assumptions.

Administered item

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

Amortisation is the expense which 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.

Associates

Associates are all entities over which an entity has significant influence but not control, generally accompanying a shareholding and voting rights of between 20 per cent and 50 per cent.

Borrowings

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.

Capital asset charge

A charge levied on the written down value of controlled non-current physical assets in a department’s balance sheet which aims to: attribute to agency outputs the opportunity cost of capital used in service delivery; and provide incentives to departments to identify and dispose of underutilised or surplus assets in a timely manner.

Commitments

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

Community service obligation

A community service obligation is an ongoing legislative requirement placed on an organisation by government to provide a benefit to an identified group that would not otherwise be provided by that organisation in the pursuit of its other objectives.

Comprehensive result

The net result of all items of income and expense recognised for the period. It is the aggregate of operating result and other comprehensive income.

Controlled item

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

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

Depreciation

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

Depreciated replacement cost

Depreciated replacement cost is the current replacement cost of an asset less where applicable, accumulated depreciation calculated on the basis of such cost to reflect age and the already consumed or expired future economic benefits of the asset.

Economic obsolescence

Economic obsolescence is defined as a loss in value or reduction in the desirability or economic life of an asset caused by external factors. These external factors may be changes in optimum use, regulatory changes and technological changes.

Effective interest method

The 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

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

Ex-gratia expenses

Ex-gratia expenses mean the voluntary payment of money or other non-monetary benefit (for example, 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

A financial asset is any asset that is:

- cash
- an equity instrument of another entity
- a contractual or statutory 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

A 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

A 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 Reporting Directions (FRDs)

The FRDs are applicable to all entities defined as either a public body or a department under section 3 of the *Financial Management Act 1994*, unless otherwise stated. The aims of FRDs are to ensure consistent application of accounting treatment across the Victorian public sector in compliance with that particular standard and also to impose other government non-financial policy and disclosure requirements.

Financial statements

A complete set of financial statements comprises:

- balance sheet as at the end of the period
- comprehensive operating statement for the period
- a statement of changes in equity for the period
- a statement of cash flows 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 paragraphs 38 of AASB 101 *Presentation of Financial Statements*
- 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 paragraphs 41 of AASB 101.

Functional obsolescence

Functional obsolescence is defined as a reduction or loss of an asset value due to a reduction in the usefulness or desirability of an asset because of its inability either to be upgraded or modified to serve the user's current needs or out-dated functional capabilities.

Grants and other transfers

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 either be 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.

General government sector

The general government sector comprises all government departments, offices and other bodies engaged in providing services free of charge or at prices significantly below their cost of production. General government services include those which are mainly non market in nature, those which are largely for collective consumption by the community and those which involve the transfer or redistribution of income. These services are financed mainly through taxes, or other compulsory levies and user charges.

Grants for on-passing

All grants paid to one institutional sector (for example, a State general government entity) to be passed on to another institutional sector (for example, local government or a private non-profit institution).

Intangible produced assets

See Produced Assets in this glossary.

Intangible non-produced assets

See Non-produced Assets in this glossary.

Interest expense

Costs incurred in connection with the borrowing of funds includes interest on bank overdrafts and short- and long-term borrowings, amortisation of discounts or premiums relating to borrowings, interest component of finance leases repayments, and the increase in financial liabilities and non-employee provisions due to the unwinding of discounts to reflect the passage of time.

Interest income

Interest income includes unwinding over time of discounts on financial assets and interest received on bank term deposits and other investments.

Net result

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/net operating balance

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

Assets less liabilities, which is an economic measure of wealth.

Non-financial assets

Non-financial assets are all assets that are not ‘financial assets’. These include land, buildings, plant and equipment, heritage buildings, and intangible assets.

Non-produced assets

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

Other economic flows included in net result

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. It includes:

- gains and losses from disposals, revaluations and impairments of non-financial physical and intangible assets
- fair value changes of financial instruments and agricultural assets
- depletion of natural assets (non-produced) from their use or removal.

Other economic flows—other comprehensive income

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.

The components of other economic flows—other comprehensive income include:

- changes in physical asset revaluation surplus
- share of net movement in revaluation surplus of associates and joint ventures
- gains and losses on remeasuring available-for-sale financial assets.

Payables

Includes short- and long-term trade debt and accounts payable, grants, taxes and interest payable.

Physical obsolescence

Physical obsolescence is defined as a reduction or loss of an asset value as a result of its physical deterioration caused by wear and tear, increasing age or time and eventually obsolete.

Produced assets

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

Receivables

Includes amounts owing from government through appropriation receivable, short- and long-term trade credit and accounts receivable, accrued investment income, grants, taxes (GST) 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. It also includes rental income under operating leases and on produced assets such as buildings and entertainment, but excludes rent income from the use of non-produced assets such as land. User charges includes sale of goods and services income.

Supplies and services

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.

Transactions

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 in 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 (for example, 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.

Style conventions

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

The notation used in the tables is as follows:

–	Zero, or rounded to zero
(xxx.x)	Negative numbers
201x	Year
201x–1x	Year period

The financial statements and notes are presented based on the illustration for a government department in the *2015–16 Model Report for Victorian Government Departments*. The presentation of other disclosures is generally consistent with the other disclosures made in earlier publications of the Department's annual report.