Department of Education and Training
Annual Report 2018–2019
Financial Statements

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 at the start of this report.

CONTENTS

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

The financial statements for the Department of Education and Training have been prepared in accordance with Direction 5.2 of the Standing Directions of the Assistant Treasurer under the *Financial Management Act 1994*, applicable Financial Reporting Directions, Australian accounting standards including interpretations, and other mandatory professional reporting requirements.

We further state that, in our opinion, the information set out in the comprehensive operating statement, balance sheet, statement of changes in equity, cash flow statement and accompanying notes, presents fairly the financial transactions during the year ended 30 June 2019 and financial position of the Department as at 30 June 2019.

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

We authorise the financial statements for issue on 22 August 2019.

J. Atta
Secretary
Department of Education and Training

Melbourne
22 August 2019

C. Lahiff
Chief Finance Officer
Department of Education and Training

Melbourne
22 August 2019

Independent Auditor’s Report

To the Secretary of the Department of Education and Training

Opinion	I have audited the financial report of the Department of Education and Training (the department) which comprises the: • balance sheet as at 30 June 2019 • comprehensive operating statement for the year then ended • statement of changes in equity for the year then ended • cash flow statement for the year then ended • notes to the financial statements, including significant accounting policies • Accountable Officer's and Chief Finance and Accounting Officer's declaration. In my opinion the financial report presents fairly, in all material respects, the financial position of the department as at 30 June 2019 and their financial performance and cash flows for the year then ended in accordance with the financial reporting requirements of Part 7 of the *Financial Management Act 1994* and applicable Australian Accounting Standards.
Basis for Opinion	I have conducted my audit in accordance with the *Audit Act 1994* which incorporates the Australian Auditing Standards. I further describe my responsibilities under that Act and those standards in the *Auditor’s Responsibilities for the Audit of the Financial Report* section of my report. My independence is established by the *Constitution Act 1975.* My staff and I are independent of the department in accordance with the ethical requirements of the Accounting Professional and Ethical Standards Board’s APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to my audit of the financial report in Victoria. My staff and I have also fulfilled our other ethical responsibilities in accordance with the Code. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.
Secretary’s responsibilities for the financial report	The Secretary of the department is responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards and the *Financial Management Act 1994*, and for such internal control as the Secretary determines is necessary to enable the preparation and fair presentation of a financial report that is free from material misstatement, whether due to fraud or error. In preparing the financial report, the Secretary is responsible for assessing the department’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless it is inappropriate to do so.

Auditor's responsibilities for the audit of the financial report

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

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

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

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

MELBOURNE
26 August 2019

Andrew Greaves
Auditor-General

Comprehensive operating statement for the financial year ended 30 June 2019

	Notes	2019 ($m)	2018 ($m)
Continuing operations			
Income from transactions			
Output appropriations	2.3.1	13,815.7	12,816.0
Special appropriations	2.3.2	0.5	10.5
Grants	2.4.1	185.3	60.3
Sale of goods and services	2.4.2	131.6	135.7
Other income	2.4.3	610.2	628.2
Total income from transactions		**14,743.3**	**13,650.7**
Expenses from transactions			
Employee expenses	3.1.1	(6,972.4)	(6,550.9)
Depreciation and amortisation	5.1.1	(405.0)	(368.3)
Grant and other payments	3.1.2	(2,010.4)	(1,953.3)
Capital asset charge	3.1.3	(1,598.6)	(1,495.2)
Supplies and services	3.1.4	(2,854.8)	(2,787.6)
Other operating expenses	3.1.5/ 9.7	(232.3)	(173.2)
Total expenses from transactions		**(14,073.5)**	**(13,328.5)**
Net result from transactions (net operating balance)		**669.8**	**322.2**
Other economic flows included in net result			
Net gain/(loss) on non-financial assets	9.2	(2.0)	0.3
Net gain/(loss) on financial instruments	9.2	(7.6)	(12.7)
Other gains/(losses) from other economic flows	9.2	(88.5)	2.1
Total other economic flows included in net result		**(98.1)**	**(10.3)**
Net result		**571.7**	**311.9**
Other economic flows – other comprehensive income: Items that will not be reclassified to net result			
Changes in physical asset revaluation surplus	9.6	(1,369.7)	3,188.5
Total other economic flows – other comprehensive income		**(1,369.7)**	**3,188.5**
Comprehensive result		**(798.0)**	**3,500.4**

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

Balance sheet as at 30 June 2019

	Notes	2019 ($m)	2018 ($m)
Assets			
Financial assets			
Cash and deposits	7.3	1,234.5	717.0
Receivables	6.1	2,343.4	2,174.3
Other financial assets	5.3	16.0	310.0
Total financial assets		**3,593.9**	**3,201.3**
Non-financial assets			
Intangible assets	5.2	39.5	49.5
Property, plant and equipment	5.1	24,150.7	24,469.5
Other non-financial assets	6.2	62.7	51.4
Total non-financial assets		**24,252.9**	**24,570.4**
Total assets		**27,846.8**	**27,771.7**
Liabilities			
Payables	6.3	737.2	687.6
Borrowings	7.1	558.6	581.7
Provisions	3.1.1(b)	1,641.4	1,472.8
Unearned income		84.8	67.2
Total liabilities		**3,022.0**	**2,809.3**
Net assets		**24,824.8**	**24,962.4**
Equity			
Accumulated surplus/(deficit)		3,002.6	2,430.8
Physical asset revaluations surplus	9.6	12,219.5	13,589.2
Contributed capital		9,602.7	8,942.4
Net worth		**24,824.8**	**24,962.4**
Contingent assets and contingent liabilities	8.3		
Commitments for expenditure	7.5		

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 2019

	Physical asset revaluation surplus ($m)	Accumulated surplus/ (deficit) ($m)	Contributed capital ($m)	Total Equity ($m)
Balance at 1 July 2017	**10,400.6**	**2,117.9**	**8,693.0**	**21,211.5**
Net results for the year	-	311.9	-	311.9
Prior year adjustments	-	1.1	-	1.1
Other comprehensive income for the year	3,188.5	-	-	3,188.5
Capital appropriations	-	-	327.5	327.5
Contributed capital transfers (out)	-	-	(78.1)	(78.1)
Balance at 30 June 2018	**13,589.1**	**2,430.9**	**8,942.4**	**24,962.4**
Net results for the year	-	571.7	-	571.7
Prior year adjustments	-	-	-	
Other comprehensive income for the year	(1,369.7)	-	-	(1,369.7)
Capital appropriations	-	-	697.7	697.7
Contributed capital transfers in	-	-	23.9	23.9
Administrative restructure – net assets transferred	-	-	(0.9)	(0.9)
Contributed capital transfers (out)	-	-	(60.3)	(60.3)
Balance at 30 June 2019	**12,219.4**	**3,002.6**	**9,602.8**	**24,824.8**

The above statement of changes in equity should be read in conjunction with the accompanying notes.

Cash flow statement for the financial year ended 30 June 2019

	Notes	2019 ($m)	2018 ($m)
Cash flows from operating activities			
Receipts			
Receipts from government		13,688.4	12,956.8
Receipts from other entities		868.5	814.3
Goods and services tax (GST) recovered from the Australian Tax Office (ATO)		449.3	364.8
Interest received		20.0	17.4
Total receipts		**15,026.2**	**14,153.3**
Payments			
Payments of grants and other transfers		(1,959.5)	(1,981.8)
Payments to suppliers and employees		(10,374.8)	(9,841.1)
GST paid to the ATO		(13.1)	(15.6)
Capital asset charge payments		(1,598.6)	(1,495.2)
Interest and other costs of finance paid		(33.1)	(29.6)
Total payments		**(13,979.1)**	**(13,363.3)**
Net cash flows from/(used in) operating activities	7.3.1	**1,047.1**	**790.0**
Cash flows from investing activities			
Purchases of non-financial assets		(1,526.8)	(1,106.3)
Proceeds from investments		432.0	63.6
Payments for investments		(138.0)	(82.7)
Sale of plant and equipment		4.4	4.5
Proceeds from loan and advances		26.5	6.5
Payment of loan and advances		-	(16.1)
Other adjustment		-	6.5
Net Cash flows from/(used in) investing activities		**(1,201.9)**	**(1,124.0)**
Cash flows from financing activities			
Owner contributions received from State Government		697.7	327.5
Cash transferred on activities transferred out – machinery of government changes		(0.9)	-
Proceeds from borrowings		35.1	-
Repayment of borrowings and finance leases		(59.6)	(17.4)
Net cash flows from/(used in) financing activities		**672.3**	**310.1**
Net increase/(decrease) in cash and deposits		**517.5**	**(23.8)**
Cash and deposits at the beginning of the financial year		**717.0**	740.8
Cash and deposits at the end of the financial year	7.3	**1,234.5**	**717.0**

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

Notes to the financial statements

Note 1 About this Report

1.1 Basis of preparation

These annual financial statements represent the audited general purpose financial statements for the Department for the year ended 30 June 2019. The purpose of the report is to provide users with information about the Department's stewardship of resources entrusted to it.

Basis of preparation

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

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

Revisions to accounting estimates are recognised in the period in which the estimate is revised and also in future periods that are affected by the revision. Judgements and assumptions made by management in the application of Australian Accounting Standards (AASs) that have significant effects on the financial statements and estimates relate to:

- the fair value of land, buildings, plant and equipment, (Note 8.2.2)
- impairment of buildings, plant and equipment, and intangibles (Note 5.1.1)
- depreciation and amortisation expense (Note 5.1 and Note 5.2)
- assumptions for employee benefit provisions based on likely tenure of existing staff, patterns of leave claims, future salary movements and future discount rates (Note 3.1.1).

Reporting entity

The Department is a government department of the State of Victoria, established pursuant to an order made by the Premier under the *Public Administration Act 2004*.

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.

These financial statements cover the Department as an individual reporting entity and include all its controlled activities.

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 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 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 AAS. Transactions with non-government schools are not eliminated.

Compliance information

These general purpose financial statements have been prepared in accordance with the Financial Management Act (FM Act) and applicable AASs 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 AAS 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.

These annual financial statements were authorised for issue by the Secretary of the Department on 22 August 2019.

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
- fair value changes of financial instruments
- 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 million, unless otherwise stated. Figures in the financial statements may not equate due to rounding (Note 9.9—style conventions).

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 2 Funding delivery of our services

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, the Minister for Training and Skills and the Minister for Higher Education, 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 4.

Structure

2.1 Summary of income that funds the delivery of our services

	Notes	2019 ($m)	2018 ($m)
Income from transactions			
Output appropriations	2.3.1	13,815.7	12,816.0
Special appropriations	2.3.2	0.5	10.5
Grants	2.4.1	185.3	60.3
Sale of goods and services	2.4.2	131.6	135.7
Other income	2.4.3	610.2	628.2
Total income from transactions		**14,743.3**	**13,650.7**

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

Where applicable, amounts disclosed as income are net of returns, allowances, duties and taxes. All amounts of income over which the Department does not have control are disclosed as administered income in the schedule of administered income and expenses (Note 4.2).

2.2 Appropriations

Once annual parliamentary appropriations are applied by the Treasurer, they become controlled by the Department and recognised as income when applied to the purposes defined under the Appropriations Act. All amounts of income over which the Department does not have control are disclosed as administered income (see Note 4.2).

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*, income 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 FM Act, income related to Commonwealth national partnerships funding are recognised when the amount appropriated for that purpose has been incurred by the Department.

Under Section 33 of the FM Act, funds sourced from prior year output or depreciation equivalent surpluses are recognised when the amount appropriated for that purpose has been incurred by the Department.

2.3 Summary of compliance with annual parliamentary and special appropriations

2.3.1. (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.

	Appropriations Act ($m)			FM Act ($m)				($m)		
	Annual appropriation	Advance from Treasurer	Section 3(2)	Section 29	Section 30[72]	Section 32	Section 35 advances	Total parliamentary authority	Appropriations applied	Variance[73]
2019 Controlled										
Provisions for outputs	13,249.9	37.8	-	610.5	(25.6)	63.4	-	13,936.0	13,815.7	120.3
Additions to net assets	723.9	-	-	14.4	25.6	89.2	-	853.1	697.7	155.4
Total	**13,973.8**	37.8	-	624.9	-	152.6	-	**14,789.1**	**14,513.4**	**275.7**

[72] The $25.6 million appropriation transfer from provision for outputs to additions to net assets primarily comprises of $18.7 million for planned maintenance works and $10.5 million for *Digital Education* to match revised implementation from operating to capital delivery, $10.4 million for essential maintenance for works resulting in upgrade to existing assets, $7.5 million for asbestos works that have been identified as capital and $6.9 million for *Ready for School: Kinder for Every Three-Year Old* for relocatable building contributions spent on behalf of local councils and private operators. This is mainly offset by a $26.9 million appropriation transfer from additions to net assets to provision for outputs for schools infrastructure programs, including maintenance and reform activities.

[73] The provision for outputs variance of $120.3 million is largely driven by the impact of machinery of government transfer of $59.3 million to DHHS for maternal child health and parenting services effective from 1 January 2019 and $50.1 million of carry over requested into 2019–20 across State ($49.5 million) initiatives and Commonwealth ($0.6 million) initiatives. State initiatives include $25.5 million for the Children Facilities Capital Program and $10.9 million for non-government schools.

The additions to net assets variance of $155.4 million includes: $64.3 million of carryover requested into 2019–20, including the 2018–19 ($15.9 million) and prior year ($42.3 million) School Capital Programs. In addition, $98.7 million was re-phased into future years to reflect revised implementation timelines. Programs re-phased to future years ($98.7 million) include *Land Acquisition* ($55.0 million), 2018–19 State Budget capital program ($16.0 million), *Child Link* ($9.3 million) and *Inclusive Schools Fund* ($7.6 million). These underspends are offset by $9.5 million in additional funding: $6.9 million to access non-government capital contributions for works at Beaumaris and Point Cook South Senior Secondary Colleges and $2.7 million to support New Schools Construction and School Upgrades approved in the 2019–20 State Budget for 2018–19.

	Annual appropriation	Advance from Treasurer	Section 3(2)	Section 29	Section 30[74]	Section 32	Section 35 advances	Total parliamentary authority	Appropriations applied	Variance[75]
2018 Controlled										
Provisions for outputs	12,021.1	213.7	-	594.7	(41.1)	136.0	-	12,924.4	12,816.0	108.4
Additions to net assets	326.3	-	-	8.5	41.1	52.5	-	428.4	320.7	107.7
Total	**12,347.4**	**213.7**	**-**	**603.2**	**-**	**188.5**	**-**	**13,352.8**	**13,136.7**	**216.1**

[74] The $41.1 million appropriation transfer from provision for outputs to additions to net assets primarily comprises of a $17.9 million transfer of depreciation equivalent to additions to the net asset base funding required as a result of delayed capitalisation to ensure the 2017–18 capital program is sufficiently funded, $15.4 million for relocatable building contributions, $9.7 million for *Bushfire Compliance* works and $7.7 million for planned maintenance works to match revised implementation from operating to capital delivery. This is offset by transfer from additions to net assets to provisions of output of $11.7 million, which mainly relates to the *Schools Private Public Partnerships* and *New Schools* programs to match revised implementation from capital works to operating delivery.

[75] The provision for outputs variance of $108.4 million comprises: $63.4 million in approved carryover from 2017–18 across State ($51.4 million) and Commonwealth ($12.0 million) initiatives. State initiatives include $18.0 million for *Children's Facilities Capital Program* grants and $7.7 million for *Inclusion Equipment Boost*, with $37.3 million of requested carryover remaining unapproved. In addition, $65.2 million was re-phased into future years to reflect revised implementation timelines for programs including training, higher education and workforce ($30 million) and *Technical Schools* ($12.6 million). These underspends are offset by $65.5 million in additional approvals, including $13.7 million for school building reinstatement and minor works to address damage from adverse weather events and vandalism, and $10.7 million to ensure the timely delivery of the planned maintenance program.

The additions to net assets variance of $107.7 million mainly comprises: $89.2 million approved carryover into 2018–19, including $43.1 million for school upgrades, comprising $20.8 million in rural and regional areas, $15.5 million in metropolitan areas and $6.8 million for special schools as well as $40.9 million for land acquisition with $14.8 million of requested carryover remaining unapproved. In addition, there are $29.8 million in capital funds sourced from the Department of Environment, Land, Water and Planning's Building New Community Fund to fund half the land purchase cost for eight schools in six growth areas and $5.2 million re-phased into future years for Corporate IT projects. These underspends are offset by $31.3 million in additional funding, including $12.9 million for the School Capital Priorities program, $11.5 million for unforeseen pressures in the school building reinstatement program primarily due to adverse weather events and vandalism and $6.9 million for Melbourne Cricket Club's contribution for two ovals, a pavilion and a multipurpose pitch at Beaumaris Secondary College.

2.3.1 (b) Annotated income agreements appropriations

The Department is permitted under section 29 of the FM Act 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 consolidation fund as an administered item. At the point income is recognised, section 29 provides for an equivalent amount to be added to the annual appropriation.

The following is a listing of the FM Act section 29 annotated income agreements approved by the Treasurer:

	Notes	2019 ($m)	2018 ($m)
Sales of goods and services			
Alarms		0.1	0.1
Overseas student program fee		81.4	69.6
Housing rent		1.0	1.0
National Disability Insurance Agency – Specialist Children Services		0.8	0.3
VCE offshore		0.3	0.3
Total		**83.6**	**71.3**
Asset sales			
Sales of land		7.8	-
Receipts from Commonwealth			
Receipts from Commonwealth – School capital program		1.6	-
Revenue from municipal councils			
Receipts from municipal councils – School capital program		5.0	8.5
Total		**14.4**	**8.5**
Commonwealth specific purpose payments			
National skills and workforce development		393.2	391.5
Universal access to early education		120.9	108.2
National Quality Agenda for ECEC		-	5.4
Independent public schools		-	4.5
National school chaplaincy program		12.8	12.6
National occasional care program		-	1.2
Total		**526.9**	**523.4**
Total annotated income agreements	2.3.1(a)	**624.9**	**603.2**

2.3.2 Summary of compliance with special appropriations

	Purpose	2019 ($m)	2018 ($m)
Section 5.6.8 of the Education and Training Reform Act	Volunteers workers' compensation	0.1	0.1
Section 10 of the FM Act	Digital education revolution	-	5.9
Section 10 of the FM Act	Support for students with a disability	0.4	3.6
Section 10 of the FM Act	Independent public schools	-	0.9
Operating special appropriation total		**0.5**	**10.5**
Section 33 of the FM Act	Funding the asset program	-	274.3
Section 10 of the FM Act	Trade trading centres	-	6.8
Section 33 of the FM Act	Docklands primary school	17.1	-
Section 33 of the FM Act	Relocatable buildings in 2019	13.8	-
Section 33 of the FM Act	Combustible cladding	3.6	-
Capital special appropriation total[76]		**34.5**	**281.1**
Section 33 of the FM Act	Victorian training information system	9.9	-
Other total[77]		9.9	**-**
Total special appropriation		**44.9**	**291.6**

2.4 Income from transactions

2.4.1 Grants income

	2019 ($m)	2018 ($m)
Grants		
Commonwealth	9.5	15.1
Other public bodies	175.8	45.2
Total grants	**185.3**	**60.3**

Grant income arises from transactions in which a party provides goods or assets (or extinguishes a liability) to the Department without receiving approximately equal value in return. While grants may result in the provision of some goods or services to the transferring party, they do not provide a claim to receive benefits directly of approximately equal value (and are termed 'non-reciprocal' transfers).

[76] Funding from depreciation equivalent funding accumulated in prior years under Section 33 of the FM Act and Commonwealth funding under Section 10 of the FM Act. This subtotal reflects special appropriation for assets and therefore are excluded from the Comprehensive Operating Statement.
[77] Funding for the Victorian Training Information System (operating) from prior years' operating surplus. This subtotal reflects special appropriations funded from the balance sheet and therefore, is excluded from income.

Receipt and sacrifice of approximately equal value may occur, but only by coincidence.

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

For non-reciprocal grants, the Department recognises revenue when the grant is received.

2.4.2 Sales of goods and services

	2019 ($m)	2018 ($m)
Sales of goods and services		
Schools revenue – including sales of classroom material, before and after school care, and other trading operations	125.6	132.0
Provision of services	6.0	3.7
Total sales of goods and services	**131.6**	**135.7**

Income from the supply of services and from the sale of goods is recognised when:

- the amount of the income can be reliably measured
- it is probable that the economic benefits associated with the transaction will flow to the Department
- cash received in schools is recognised upon receipt by the schools and is processed in accordance with controls established by the school's council.

2.4.3 Other income

	2019 ($m)	2018 ($m)
Other income		
Schools revenue – including parents' voluntary contributions and other locally raised funds	585.9	604.2
Other revenue	24.3	20.4
Land received free of charge	-	3.6
Total other income	**610.2**	**628.2**

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

Note 3 The cost of delivering services

Introduction	Structure
This section provides an account of the expenses incurred by the Department in delivering services and outputs. In Note 2, the funds that enable the provision of services were disclosed and in this note the cost associated with provision of services are recorded. Note 4 discloses aggregated information in relation to the income and expenses by output.	3.1 Expenses incurred in delivery of services 3.1.1 Employee benefits 3.1.2 Grants and other payments 3.1.3 Capital asset charge 3.1.4 Supplies and services 3.1.5 Other operating expenses

3.1 Expenses incurred in delivery of services

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

	Notes	2019 ($m)	2018 ($m)
Expenses from transactions			
Employee expenses	3.1.1	6,972.4	6,550.9
Grants and other payments	3.1.2	2,010.4	1,953.3
Capital asset charge	3.1.3	1,598.6	1,495.2
Supplies and services	3.1.4	2,854.8	2,787.6
Other operating expenses	3.1.5/9.7	232.3	167.4
Total expenses incurred in delivery of services		**13,668.5**	**12,954.4**

3.1.1 (a) Employee benefits in the comprehensive operating statement

	2019 ($m)	2018 ($m)
Employee expenses		
Salaries and wages	**5,674.8**	5,339.5
Superannuation	**562.2**	532.9
Annual leave and long service leave expense	**364.6**	325.5
Other on-costs (fringe benefits tax, payroll tax and WorkCover levy)	**370.8**	353.0
Total employee expenses	**6,972.4**	**6,550.9**

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

The amount recognised in the comprehensive operating statement in relation to superannuation is 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 does not recognise any defined benefit liabilities because it has no legal or constructive obligation to pay future benefits relating to its employees. Instead, DTF discloses in its annual financial statements the net defined benefit cost related to the members of these plans as an administered liability (on behalf of the State as the sponsoring employer).

3.1.1 (b) Employee benefits – in the balance sheet

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

	2019 ($m)	2018 ($m)
Current provisions		
Employee benefits[78] —annual leave		
Unconditional and expected to be settled within 12 months	107.4	98.2
Unconditional and expected to be settled after 12 months	8.7	9.8
Employee benefits[78]—long service leave		
Unconditional and expected to be settled within 12 months	151.8	144.5
Unconditional and expected to be settled after 12 months	916.0	830.7
Employee benefits[78]—other		
Other provisions	1.2	1.1
Total	**1,185.1**	**1,084.3**
Provisions related to employee benefit on-costs		
Unconditional and expected to be settled within 12 months	39.0	36.5
Unconditional and expected to be settled after 12 months	151.7	137.8
Total	**190.7**	**174.3**
Other – make good[79]	0.1	0.2
Total current provisions	**1,375.9**	**1,258.8**
Non-current provisions		
Employee benefits[78]	220.4	181.8
Other on-costs related to employee benefits	36.1	29.8
Other provisions	9.0	2.5
Total non-current provisions	**265.5**	**214.1**
Total provisions	**1,641.4**	**1,472.8**

[78] Provisions for employee benefits consist of amounts for annual leave, long service leave and other employee benefits accrued by employees, not including on-costs.

[79] Make good provisions do not form part of employee benefits, but do form part of total current provisions.

Reconciliation of movements in on-cost provisions

2019	Total ($m)
Opening balance	204.1
Additional provisions recognised	54.6
Reductions arising from payments/other sacrifices of future economic benefits	(48.2)
Reductions resulting from re-measurement	-
Unwind of discount and effect of changes in the discount rate	16.3
Closing balance	**226.8**
Current	190.7
Non-current	36.1

Annual leave and sick leave

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

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

Long service leave

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

Unconditional long service leave is disclosed as a current liability; even where the Department does not expect to settle the liability within 12 months because it 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 present value.

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 as a transaction, except to the extent that a gain or loss arises due to changes in bond interest rates for which it is then recognised as an "other economic flow" in the net result.

On-costs related to employee expenses

On-costs (such as payroll tax, workers' compensation and superannuation) are not employee benefits. They are disclosed separately as a component of the provision for employee benefits when the employment to which they relate has occurred.

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.

3.1.1 (c) Superannuation contributions

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

As noted in Note 3.1.1 (a) the defined benefit liability is recognised in DTF as an administered liability.

However, superannuation contributions paid or payable for the reporting period are included as part of employee benefits in the comprehensive operating statement of the Department.

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 2019 ($m)	Paid contributions for the year 2018 ($m)
Defined benefit plans		
State superannuation schemes	78.4	84.6
Other—state employees retirement benefits scheme	1.8	2.0
Defined contribution plans		
Vic Super	369.1	348.2
Other	112.9	98.1
Total	**562.2**	**532.9**

There are no contributions outstanding as at June 2019 and June 2018.

3.1.2 Grants and other payments

	2019 ($m)	2018 ($m)
Grants and other payments		
Grants to VCAA	77.0	69.0
Grants to VRQA	11.8	11.2
Grants to TAFE	717.1	701.7
Grants to Adult, Community and Further Education Board	37.5	28.2
Grants to non-government schools	804.6	774.4
Grants to external organisations	332.6	340.0
Other payments	29.8	28.8
Total grants and other payments	**2,010.4**	**1,953.3**

Transactions in which the Department provides goods, services, assets (or extinguishes a liability) or labour to another party where there is no expectation that the amount will be repaid in equal value are categorised as ‘Grant expenses’. Grants can either be operating or capital in nature.

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

Grants (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. Grants can take the form of money, assets, goods, services or forgiveness of liabilities.

3.1.3 Capital asset charge

	2019 ($m)	2018 ($m)
Capital asset charge	1,598.6	1,495.2

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

3.1.4 Supplies and services

	2019 ($m)	2018 ($m)
Supplies and services		
Administration	449.5	355.2
Maintenance	249.9	261.8
School requisites	978.0	995.1
Service agreement payments	1,017.6	1,027.0
Other	159.7	148.5
Total supplies and services	**2,854.8**	**2,787.6**

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.

3.1.5 Other operating expenses

	2019 ($m)	2018 ($m)
Ex-gratia expenses[80]	0.4	-
Other expenses	42.3	39.7
Other IT related expenses	185.3	127.7
Total other operating expenses	**228.0**	**167.4**

[80] Relates to ex-gratia payment made following the termination of a cleaning contract as part of the school cleaning reform program.

Note 4 Disaggregated financial information by output

Introduction

The Department is predominantly funded by accrual based Parliamentary appropriations for the provision of outputs. This section provides a description of the departmental outputs performed during the year ended 30 June 2019 along with the objectives of those outputs.

This section disaggregates income that enables the delivery of services (described in Note 2) by the output and records the allocation of expenses incurred (described in Note 3) also by outputs.

It also provides information on items administered in connection with these outputs, which do not form part of the controlled balances of the Department.

Judgement is required in allocating income and expenditure to specific outputs. For the period under review there were no amounts unallocated.

The distinction between controlled and administered items is drawn based on whether the Department has the ability to deploy the resources in question for its own benefit (controlled items) or whether it does so on behalf of the State (administered).

The Department remains accountable for transactions involving administered items, but it does not recognise these items in its financial statements.

Structure

4.1 Department output

4.1.1 Descriptions and objectives

A description of departmental outputs achieved during the year ended 30 June 2019, and the objectives of these outputs are summarised below.

Strategy, review and regulation

The strategy, review and regulation output contributes to the Department's objectives by developing, planning and monitoring 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.

Early childhood development

The early childhood development output contributes to the Department's objectives by providing funding for a range of services that support children in the early years, including kindergarten and children's services, MCH (Refer Note 4.3), and early intervention services for children with a disability. These outputs make a significant contribution to the Government's objectives in early childhood services.

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
The school education—primary output provides education and 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
The school education—secondary output involves provision of education and support services designed to improve student learning, development and wellbeing in Year 7 to 12 in government and non-government schools. It also covers the provision of cross-sectoral services to improve the pathways to further education, training and employment.

Training, higher education and workforce development

The training, higher education and workforce development output supports Victorians to acquire skills Victorian industries and businesses need to grow or adjust by:

- developing strategic advice on Victoria's skill requirements
- supporting better training choices by individuals and employers through improved access to information and advice
- contracting quality training delivery provided by TAFEs and dual sector universities, not-for-profit community providers and private RTOs
- ensuring there is a highly capable and diverse internationally focused TAFE and training system in Victoria
- supporting growth industries or those in adjustment, job creation and development of workforces
- supporting Government priorities through training and skills development, such as the Government's response to the Family Violence Royal Commission through the Plan for Change
- developing and implementing effective strategies for accredited and pre accredited training through adult community education and youth transition pathways to ensure access to and increased participation in life long skills development
- growing TAFE institutes as public institutions that play a key role in helping the state to meet its economic and employment needs, as well as a unique role in the community to promote equity and address disadvantage.

This output includes the functions of training system design, industry engagement, stakeholder information, contracting and monitoring of quality and training services. It involves the development and implementation of strategies for accredited and pre-accredited vocational education and training through to adult community education.

Support services delivery

The support services delivery output group primarily covers RS and provides student welfare and support, 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.

Support for students with disabilities

The support for students with disabilities output group covers the program for students with disabilities, transport, 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.

4.1.2 (a) Departmental outputs: Controlled income and expenses for the year ended 30 June 2019

	Strategy, review and regulation ($m)	Early childhood develop-ment ($m)	School education ($m)	Higher educated and skills ($m)	Support services delivery ($m)	Support for students with disabilities ($m)	Depart-mental total ($m)
Income from transactions							
Output appropriations	118.6	648.6	9,743.8	1,829.9	383.5	1,091.3	**13,815.7**
Special appropriations	-	-	0.1	-	-	0.4	**0.5**
Grants	0.2	1.4	178.9	2.2	2.6	-	**185.3**
Sales of goods and services	-	0.1	129.2	0.3	1.1	0.9	**131.6**
Other income	-	-	609.5	0.1	0.5	0.1	**610.2**
Total income from transactions	**118.8**	**650.1**	**10,661.5**	**1,832.5**	**387.7**	**1,092.7**	**14.743.3**
Expenses from transactions							
Employee expenses	(68.6)	(43.0)	(5,701.2)	(61.0)	(243.5)	(855.1)	**(6,972.4)**
Depreciation and amortisation	(8.1)	(6.4)	(366.7)	(4.8)	(2.6)	(16.4)	**(405.0)**
Grants and other payments	(21.8)	(32.1)	(919.9)	(907.5)	(94.7)	(34.4)	**(2,010.4)**
Capital asset charge	(0.7)	(11.3)	(1,315.0)	(216.7)	(0.2)	(54.8)	**(1,598.6)**
Supplies and services	(19.1)	(556.3)	(1,558.9)	(563.2)	(44.7)	(112.6)	**(2,854.8)**
Other operating expenses	(0.5)	(1.0)	(203.8)	(5.6)	(2.0)	(19.3)	**(232.3)**
Total expenses from transactions	**(118.8)**	**(650.1)**	**(10,065.6)**	**(1,758.7)**	**(387.7)**	**(1,092.6)**	**(14,073.5)**
Net result from transactions (net operating balance)	**-**	**-**	**595.9**	**73.8**	**-**	**0.1**	**669.8**
Other economic flows included in net results							
Net gain/(loss) on non-financial assets	-	-	(1.8)	-	-	(0.2)	**(2.0)**
Net gain/(loss) on financial instruments	-	-	(7.6)	-	-	-	**(7.6)**
Other gains/(losses) from other economic flows	(0.9)	(0.5)	(72.3)	(0.8)	(3.1)	(10.9)	**(88.5)**
Total other economic flows included in net result	**(0.9)**	**(0.5)**	**(81.7)**	**(0.8)**	**(3.1)**	**(11.1)**	**(98.1)**
Net result	**(0.9)**	**(0.5)**	**514.2**	**73.0**	**(3.1)**	**(11.0)**	**571.7**
Other economic flows–other comprehensive income							
Changes in physical asset revaluation surplus	-	-	(1,468.8)	-	17.6	81.5	**(1,369.7)**
Total other economic flows—other comprehensive income	-	-	(1,468.8)	-	17.6	81.5	**(1,369.7)**
Comprehensive result	**(0.9)**	**(0.5)**	**(954.6)**	**73.0**	**14.5**	**70.5**	**(798.0)**

4.1.2 (b) Departmental outputs: Controlled income and expenses for the year ended 30 June 2018

	Strategy, review and regulation ($m)	Early childhood develop-ment ($m)	School education ($m)	Higher educated and skills ($m)	Support services delivery ($m)	Support for students with disabilities ($m)	Depart-mental total ($m)
Income from transactions							
Output appropriations	108.5	626.4	8,929.0	1,808.5	346.4	997.3	**12,816.1**
Special appropriations	-	-	6.9	-	-	3.6	**10.5**
Grants	-	4.0	52.8	1.8	1.7	-	**60.3**
Sales of goods and services	-	0.2	134.0	0.2	0.2	1.0	**135.6**
Other income	-	-	627.6	0.1	-	0.5	**628.2**
Total income from transactions	**108.5**	**630.6**	**9,750.3**	**1,810.6**	**348.3**	**1,002.4**	**13,650.7**
Expenses from transactions							
Employee expenses	(66.9)	(41.3)	(5,369.7)	(60.3)	(214.9)	(797.8)	**(6,550.9)**
Depreciation and amortisation	(7.4)	(5.4)	(332.6)	(4.4)	(2.5)	(16.0)	**(368.3)**
Grants and other payments	(18.1)	(34.0)	(887.7)	(919.7)	(76.0)	(17.8)	**(1,953.3)**
Capital asset charge	(0.6)	(5.7)	(1,217.6)	(216.7)	(0.2)	(54.4)	**(1,495.2)**
Supplies and services	(15.3)	(543.6)	(1,525.3)	(558.5)	(45.8)	(99.1)	**(2,787.6)**
Other operating expenses	(0.2)	(0.6)	(141.6)	(4.6)	(8.9)	(17.3)	**(173.2)**
Total expenses from transactions	**(108.5)**	**(630.6)**	**(9,474.6)**	**(1,764.2)**	**(348.3)**	**(1,002.4)**	**(13,328.5)**
Net result from transactions (net operating balance)	**-**	**-**	**275.7**	**46.4**	**-**	**-**	**322.2**
Other economic flows included in net results							
Net gain/(loss) on non-financial assets	-	-	0.3	-	-	-	**0.3**
Net gain/(loss) on financial instruments	-	-	(12.7)	-	-	-	**(12.7)**
Other gains/(losses) from other economic flows	-	-	1.7	-	0.2	0.3	**2.2**
Total other economic flows included in net result	**-**	**-**	**(10.7)**	**-**	**0.2**	**0.3**	**(10.2)**
Net result	**-**	**-**	**265.0**	**46.4**	**0.2**	**0.3**	**311.9**
Other economic flows–other comprehensive income							
Changes in physical asset revaluation surplus	-	-	2,855.8	-	4.3	328.4	**3,188.5**
Total other economic flows—other comprehensive income	-	-	2,855.8	-	4.3	**328.4**	**3,188.5**
Comprehensive result			**3,120.8**	**46.4**	**4.5**	**328.7**	**3,500.4**

4.1.3 (a) Departmental outputs: Controlled assets and liabilities as at 30 June 2019

	Strategy, review and regulation ($m)	Early childhood develop-ment ($m)	School education ($m)	Higher educated and skills ($m)	Support services delivery ($m)	Support for students with disabilities ($m)	Depart-mental total ($m)
Assets							
Financial assets	23.9	92.2	2,781.5	277.6	110.6	308.1	**3,593.9**
Non-financial assets	14.4	186.7	21,638.0	8.0	137.6	2,268.4	**24,253.0**
Total assets	**38.3**	**278.9**	**24,419.5**	**285.6**	**248.2**	**2,576.5**	**27,846.9**
Liabilities							
Liabilities	27.1	28.3	2,425.5	109.3	102.7	329.0	**3,022.0**
Total liabilities	**27.1**	**28.3**	**2,425.5**	**109.3**	**102.7**	**329.0**	**3,022.0**
Net assets/(liabilities)	**11.2**	**250.6**	**21,994.0**	**176.3**	**145.5**	**2,247.5**	**24,824.9**

4.1.3 (b) Departmental outputs: Controlled assets and liabilities as at 30 June 2018

	Strategy, review and regulation ($m)	Early childhood develop-ment ($m)	School education ($m)	Higher educated and skills ($m)	Support services delivery ($m)	Support for students with disabilities ($m)	Depart-mental total ($m)
Assets							
Financial assets	19.7	87.7	2,457.2	280.5	92.6	263.7	**3,201.4**
Non-financial assets	15.3	190.4	21,972.5	8.9	133.5	2,249.7	**24,570.3**
Total assets	**35.0**	**278.1**	**24,429.7**	**289.4**	**226.1**	**2,513.4**	**27,771.7**
Liabilities							
Liabilities	25.2	26.4	2,260.6	106.8	90.3	300.0	**2,809.3**
Total liabilities	**25.2**	**26.4**	**2,260.6**	**106.8**	**90.3**	**300.0**	**2,809.3**
Net assets/(liabilities)	**9.8**	**251.7**	**22,169.1**	**182.6**	**135.8**	**2,213.4**	**24,962.4**

4.2 Administered (non-controlled) items

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

	Departmental total	
	2019 ($m)	2018 ($m)
Administered income from transactions		
Commonwealth on-passing to non-government schools		
General recurrent grants	3,383.7	3,187.2
Other	55.2	50.1
Other income	98.5	99.5
Total administered income from transactions	**3,537.4**	**3,336.8**
Administered expenses from transactions		
Commonwealth on-passing to non-government schools		
General recurrent grants	(3,383.7)	(3,187.2)
Other	(55.1)	(50.1)
Other	(1.3)	(1.3)
Administered paid to consolidated fund	(67.7)	(84.9)
Total administered expenses from transactions	**(3,507.8)**	**(3,323.5)**
Total administered net result from transactions (net operating balance)	**29.6**	**13.3**
Administered other economic flows included in the administered net result		
Net gain/(loss) on non-financial assets	(38.7)	(3.7)
Total administered other economic flows	**(38.7)**	**(3.7)**
Administered net result	**(9.1)**	**9.6**
Total administered comprehensive result	**(9.1)**	**9.6**
Administered financial assets		
Cash and deposit	1.3	-
Receivables	16.8	25.9
Investments	-	1.3
Total administered assets	**18.1**	**27.2**

Administered income includes Commonwealth on-passing grants, fees and the proceeds from the sale of administered surplus land and buildings. Administered expenses includes payments made on behalf of the State and payments into the consolidated fund. Administered assets include government income earned but yet to be collected. Administered liabilities include government expenses incurred but yet to be paid.

Except as otherwise disclosed, administered resources are accounted for on an accrual basis using the same accounting policies adopted for recognition of the departmental items in the financial statements. Both controlled and administered items of the Department are consolidated into the financial statements of the State.

Commonwealth on-passing grants

The Department's administered grants mainly comprise of funds provided by the Commonwealth to assist the State Government in meeting general or specific service delivery obligations. These grants are distributed to the recipients for operational and capital purposes.

4.3 Restructuring of administrative arrangements

On 21 December 2018, the Government issued an administrative order restructuring some of its activities via machinery of government changes, taking effect from 1 January 2019. As part of the machinery of government restructure, the Department (as transferor) relinquished its maternal child health (MCH) and early parenting output to DHHS (the transferee).

The net asset transfers were treated as a contribution of capital by the State. No income has been recognised by the Department in respect of the net assets transferred to DHHS.

Restructuring of administrative arrangements	2019 Transfer out: Output – Dept ($m)
Assets	
Cash and deposits – Bank account held in trust	(0.9)
SAU receivables	(1.5)
Liabilities	
Provisions	1.5
Net assets recognised/(transferred)	**(0.9)**
Net capital contribution from the Crown	**(0.9)**

Note 5 Key assets available to support output delivery

Introduction	Structure
The Department controls infrastructure that is utilised in fulfilling its objectives and conducting its activities. They represent the resources that have been entrusted to the Department to be utilised for delivery of those outputs. Where the assets included in this section are carried at fair value, additional information is disclosed in Note 8.2 in connection with how those fair values were determined.	5.1 Property, plant and equipment: carrying amount 5.1.1 Depreciation and amortisation 5.1.2 Reconciliation of movements in carrying value of property, plant and equipment 5.2 Intangible assets 5.3 Other financial assets

5.1 Property, plant and equipment – education purpose group[81]

	2019 ($m)	2018[82] ($m)
Land		
At fair value	10,718.0	11,895.4
Buildings		
At fair value	12,118.5	11,033.0
Less accumulated depreciation	(343.3)	-
Total buildings	**11,775.2**	**11,033.0**
Heritage buildings		
At fair value	104.5	104.5
Less accumulated depreciation	(4.0)	-
Total heritage buildings	**100.6**	**104.5**
Leasehold buildings		
At fair value	526.2	526.2
Less accumulated depreciation	(9.8)	-
Total leasehold buildings	**516.4**	**526.2**
Leasehold improvements		
At fair value	31.8	14.4
Less accumulated depreciation	(10.2)	(8.0)
Total leasehold improvements	**21.6**	**6.4**
Plant and equipment		
At fair value	608.7	587.6
Less accumulated depreciation	(535.1)	(524.5)
	73.6	**63.1**
Plant and equipment under finance lease	43.1	42.6
Less accumulated depreciation	(11.9)	(9.7)
	31.2	**32.9**
Total plant and equipment	**104.7**	**96.0**
Work in progress		
Buildings at cost	904.8	799.2
Plant and equipment at cost	9.4	8.8
Total work in progress	**914.3**	**808.0**
Total property, plant and equipment	**24,150.7**	**24,469.5**

[81] 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.

[82] 2018 was a "formal" revaluation year for the Department in accordance with the FRD 103H *non-financial physical assets*. The Department land and building assets revaluation was conducted by the Valuer-General Victoria.

Initial recognition

Items of property, plant and equipment are measured initially at cost and subsequently revalued at fair value less accumulated depreciation and impairment. Where an asset is acquired for no or nominal consideration, the cost is its fair value at the date of acquisition. Assets transferred as part of a machinery of government change are transferred at their carrying amount.

The cost of constructed non-financial physical assets includes the cost of all materials used in construction, direct labour on the project and an appropriate proportion of variable and fixed overheads.

The cost of leasehold improvements is capitalised and depreciated over the shorter of the remaining term of the lease or their estimated useful lives.

The initial cost for non-financial physical assets under a finance lease (Note 7.2) 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. Also note that certain assets are acquired under finance leases, which may form part of a service concession arrangement (Public Private Partnership (PPP)).

Subsequent measurement

Property, plant and equipment are subsequently measured at fair value less accumulated depreciation and impairment. Fair value is determined with regard to the asset's highest and best use (considering legal or physical restrictions imposed on the asset, public announcements or commitments made in relation to the intended use of the asset) and is summarised below by asset category.

Specialised land and specialised buildings

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

Specialised land has no feasible alternative use because it is restricted to only provide education services to the community. There is no observable market value as a community service obligation (CSO) is applied.

Specialised buildings are buildings designed for a specific limited purpose. These buildings include school sites and heritage/historic properties owned by the Department.

Plant and equipment

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.

Leasehold buildings

Certain assets are acquired under finance leases, which may form part of a service concession arrangement (i.e. PPP). Refer to Notes 7.2 Leases and 7.5 Commitments for expenditure for more information.

More details about the valuation techniques and inputs used in determining the fair value of non-financial physical assets are discussed in Note 8.2.

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.

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 fair value of some heritage 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 are taken into account when the fair value is determined.

5.1.1 Depreciation and amortisation

	2019 ($m)	2018 ($m)
Depreciation		
Buildings	347.6	310.2
Leasehold buildings	9.8	8.3
Leasehold improvements	2.1	0.8
Plant and equipment	30.5	32.1
Total depreciation	**390.0**	**351.4**
Amortisation		
Software	15.0	16.9
Total amortisation	**15.0**	**16.9**
Total depreciation and amortisation	**405.0**	**368.3**

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) that have finite useful lives 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

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

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 reporting period.

Impairment of non-financial assets

Non-financial assets, including items of property, plant and equipment, are tested for impairment whenever there is an indication that the asset may be impaired.

The assets concerned are tested as to whether their carrying value exceeds their recoverable amount. Where an asset's carrying value exceeds its recoverable amount, the difference is written off as an "other economic flow", except to the extent that 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 impairment, the carrying amount is increased to its recoverable amount. However, this reversal should not increase the asset's carrying amount above what would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised in prior years.

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.

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

2019	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	**11,895.4**	**11,033.0**	**104.5**	**526.2**	**6.4**	**96.0**	**808.0**	**24,469.5**
Prior year adjustments	-	-	-	-	-	-	-	**-**
Additions	203.1	1.4	-	-	6.4	32.5	1,273.6	**1,515.6**
Fair value of assets received free of charge or for nominal considerations	-	-	-	-	-	-	-	**-**
Transfers to completed assets	-	1,144.5	-	-	11.6	11.1	(1,167.3)	**-**
Disposals	(0.5)	(57.4)	-	-	-	(4.4)	-	**(62.3)**
Revaluation increments/(decrements)	(1,366.4)	(2.5)	-	-	(0.8)	-	-	**(1,369.7)**
Impairment	-	-	-	-	-	-	-	**-**
Transfer (to)/from assets held for sale	(13.6)	(0.2)	-	-	-	0.1	-	**(13.7)**
Depreciation	-	(343.6)	(4.0)	(9.8)	(2.1)	(30.5)	-	**(390.0)**
Closing balance	**10,718.0**	**11,775.2**	**100.6**	**516.4**	**21.6**	**104.8**	**914.3**	**24,150.7**
2018								
Opening balance	9,409.6	9,960.5	103.1	383.2	2.9	87.7	446.1	**20,393.1**
Prior year adjustments	-	-	-		-	-	-	**-**
Additions	153.8	-	-	131.6	0.9	37.6	978.1	**1,302.0**
Fair value of assets received free of charge or for nominal considerations	3.6	-	-	-	-	-	-	**3.6**
Transfers to completed assets	-	594.6	-	-	3.4	6.9	(604.9)	**-**
Disposals	(48.6)	(29.5)	-	-	-	(4.0)	-	**(82.1)**
Revaluation increments/(decrements)	2,362.2	813.8	5.1	19.7	-	-	(11.3)	**3,189.5**
Impairment	-	-	-	-	-	-	-	**-**
Transfer (to)/from assets held for sale	14.8	-	-	-	-	-	-	**14.8**
Depreciation	-	(306.4)	(3.7)	(8.3)	(0.8)	(32.2)	-	**(351.4)**
Closing balance	**11,895.4**	**11,033.0**	**104.5**	**526.2**	**6.4**	**96.0**	**808.0**	**24,469.5**

5.2 Intangible assets

2019	Software at cost ($m)	Software work in progress ($m)	Total ($m)
Opening balance	**165.9**	**15.8**	**181.7**
Additions	0.8	7.5	8.3
Disposals	(0.8)	-	(0.8)
Impairments	(1.5)	(2.2)	(3.7)
Transfer to completed assets	6.7	(6.7)	-
Closing balance	**171.1**	**14.4**	**185.5**
Accumulated amortisation			
Opening balance	(132.2)	-	(132.2)
Amortisation expense	(15.0)	-	(15.0)
Write back due to disposals	1.2	-	1.2
Closing balance	**(146.0)**	**-**	**(146.0)**
Net book value at end of financial year	**25.1**	**14.4**	**39.5**

2018	Software at cost ($m)	Software work in progress ($m)	Total ($m)
Opening balance	**149.4**	**25.8**	**175.2**
Additions	1.4	6.8	8.2
Disposals	(1.3)	(0.4)	(1.7)
Transfer to completed assets	16.4	(16.4)	-
Closing balance	**165.9**	**15.8**	**181.7**
Accumulated amortisation			
Opening balance	(115.8)	-	(115.8)
Amortisation expense	(16.9)	-	(16.9)
Write back due to disposals	0.5	-	0.5
Closing balance	**(132.2)**	**-**	**(132.2)**
Net book value at end of financial year	**33.7**	**15.8**	**49.5**

Initial recognition

Intangible assets are initially recognised at cost. An intangible asset shall be recognised if it is probable that the expected future economic benefits that are attributable to the asset will flow to the entity and the cost of the asset can be measured reliably. When the recognition criteria in AASB 138 *Intangible Assets* is met, internally generated intangible assets are recognised and measured at cost less accumulated amortisation and impairment. Subsequently, intangible assets with finite useful lives are carried at cost less accumulated depreciation/amortisation and accumulated impairment losses. Amortisation begins when the asset is available for use, that is, when it is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Costs incurred subsequent to initial acquisition are capitalised when it is expected that additional future economic benefits will flow to the Department.

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

Subsequent measurement

Intangible produced assets with finite useful lives are depreciated as an ‘expense from transactions’ on a straight line basis over their useful lives. Intangible assets have useful lives of between 3 and 10 years.

Impairment of intangible assets

Intangible assets with indefinite useful lives (and intangible assets not yet available for use) are tested annually for impairment and whenever there is an indication that the asset may be impaired. Intangible assets with finite useful lives are tested for impairment whenever an indication of impairment is identified. The policy in connection with testing for impairment is outlined in note 5.1.1.

5.3 Other financial assets

	2019 ($m)	2018 ($m)
Term deposits held by schools	16.0	310.0

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

5.3.1 Ageing analysis of other financial assets

			Past due but not impaired			
2019	**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)**
Term deposits	16.0	16.0	-	-	-	-
Total	**16.0**	**16.0**	**-**	**-**	**-**	**-**

			Past due but not impaired			
2018	**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)**
Term deposits	310.0	310.0	-	-	-	-
Total	**310.0**	**310.0**	**-**	**-**	**-**	**-**

Note 6 Other assets and liabilities

Introduction	Structure
This section sets out those assets and liabilities that arose from the Department's operations.	6.1 Receivables 6.1.1 Movement in the provisions for doubtful debts 6.2 Other non-financial assets 6.3 Payables 6.3.1 Ageing analysis of contractual payables

6.1 Receivables

	2019 ($m)	2018 ($m)
Current receivables		
Statutory		
Amounts owing from Victorian Government	1,859.4	1,770.4
GST receivables	77.0	68.0
Total	**1,936.4**	**1,838.4**
Contractual		
Other debtors[83] [84]	129.3	76.1
Loan receivables	22.1	26.5
Total	151.3	102.6
Allowance for impairment of losses of contractual receivables[87]	(43.2)	(42.7)
Total current receivables	**2,044.5**	**1,898.3**
Non-current receivables		
Statutory		
Amounts owing from Victorian Government	256.6	211.6
Contractual		
Loan receivables	42.3	64.4
Total non-current receivables	**298.9**	**276.0**

[83] 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.

[84] The balance disclosed represents debtors for the Department only and excludes schools. The Department cannot confirm the existence and collectability of school debtors and unearned income as there is inadequate supporting documentation. The Department has not recognised on the balance sheet any amounts that may be collectable, or services that the Department is obliged to provide.

Receivables consist of:

- statutory receivables, which include amounts owing from the Victorian Government and GST input tax credits recoverable
- contractual receivables, which include mainly debtors in relation to goods and services and loans to third parties.

Contractual receivables are classified as financial instruments and categorised as 'financial assets at amortised costs'. They are initially recognised at fair value plus any directly attributable transaction costs. Subsequent to initial measurement they are measured at amortised cost using the effective interest method less any impairment.

Statutory receivables are recognised and measured similarly to contractual receivables. The Department applies AASB 9 for initial measurement of the statutory receivables and as a result statutory receivables are initially recognised at fair value plus any directly attributable transaction cost. Amounts recognised from the Victorian Government represent funding for all commitments incurred and are drawn from the consolidated fund as the commitments fall due.

Details about the Department's impairment policies and the calculation of the loss allowance are set out in note 8.1.1.

6.1.1 Movement in the allowance for impairment losses of contractual receivables

	2019 ($m)	2018 ($m)
Balance at beginning of the year	(42.7)	(32.5)
Reversal of unused provision recognised in the net result	2.1	0.3
Increase in provision recognised in the net result	(9.8)	(12.7)
Reversal of provision of receivables written off during the year as uncollectable	7.2	2.2
Balance at end of the year	**(43.2)**	**(42.7)**

AASB 9 requires that receivables are assessed for expected credit losses on a regular basis. Provision for impairment is recognised when there is objective evidence that the Department will not be able to collect a receivable. Receivables are written off against the carrying amount when there is no reasonable expectation of recovery.

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

6.2 Other non-financial assets

	2019 ($m)	2018 ($m)
Prepayment	26.8	28.5
Non-financial assets held for sale	14.2	3.0
Other	21.7	19.9
Total other non-financial assets	**62.7**	**51.4**

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, and land pending settlement.

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

This condition is regarded as met only when:
- the asset is available for immediate 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.

6.3 Payables

	2019 ($m)	2018 ($m)
Current payables		
Contractual		
Salaries, wages and on-costs	133.1	126.7
Accrued grants and transfer payments	124.1	73.3
Other accruals	9.2	8.2
Schools creditors	16.2	21.1
Capital expenditure	171.1	197.4
Operating expenditure	217.6	202.5
Total	**671.3**	**629.2**
Statutory		
Taxes payable	24.8	23.3
Advanced payable to public account	41.1	35.1
Total	**65.9**	**58.4**
Total current payables	**737.2**	**687.6**
Total payables	**737.2**	**687.6**

Payables consist of:

- contractual payables, classified as financial instruments and measured at amortised cost. Accounts payable represent liabilities for goods and services provided to the Department prior to the end of the financial year that are unpaid
- statutory payables, such as GST and fringe benefits tax, 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.

6.3.1 Ageing analysis of contractual payables

			Maturity dates				
2019	**Carrying amount ($m)**	**Nominal amount ($m)**	**Less than 1 month ($m)**	**1–3 months ($m)**	**3 months –1 year ($m)**	**Over 1– year ($m)**	**>5 years ($m)**
Payables	671.3	671.3	635.6	4.9	0.3	29.5	1.0
Total	**671.3**	**671.3**	**653.6**	**4.9**	**0.3**	**29.5**	**1.0**

			Maturity dates				
2018	**Carrying amount ($m)**	**Nominal amount ($m)**	**Less than 1 month ($m)**	**1–3 months ($m)**	**3 months –1 year ($m)**	**Over 1– year ($m)**	**>5 years ($m)**
Payables	629.2	629.2	599.7	21.0	6.6	1.9	-
Total	**629.2**	**629.2**	**599.7**	**21.0**	**6.6**	**1.9**	**-**

Note 7 Financing our operations

Introduction	Structure
This section provides information on the sources of finance utilised by the Department during its operations, along with interest expenses (the cost of borrowings) and other information related to financing activities of the Department. This section includes disclosures of balances that are financial instruments (such as borrowings and cash balances). Note 8.1 provides additional, specific financial instrument disclosures.	7.1 Borrowings 7.1.1 Maturity analysis of borrowings 7.2 Leases 7.2.1 Finance lease liabilities – Department as lessee 7.2.2 Operating leases – Department as lessee 7.3 Cash flow information and balances 7.3.1 Reconciliation of net results for the period to cash flow from operating activities 7.4 Trust account balances 7.5 Commitments for expenditure 7.5.1 Total commitments payable 7.5.2 Public Private Partnership commitments 7.5.3 Commitments other than Public Private Partnerships

7.1 Borrowings

	2019 ($m)	2018 ($m)
Current borrowings		
Finance lease liabilities[85]		
PPP related finance lease liabilities	40.1	40.4
Motor vehicles related finance lease liabilities	5.8	4.9
Advance from public account[86]	17.6	20.6
Other current[87]	1.2	1.5
Total current borrowings	**64.7**	**67.4**
Non-current borrowings		
Finance lease liabilities		
PPP related finance lease liabilities	462.7	475.2
Motor vehicles related finance lease liabilities	6.5	7.8
Advance from public account[86]	20.6	26.1
Other non-current[87]	4.1	5.2
Total non-current borrowings	**493.9**	**514.3**
Total borrowings	**558.6**	**581.7**

[85] 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 7.2.1 Leases for further information on finance lease liabilities.

[86] 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.

[87] Other borrowings are made up of co-operative loans in schools.

‘Borrowings’ refer to interest bearing liabilities mainly raised from finance leases and other interest bearing arrangements.

Borrowings are classified as financial instruments. All interest-bearing borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs. The measurement basis subsequent to initial recognition depends on whether the Department has categorised its interest bearing liabilities as either ‘financial liabilities designated at fair value through profit or loss’, or financial liabilities at ‘amortised cost’. The classification depends on the nature and purpose of the interest bearing liabilities. The Department determines the classification of its interest bearing liabilities at initial recognition.

7.1.1 Maturity analysis of borrowings

			Maturity dates				
2019	**Carrying amount ($m)**	**Nominal amount ($m)**	**Less than 1 month ($m)**	**1–3 months ($m)**	**3 months –1 year ($m)**	**Over 1–year ($m)**	**>5 years ($m)**
Borrowings	558.6	916.7	1.1	7.1	53.9	194.6	660.0
Total	**558.6**	**916.7**	**1.1**	**7.1**	**53.9**	**194.6**	**660.0**

			Maturity dates				
2018	**Carrying amount ($m)**	**Nominal amount ($m)**	**Less than 1 month ($m)**	**1–3 months ($m)**	**3 months –1 year ($m)**	**Over 1–year ($m)**	**>5 years ($m)**
Borrowings	581.7	973.2	1.9	12.4	45.6	207.5	705.8
Total	**581.7**	**973.2**	**1.9**	**12.4**	**45.6**	**207.5**	**705.8**

7.2 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, the commencement of the lease term is deemed to be the date of commissioning. All other leases are classified as operating leases.

7.2.1 Finance lease liabilities – Department as lessee

	Minimum future lease payments		Present value of minimum future lease payments	
	2019 ($m)	2018 ($m)	2019 ($m)	2018 ($m)
PPP related finance lease liabilities				
Not longer than one year	41.5	41.8	40.1	40.3
Longer than one year but not longer than five years	166.1	166.1	139.1	139.2
Longer than five years	657.1	698.7	323.6	336.1
Motor vehicles lease liabilities				
Not longer than one year	5.3	5.3	5.8	5.0
Longer than one year but not longer than five years	8.1	8.1	6.5	7.7
Minimum future lease payments	**878.1**	**920.0**	**515.1**	**528.3**
Less future finance charges	(363.0)	(391.6)	-	-
Present value of minimum lease payments	**515.1**	**528.4**	**515.1**	**528.3**
Included in the financial statements as:				
Current borrowings finance lease liabilities (Note 7.1)	-	-	45.9	45.3
Non-current borrowings finance lease liabilities (Note 7.1)	-	-	469.3	483.0
Total aggregate carrying amount of borrowings	-	-	**515.1**	**528.3**

	2019 ($m)	2018 ($m)
Assets pledged as security		
Motor vehicles under finance lease	12.7	13.0
Partnership Victoria in schools assets	548.0	546.0
Total assets pledged as security	**560.7**	**559.0**

The Department's leases are made up of finance leases for PPP arrangements and motor vehicles.

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 and depreciated over the shorter of the estimated useful life of the asset, or the term of the lease.

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.

PPP—Partnerships Victoria in schools

In December 2008, the State of Victoria entered into a 25-year agreement with Axiom Education Victoria Pty Ltd, under the Partnerships Victoria policy, for the financing, design, construction, and maintenance of 11 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 11 schools have been open 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.

In October 2015, the State of Victoria entered into a 25-year agreement with Learning Communities Victoria under the new schools PPP project. All 15 schools were delivered and opened over the 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 the 25 year contract period. The Department retains school ownership and responsibility for delivering educational services.

7.2.2 Operating leases–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.

7.3 Cash flow information and balances

Cash and deposits 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 which are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value.

	2019 ($m)	2018 ($m)
Amounts held by schools	956.1	576.8
Bank accounts held in trust	269.5	130.9
Other bank accounts	8.9	9.3
Total cash and deposits	**1,234.5**	**717.0**

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 7.4).

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 remits 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.

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

	2019 ($m)	2018 ($m)
Net results for the reporting period	**571.7**	**311.9**
Non-cash movements		
Net (gain)/loss on sale of non-financial assets	2.0	(0.3)
Depreciation and amortisation	405.0	368.3
Non-cash movements in assets liabilities		
Decrease/(increase) in current receivables	(150.6)	126.7
Decrease/(increase) in prepayments	1.8	(3.9)
Decrease/(increase) in non-current receivables	(45.0)	(10.8)
Increase/(decrease) in current payables	75.9	(77.8)
Increase/(decrease) in other liabilities	17.6	18.8
Increase/(decrease) in current employee entitlements	117.1	44.3
Increase/(decrease) in non-current employee entitlements	51.6	12.8
Net cash inflow from/(used in) operating activities	**1,047.1**	**790.0**

7.4 Trust account balances

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

2019	Opening balance as at 1 July 2018 ($m)	Total receipts ($m)	Total payments ($m)	Closing balance as at 30 June 2019 ($m)
Controlled trusts				
State treasury trust	58.7	92.0	(93.5)	57.3
Inter-departmental trust	43.1	163.9	(4.0)	202.9
Commonwealth treasury trust	29.1	35.4	(55.2)	9.2
Total controlled trusts	**130.9**	**291.2**	**(152.7)**	**269.5**
Administered trusts				
Prizes and scholarships	1.4	-	(0.1)	1.3
Commuter club	(0.2)	1.1	(1.1)	(0.2)
On-passing from the Commonwealth	0.6	3,438.9	(3,438.9)	0.6
Total administered trusts	**1.8**	**3,440.0**	**3,440.1**	**1.7**

2018	Opening balance as at 1 July 2017 ($m)	Total receipts ($m)	Total payments ($m)	Closing balance as at 30 June 2018 ($m)
Controlled trusts				
State treasury trust	74.2	135.4	(150.9)	58.7
Inter-departmental trust	9.9	38.0	(4.8)	43.1
Commonwealth treasury trust	44.8	34.4	(50.1)	29.1
Total controlled trusts	**128.9**	**207.8**	**(205.8)**	**130.9**
Administered trusts				
Prizes and scholarships	1.5	0.2	(0.3)	1.4
Commuter club	(0.1)	1.0	(1.1)	(0.2)
On-passing from the Commonwealth	0.6	3,237.3	(3,237.3)	0.6
Total administered trusts	**2.0**	**3,238.5**	**(3,238.7)**	**1.8**

There were no trust accounts opened or closed by the Department during 2019. The State treasury trust fund operates by virtue of Section 19 of the FM Act.

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 DTF or provided by specific alignment.

The Department has responsibility for transactions and balances relating to trust funds on behalf of third parties external to the Victorian Government. Funds 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.

7.5 Commitments for expenditure

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

7.5.1 Total commitments payable

2019	Less than 1-year ($m)	Between 1-5 years ($m)	Over 5-years ($m)	Total ($m)
PPP commitments	22.3	79.9	585.7	**687.9**
Capital expenditure commitments payable	513.4	55.1	-	**568.5**
Operating and lease commitments payable	31.8	60.3	31.9	**124.0**
Other commitments payable	897.2	217.3	149.3	**1,263.8**
Total commitments (inclusive of GST)	**1,464.7**	**412.5**	**766.9**	**2,644.2**
Less GST recoverable	132.2	33.6	56.2	222.0
Total commitments (exclusive of GST)	**1,332.5**	**378.9**	**710.7**	**2,422.2**

2018	Less than 1-year ($m)	Between 1-5 years ($m)	Over 5-years ($m)	Total ($m)
PPP commitments	22.0	100.1	606.0	**728.1**
Capital expenditure commitments payable	534.1	51.3	-	**585.4**
Operating and lease commitments payable	27.9	102.6	31.1	**161.6**
Other commitments payable	799.8	232.7	179.4	**1,211.9**
Total commitments (inclusive of GST)	**1,383.8**	**486.7**	**816.5**	**2,687.0**
Less GST recoverable	125.1	41.2	64.8	**231.1**
Total commitments (exclusive of GST)	**1,258.7**	**445.5**	**751.7**	**2,455.9**

7.5.2 Public Private Partnership commitments

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 PPPs 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. The remaining components are accounted for as commitments for operating costs, which are expensed in the comprehensive operating statement as they are incurred.

Commissioned public private partnership

Partnership Victoria in schools

The Department entered into a 25-year PPP arrangement through the Partnerships Victoria Project (PViS). 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 7.2.1.

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

New Schools PPP

In October 2015, the State of Victoria entered into a 25-year agreement with Learning Communities Victoria under the new schools PPP project. 15 schools were delivered and opened over the 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 services.

The total commitments for PPPs are as follows:

	Other commitments		Other commitments	
	Present value 2019 ($m)	Nominal value 2019 ($m)	Present value 2018 ($m)	Nominal value 2018 ($m)
Commissioned PPPs				
Partnerships Victoria in schools—Operations, maintenance and contingent rental commitments	163.0	375.3	168.3	379.5
New schools PPP	161.5	312.7	167.3	348.7
Total commitments for PPPs	**324.5**	**688.0**	**335.6**	**728.2**

7.5.3 Commitments other than Public Private Partnerships

	2019 nominal value (incl. GST) ($m)	2018 nominal value (incl. GST) ($m)
Capital expenditure commitments: Plant, buildings and equipment	568.5	585.4
Operating lease commitments	124.0	161.6
Other expenditure commitments	1,263.8	1,211.9
Total commitments other than PPPs	**1,956.3**	**1,958.9**

Capital commitments

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

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.

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.

Note 8 Risk, contingencies and valuation judgements

Introduction	Structure
The Department is exposed to risk from its activities and outside factors. In addition, it is often necessary to make judgements and estimates associated with recognition and measurement of items in the financial statements. This section sets out financial instrument specific information (including exposures to financial risks) as well as those items that are contingent in nature or require a higher level of judgement to be applied.	8.1 Financial instrument specific disclosures 8.2 Fair value determination 8.3 Contingent assets and liabilities 8.3.1 Contingent assets 8.3.2 Contingent liabilities

8.1 Financial instrument specific disclosures

8.1.1 Financial instruments: categorisation

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 assets and liabilities do not meet the definition of financial instruments in AASB 132 *Financial Instruments: Presentation*.

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.

From 1 July 2018, the Department applies AASB 9 and classifies all of its financial assets based on the business model for managing the assets and the asset's contractual terms.

Categories of financial instruments under AASB 9

Financial assets at amortised cost
Financial assets are measured at amortised cost if both the following criteria are met and the assets are not designated as fair value through net result:
- the assets are held by the Department to collect contractual cash flows
- the assets' contractual terms give rise to cash flows that are solely payments of principals and interests.

These assets are initially recognised at fair value plus any directly attributable transaction costs. Subsequent to initial measurement, receivables are measured at amortised cost using the effective interest method, less any impairment.

This category includes cash and deposits, term deposits with maturity greater than three months, receivables, and other receivables.

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.

Financial instrument liabilities measured at amortised cost include all of the Department's payables and borrowings.

Categories of financial assets previously under AASB 139
Loans and receivables and cash are financial instruments assets with fixed and determinable payments that are not quoted on an active market. These assets and liabilities are initially recognised at fair value plus any directly attributable transaction costs. Subsequent to initial measurement, loans and receivables are measured at amortised cost using effective interest method (and for assets, less any impairment). The assets recognised in this category includes cash and deposits; receivables and term deposits.

Categories of financial liabilities under AASB 9 and previously under AASB 139
Financial liabilities at amortised cost are initially recognised on the date they are originated. They are initially measured at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, these financial instruments are measured at amortised cost with any difference between the initial recognised amount and the redemption value being recognised in the profit and loss over the period of the interest bearing liability, using the effective interest rate method. The liabilities recognised in this category include payables and borrowings (including finance lease liabilities).

Impairment of financial assets under AASB 9
From 1 July 2018, the Department has been recording the allowance for expected credit loss for the relevant financial instruments, replacing AASB 139's incurred loss approach with AASB 9's expected credit loss approach. Subject to AASB 9 impairment assessment include the Department's contractual receivables.

Contractual receivables at amortised cost
The Department applies AASB 9's simplified approach for all contractual receivables to measure expected credit losses using a lifetime expected loss allowance based on the assumptions about risk of default and expected loss rates. The Department has grouped contractual receivables on shared credit risk characteristics and days past due and select the expected loss rate based on the Department's past history as well as forward looking estimates at the end of the financial year.

On this basis, the Department determines the opening loss allowance on initial application date of AASB 9 and the closing loss allowance at the end of the financial year as follows:

			Past due but not impaired			
1 July 2018	**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)**
Expected loss rate	-	17%	6%	7%	18%	33%
Receivables	166.9	18.3	2.8	2.2	41.5	102.1
Loss allowance	**44.3**	**3.1**	**0.2**	**0.2**	**7.5**	**33.3**

			Past due but not impaired			
30 June 2019	**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)**
Expected loss rate	-	13%	0%	47%	11%	41%
Receivables	193.6	17.1	53.6	6.6	32.6	83.7
Loss allowance	**43.2**	**2.1**	**0.1**	**3.1**	**3.7**	**34.2**

The following table represent classifications of financial assets and liabilities under AASB 9.

2019	Cash and deposits ($m)	Financial assets / liabilities designated at fair value through profit/loss (FVTPL) ($m)	Financial assets / liabilities mandatorily measured at fair value through profit/loss (FVTPL) ($m)	Financial assets measured at fair value through other comprehensive income (FVOCI) ($m)	Financial assets at amortised cost (AC) ($m)	Financial liabilities at amortised cost (AC) ($m)	Total ($m)
Contractual financial assets							
Cash and deposits – Department	278.4	-	-	-	-	-	278.4
Cash and deposits – Schools	956.1	-	-	-	-	-	956.1
Receivables	-	-	-	-	150.4	-	150.4
Term deposits	16.0	-	-	-	-	-	16.0
Total contractual financial assets	**1,250.5**	**-**	**-**	**-**	**150.4**	**-**	**1,400.9**
Contractual financial liabilities							
Payables						671.3	671.3
Borrowings						558.6	558.6
Total contractual financial liabilities						**1,229.9**	**1,229.9**

2018	Cash and deposits ($m)	Contractual financial assets/liabilities designated at fair value through net result ($m)	Contractual financial assets/liabilities mandatorily measured at fair value through net result ($m)	Contractual financial assets – available-for-sale ($m)	Contractual financial assets – loans and receivables / held to maturity ($m)	Contractual financial liabilities at amortised cost ($m)	Total ($m)
Contractual financial assets							
Cash and deposits – Department	140.2	-	-	-	-	-	140.2
Cash and deposits – Schools	576.8	-	-	-	-	-	576.8
Receivables	-	-	-	-	124.3	-	124.3
Term deposits	310.0	-	-	-	-	-	310.0
Total contractual financial assets	**1,027.0**	**-**	**-**	**-**	**124.3**	**-**	**1,151.3**
Contractual financial liabilities							

Payables	-	-	-	-	-	629.2	629.2
Borrowings	-	-	-	-	-	581.7	581.7
Total contractual financial liabilities	**-**	**-**	**-**	**-**	**-**	**1,210.9**	**1,210.9**

8.2 Fair value determination

This section sets out information on how the Department determined fair value for financial reporting purposes. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The following assets and liabilities are carried at fair value:
- land, buildings, infrastructure, plant and equipment.

In addition, the fair value of other assets and liabilities which are carried at amortised cost, also need to be determined for disclosure purposes.

The Department determines the policies and procedures for determining fair values for both financial and non-financial assets and liabilities as required.

Fair value hierarchy

In determining fair values, a number of inputs are used. To increase consistency and comparability in the financial statements, these inputs are categorised into three levels, also known as the fair value hierarchy. The levels are as follows:
- 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, and
- Level 3 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

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

How this section is structured

For those assets and liabilities for which fair values are determined, the following disclosures are provided:
- carrying amount and the fair value (which would be the same for those assets measured at fair value)
- which level of the fair value hierarchy was used to determine the fair value
- in respect of those assets and liabilities subject to fair value determination using Level 3 inputs:
    - a reconciliation of the movements in fair values from the beginning of the year to the end, and
    - details of significant unobservable inputs used in the fair value determination.

This section is divided between disclosures in connection with fair value determination for financial instruments (Note 8.2.1) and non-financial physical assets (Note 8.2.2).

8.2.1 Fair value determination of financial assets and liabilities

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.

8.2.2 Fair value determination: Non-financial physical assets

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 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 land assets are specialised assets where there is little or no observable market evidence of the market-selling price as a CSO is applied to such assets.

Fair value measurement hierarchy for assets as at 30 June 2019

	Fair value measurement at end of reporting period using:			
2019	**Carrying amount as at 30 June 2019 ($m)**	**Level 1 ($m)**	**Level 2 ($m)**	**Level 3 ($m)**
Land at fair value				
Land	10,718.0	-	788.8	9,929.2
Total land at fair value	**10,718.0**	**-**	**788.8**	**9,929.2**
Buildings at fair value				
Buildings	11,775.2	-	-	11,775.2
Total buildings at fair value	**11,775.2**	**-**	**-**	**11,775.2**
Heritage buildings at fair value				
Heritage buildings	100.6	-	-	100.6

	Fair value measurement at end of reporting period using:			
2019	**Carrying amount as at 30 June 2019 ($m)**	**Level 1 ($m)**	**Level 2 ($m)**	**Level 3 ($m)**
Total heritage buildings at fair value	**100.6**	-	-	**100.6**
Leasehold buildings at fair value				
Leasehold buildings	516.4	-	-	516.4
Total leasehold buildings at fair value	**516.4**	-	-	516.4
Leasehold improvements at cost				
Leasehold improvements	21.6	-	-	21.6
Total leasehold improvements at cost	**21.6**	-	-	**21.6**
Plant and equipment at fair value				
Plant and equipment	104.7	-	31.2	73.6
Total plant and equipment at fair value	**104.7**	-	**31.2**	**73.6**

Revaluations of non-financial physical assets

Non-financial physical assets are measured at fair value on a cyclical basis, in accordance with FRD 103H non-financial physical assets, issued by the Assistant Treasurer. 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 and buildings are 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 used for specialised land, although is adjusted for the 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 was 30 June 2018.

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 was 30 June 2018.

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.

Non-financial physical assets arising from finance leases
The initial cost for non-financial physical assets under a finance lease (Note 7.2.1) 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 7.5 in relation to such assets and arrangements.

An independent valuation of land and building
An assessment of land and building was conducted utilising indices by the Valuer-General for 2019, which resulted in a revaluation decrement for land. Refer to Note 9.6 for the quantum of the revaluation decrement.

Fair value measurement hierarchy for assets as at 30 June 2018

	Fair value measurement at end of reporting period using:			
2018	**Carrying amount as at 30 June 2018 ($m)**	**Level 1 ($m)**	**Level 2 ($m)**	**Level 3 ($m)**
Land at fair value				
Land	11,895.4	-	635.3	11,260.1
Total land at fair value	**11,895.4**	-	**635.3**	**11,260.1**
Buildings at fair value				
Buildings	11,033.0	-	-	11,033.0
Total buildings at fair value	**11,033.0**	-	-	**11,033.0**
Heritage buildings at fair value				
Heritage buildings	104.5	-	-	104.5
Total heritage buildings at fair value	**104.5**	-	-	**104.5**
Leasehold buildings at fair value				
Leasehold buildings	526.2	-	-	526.2
Total leasehold buildings at fair value	**526.2**	-	-	**526.2**
Leasehold improvements at cost				
Leasehold improvements	6.4	-	-	6.4
Total leasehold improvements at cost	**6.4**	-	-	**6.4**
Plant and equipment at fair value				
Plant and equipment	96.0	-	32.9	63.1
Total plant and equipment at fair value	**96.0**	-	**32.9**	**63.1**

Reconciliation of Level 3 fair value 30 June 2019

2019	Land ($m)	Buildings ($m)	Heritage buildings ($m)	Leasehold buildings ($m)	Leasehold improvements ($m)	Plant and equipment ($m)
Opening balance	**11,260.1**	**11,033.0**	**104.5**	**526.2**	**6.4**	**63.1**
Prior year adjustments	-	-	-	-	-	-
Purchases (sales)	0.2	1.4	-	-	6.4	27.1
Transfers to completed assets	-	1,144.5	-	-	11.6	11.0
Disposal	(0.3)	(57.4)	-	-	-	(1.8)
Asset revaluation movement	(1,325.0)	(2.5)	-	-	(0.8)	-
Transfer (to)/from assets held for sale	(5.7)	(0.2)	-	-	-	-
Depreciation	-	(343.6)	(4.0)	(9.8)	(2.1)	(25.9)
Change in land use restriction	-	-	-	-	-	-
Closing balance	**9,929.2**	**11,775.2**	**100.6**	**516.4**	**21.6**	**73.6**

Reconciliation of Level 3 fair value 30 June 2018

2018	Land ($m)	Buildings ($m)	Heritage buildings ($m)	Leasehold buildings ($m)	Leasehold improvements ($m)	Plant and equipment ($m)
Opening balance	**8,931.4**	**9,960.5**	**103.1**	**383.2**	**2.9**	**64.9**
Prior year adjustments	-	-	-	-	-	-
Purchases (sales)	-	-	-	131.6	1.0	20.5
Transfers to completed assets	-	594.6	-	-	3.3	6.9
Disposal	(12.1)	(31.3)	-	-	-	(1.2)
Asset revaluation movement	2,290.2	813.8	5.1	19.7	-	-
Transfer (to)/from assets held for sale	7.2	0.3	-	-	-	-
Depreciation	-	(304.6)	(3.7)	(8.3)	(0.8)	(28.0)
Change in land use restriction	43.4	-	-	-	-	-
Closing balance	**11,260.1**	**11,033.0**	**104.5**	**526.2**	**6.4**	**63.1**

Description of significant unobservable inputs to Level 3 valuations

2019 and 2018	Valuation technique	Significant unobservable inputs
Land	Market approach	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	Direct cost per square metre Useful life of plant and equipment

The significant unobservable inputs have remained unchanged from 2018.

8.3 Contingent assets and liabilities

Contingent assets and contingent liabilities are not recognised in the balance sheet, but are disclosed and, if quantifiable, are measured at nominal value.

Contingent assets and liabilities are presented inclusive of GST receivable or payable respectively.

8.3.1 Contingent assets

Contingent assets are possible assets that arise from past events, whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity.

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

Quantifiable contingent assets (arising from outside of government)

	2019 ($m)	2018 ($m)
Commercial litigations	19.2	4.7
Total quantifiable contingent assets	**19.2**	**4.7**

8.3.2 Contingent liabilities

Contingent liabilities are:

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

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

Quantifiable contingent liabilities

	2019 ($m)	2018 ($m)
Claims for damages	53.6	36.9
Total quantifiable contingent liabilities	**53.6**	**36.9**

Non-quantifiable contingent liabilities

The Department has a number of non-quantifiable contingent liabilities arising from indemnities provided by it, as follows.

- Volunteer school workers and volunteer student workers: The Education and Training Reform Act 2006 provides a specific indemnity for personal injuries or death (at the discretion of the Minister, for property damage) 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.
- 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 under the influence of illicit drugs or alcohol or engaging in a criminal offence and the behaviour was not outrageous and was related to their employment.
- Board members: the Education and Training Reform Act 2006 requires the State to indemnify a member of a Merit Protection Board or a Disciplinary Appeals Board for anything done or omitted to be done in good faith in the exercise of a power or the discharge of their statutory duties;
- School councils: The Education and Training Reform Act requires the Department to indemnify individual members of school councils for any legal liability, whether in contract, negligence or defamation, if they acted in good faith and in the course of their duties. The Department may decide to indemnify school councils (which are separate entities to the Department), in claims of common law negligence, and often 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.

Compulsory Land Acquisition

The State will compulsorily acquire a number of land parcels through the *Land Acquisition and Compensation Act 1986* to facilitate the delivery of various school infrastructure projects. Possible additional claims for compensation arising from the compulsory acquisition of these properties cannot be quantified at this stage.

Note 9 Other disclosures

Introduction

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

Structure

9.1 Subsequent events

The Department has no material or significant events that have occurred since the reporting date, to the signing date of these Financial Statements that would affect significantly the figures included in them.

9.2 Other economic flows included in net results

	2019 ($m)	2018 ($m)
(a) Net gain/(loss) on non-financial assets		
Net gain/(loss) on disposals of non-financial assets	(0.3)	0.3
Asset previously not recognised	1.4	-
Impairment of non-current assets	(3.1)	
Total net gain/(loss) on non-financial assets	**(2.0)**	**0.3**
(b) Net gain/(loss) on financial instruments		
Impairment of loans and receivables	(7.6)	(12.7)
Total net gain/(loss) on financial instruments	**(7.6)**	**(12.7)**
(c) Net gain/(loss) from other economic flows		
Net gain/(loss) arising from revaluation of long service leave liability	(88.5)	2.1
Total other gains/(losses) from other economic flows	**(88.5)**	**2.1**

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

Net gain/(loss) on non-financial assets

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

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.

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.

9.3 Remuneration of executives and other personnel

9.3.1 Remuneration of executives

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

Remuneration comprises employee benefits (as defined in AASB 119 *Employee Benefits*) in all forms of consideration paid, payable or provided by the entity, or on behalf of the entity, in exchange for services rendered. Accordingly, remuneration is determined on an accrual basis, and is disclosed in the following categories.

Short-term employee benefits include amounts such as wages, salaries, annual leave or sick leave that are usually paid or payable on a regular basis, as well as non-monetary benefits such as allowances and free or subsidised goods or services.

Post-employment benefits include pensions and other retirement benefits paid or payable on a discrete basis when employment has ceased.

Other long-term benefits include long service leave, other long-service benefit or deferred compensation.

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

Several factors affected total remuneration payable to executives over the year. A number of employment contracts were completed and renegotiated.

	Total remuneration	
	2019 ($m)	2018[88] ($m)
Short-term employee benefits	18.7	18.0
Post-employee benefits	1.6	1.6
Other long-term benefits	0.5	0.5
Termination benefits	0.4	0.2
Total remuneration	**21.2**	**20.3**
Total number of executives	**99**	**95**
Total annualised employee equivalents	**88.9**	**88.7**

9.4 Responsible persons

In accordance with the Ministerial Directions issued by the Assistant Treasurer under the FM Act, the following disclosures are made regarding responsible persons for the reporting period.

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 Early Childhood Education	The Hon. Jenny Mikakos MP	1 July 2018 to 28 November 2018
Minister for Education	The Hon. James Merlino MP	1 July 2018 to 30 June 2019
Minister for Training and Skills	The Hon. Gayle Tierney MP	1 July 2018 to 28 November 2018
Minister for Training and Skills Minister for Higher Education	The Hon. Gayle Tierney MP	29 November 2018 to 30 June 2019
Secretary	Gill Callister	1 July 2018 to 28 November 2018
Secretary	Jenny Atta	19 March 2019 to 30 June 2019

- Katy Haire, Deputy Secretary, Early Childhood and School Education Group acted as Secretary from 2 to 13 July 2018
- Jenny Atta, Deputy Secretary, Infrastructure and Finance Services Group acted as Secretary from 29 November 2018 to 18 March 2019
- Simon Kent, Deputy Secretary, Policy Reform Group acted as Secretary from 7 to 14 January 2019

[88] The 2018 comparatives have been adjusted to reflect the removal of data relating to the VRQA (2 executive officers), and the VCAA (6 executive officers), both of which report this data in their respective annual reports. This maintains parity with data presented in 2019.

Remuneration

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

	2019 Number	2018 Number
$220,000 - $229,999	1	-
$310,000 - $319,999	1	-
$540,000 - $549,999	-	1
Total	2	1
Total remuneration	$542,000	$543,000

9.5 Related parties

The Department is a wholly owned and controlled entity of the State of Victoria. Related parties of the Department include:

- all key management personnel and their close family members
- all Cabinet ministers and their close family members
- all departments and public sector entities that are controlled and consolidated into the whole of state consolidated financial statements.

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

Key management personnel of the Department include the Portfolio Ministers, the Secretary, Deputy Secretaries and members of the Executive Board. The compensation detailed below excludes the salaries and benefits the Portfolio Ministers receive. The Ministers’ remuneration and allowances are set by the *Parliamentary Salaries and Superannuation Act 1968* and is reported within the Department of Parliamentary Services’ Financial Report.

Compensation	2019 ($m)	2018 ($m)
Short-term employee benefits	4.3	4.2
Post-employee benefits	0.3	0.4
Other long-term benefits	0.1	0.1
Termination benefits	0.3	-
Total	5.0	**4.7**

Transactions with key management personnel and other related parties

Given the breadth and depth of State government activities, related parties transact with the Victorian public sector in a manner consistent with other members of the public e.g. stamp duty and other government fees and charges. Further employment of processes within the Victorian public sector occur on terms and conditions consistent with the *Public Administration Act 2004* and Codes of Conduct and Standards issued by the Victorian Public Sector Commission. Procurement processes occur on terms and conditions consistent with the Victorian Government Procurement Board requirements. Outside of normal citizen type transactions with the Department, with the exception of the items noted under ‘Related party transactions’ below, there were no other related party transactions that involved key management personnel and their close family members. No provision has been required, nor any expense recognised, for impairment of receivables from related parties.

Related party transactions

The Secretary is an ex-officio member of the boards of the VRQA and the VCAA, 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 former Secretary was 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.

	2019 ($m)	2018 ($m)
Grants paid during the year		
VRQA	11.8	11.2
VCAA	77.0	68.5
Rent provided free of charge during the year		
VRQA	0.5	0.5
VCAA	2.5	2.5
Payments made during the year		
The Institute of Public Administration Australia – Victoria	0.1	0.3

9.6 Reserves

	2019 ($m)	2018 ($m)
Physical asset revaluation surplus		
Balance at beginning of financial year	13,589.2	10,400.6
Revaluation increment/(decrement) of land during the year	(1,366.4)	2,362.3
Revaluation increment/(decrement) of buildings during the year	(2.5)	827.3
Revaluation increment/(decrement) of leasehold buildings during the year	(0.8)	(1.0)
Balance at the end of the financial year	**12,219.5**	**13,589.2**

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

9.7 Remuneration of auditors

	2019 ($m)	2018 ($m)
Audit fees – Victorian Auditor-General's Office	0.7	0.6
Audit fees – other	3.6	5.1
Total remuneration of auditors	**4.3**	**5.7**

9.8 Australian Accounting Standards and interpretation issues that are not yet effective

The following AAS become effective for reporting periods commencing after 1 July 2019:

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

Service concession arrangements

Prior to the AASB's issuance of AASB 1059, there was no specific Australian accounting guidance for service concession arrangements from a grantor's perspective. Service concession arrangements include PPP arrangements. AASB 1059 is based on its international equivalent, International Public Sector Accounting Standard 32 *Service Concession Arrangements: Grantor*.

Where an arrangement is within the scope of AASB 1059, the public sector grantor recognises the asset used in the service concession arrangement if the grantor controls the asset. The grantor recognises the asset at current replacement cost in accordance with the cost approach to fair value in AASB 13 *Fair Value Measurement*. The grantor also recognises a corresponding liability using either the financial liability model and/or the grant of a right to the operator model.

The AASB recently deferred the effective date of AASB 1059 by one-year to be applicable for reporting periods beginning on or after 1 January 2020 with early application permitted. The Department intends to early adopt AASB 1059 as per the original application date of reporting periods beginning 1 January 2019.

Preliminary assessments of the Department's PPPs (in Note 7.5.2) indicate the arrangements are outside the scope of AASB 1059 for accounting as a service concession arrangement. This is on the basis that each of the arrangement does not involve the operator providing public services related to the PPP asset on behalf of the grantor and the operator does not manage at least some of the services under its own discretion.

Leases

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

AASB 16 sets out the principles for the recognition, measurement, and disclosure of leases. AASB 16 requires lessees to account for all leases on the balance sheet by recognising a right-of-use (RoU) asset and a lease liability. A lessee may elect not to apply the requirements of AASB 16 for short-term leases and leases where the underlying asset is of low value. The Department intends to make the election not to apply the requirements to short-term leases (e.g. shorter than 12 months) and low value leases (e.g. below $10,000).

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

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

The effective date is for reporting periods beginning on or after 1 January 2019. The Department intends to adopt AASB 16 in 2019–20 when it becomes effective.

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

In addition, AASB 2018-8 *Amendments to Australian Accounting Standards – Right of Use Assets (RoU) Assets of Not-for-Profit Entities* allows a temporary option for not-for-profit entities to not measure RoU assets at initial recognition at fair value for leases with significantly below-market terms and conditions principally to enable the entity to further its objectives. The temporary option is pending further guidance from the AASB in measuring a not-for-profit entity's RoU assets at fair value. An entity that elects to apply the temporary option (i.e. measures a class or classes of such RoU assets at cost rather than fair value) must include additional disclosures. The Department intends to elect the temporary option to value the RoU asset at the present value of the payments required (at cost).

The Department performed a preliminary impact assessment of AASB 16 and estimates the potential impact in the initial year of application are:

- increase in RoU ($127.1m)
- increase in related depreciation ($28.6m)
- increase in lease liability ($127.1m)
- increase in related interest ($3.8m) calculated using effective interest method
- decrease in rental expense ($28.6m).

Revenue and Income

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

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

The AASB also issued the following standards and guidance to assist not-for-profit entities in applying the requirements in AASB 15:

- AASB 2016-8 *Amendments to Australian Accounting Standards – Australian implementation guidance for NFP entities* (AASB 2016-8) provides guidance on applying the revenue recognition principles of AASB 15.
- AASB 2018-4 *Amendments to Australian Accounting Standards – Australian Implementation Guidance for Not-for-Profit Public-Sector Licensors* (2018-4) provides guidance on how to distinguish payments received for access to an asset (or other resource) or to enable other parties to perform activities such as tax and non-IP licence. It also provides guidance on timing of revenue recognition for non-IP licence payments.
- AASB 1058 *Income of Not-for-Profit Entities* supplements AASB 15 by clarifying the income recognition requirements applicable to not-for-profit entities. AASB 1058 establishes principles for transactions where the consideration to acquire an asset is significantly less than fair value and principally to enable the not-for-profit entity to further its objectives. The standard requires an entity to consider whether upon the initial recognition of the asset gives rise to a corresponding contributions by owners, revenue, liability (in the form of a lease, provision and/or financial instrument), and /or income. The standard also establishes the timing of recognising income for government grants and contributions previously contained within AASB 1004 *Contributions*.
- AASB 15, AASB 1058 and the related guidance are applicable for reporting periods beginning on or after 1 January 2019. The Department intends to adopt these standards in 2019–20 financial year when it becomes effective.

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

The Department performed a preliminary impact assessment of AASB 15 and AASB 1058 for each major class of revenue and income in the initial year of application. The Department estimates there are no material impact resulting from the application of the new standards on accounting for the major class of its revenue and income.

9.9 Glossary of technical terms

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

Active 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".

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 CSO 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

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

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 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
- 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 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
- 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

The FRDs are applicable to all entities defined as either a public body or a department under section 3 of the FM Act, 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:

- a balance sheet as at the end of the period
- a 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

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

Interest income

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

Lease

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

Net result

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.

Operating result

Operating result is a measure of financial performance of the operations for the period. It is the net result of items of revenue, gains and expenses (including losses) recognised for the period, excluding those that are classified as ‘other non-owner movements in equity’. Refer also ‘net result’.

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.

In simple terms, other economic flows are changes arising from market re-measurements. They include gains and losses from disposals, revaluations and impairments of non-current physical and intangible assets; fair value changes of financial instruments.

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 ASS. They include:

- changes in physical asset revaluation surplus
- gains and losses on re-measuring 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, or increasing age or time. It eventually becomes obsolete.

Produced assets

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

Receivables

Includes amounts owing from government through appropriation receivable, short and long-term trade credit and accounts receivable, grants, taxes and interest receivable.

Sales of goods and services

Refers to income from the direct provision of goods and services and includes fees and charges for services rendered, sales of goods and services; and 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 2018–19 *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.