



Victorian
Budget **2025/26**

25
26

Focused On What Matters Most

2025/26 Budget Update

Presented by Jaclyn Symes MP
Treasurer of the State of Victoria



ACKNOWLEDGEMENT OF COUNTRY

The Victorian Department of Treasury and Finance acknowledges that Aboriginal and Torres Strait Islander peoples are the First Peoples and Traditional Custodians of Australia, and the oldest continuing culture in human history. We proudly acknowledge Victoria's Aboriginal communities and recognise the value and ongoing contribution of Aboriginal people and communities to Victorian life. We pay our respect to Elders past and present and emerging.

As we work to ensure Victorian Aboriginal communities continue to thrive, the Government acknowledges the invaluable contributions of generations that have come before us, who have fought tirelessly for the rights of their people and communities towards self-determination. We reflect on the continuing impact of government policies and practices and recognise our responsibility to work together with and for Aboriginal and Torres Strait Islander peoples towards improved cultural, social and economic outcomes.



'lim-ba nindee thana warn-ga-ilee'
(Preserve our Dreaming Lore) – Gonnai Language
Bitja (Dixon Patten Jnr) Yorta Yorta, Gonnai,
Gunditjmara and Dhudhuroa of Bayila Creative

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Budget Update

2025-26



Presented by

Jaclyn Symes MP

Treasurer of the State of Victoria

for the information of Honourable Members

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CHAPTER 1 – ECONOMIC AND FISCAL OVERVIEW

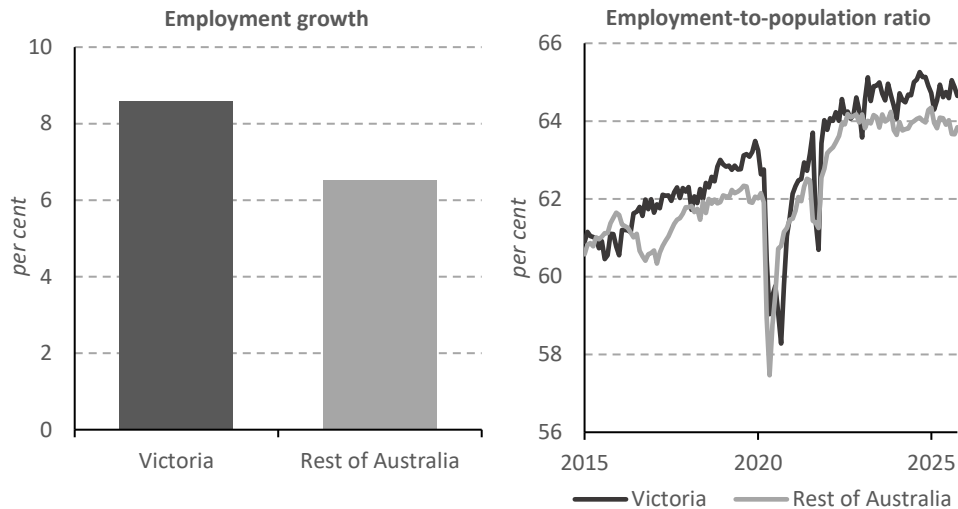
VICTORIA LEADING ON JOBS AND INVESTMENT GROWTH

Victoria's economy is growing and the labour market remains healthy. Victoria has added more than 300 000 jobs over the past three years – faster growth than the rest of Australia (see Chart 1.1). Both the share of working-age Victorians in employment (see Chart 1.1) and the participation rate are near record high levels and well above the national averages. Private investment has supported economic growth, with dwelling investment growing strongly in 2024-25 and business investment remaining elevated.

Real gross state product (GSP) grew by 1.1 per cent in 2024-25, the strongest increase of the non-mining states. Ongoing cost-of-living challenges have weighed on demand across Australia, and Victoria is not immune to these effects. The impacts of a rapid increase in inflation and the Reserve Bank of Australia's substantial interest rate increases from May 2022 resulted in subdued but positive economic growth, which represents a soft landing for the economy following this significant inflationary period. This positive outcome for real economic growth, coupled with continued growth in employment and the unemployment rate remaining below its long-term trend, contrasts favourably with the previous episodes when monetary policy was used to materially reduce high inflation. Despite these headwinds, Victoria's economy is now 12.7 per cent larger than it was before the COVID-19 pandemic and 4.1 per cent larger in per capita terms.

Although cost-of-living remains a challenge for some households, solid wages growth and easing inflation led to real wages growth in 2024-25 for the first time since the pandemic. While inflation picked up somewhat in the September quarter 2025, inflation has fallen significantly from its December 2022 peak of 8.0 per cent. This has begun to reduce pressure on some household budgets and enabled the Reserve Bank of Australia to begin lowering interest rates. Real wages growth and interest rate cuts have led to an increase in real household disposable income, which is supporting a recovery in household spending. Alongside this, business investment remains at a high level. Investment per worker reached a record high in 2023-24, and business investment is expected to remain elevated. Dwelling investment is growing strongly and reached its highest level in six years in 2024-25.

Chart 1.1: Growth in employment over the three years to October 2025, and the employment-to-population ratio

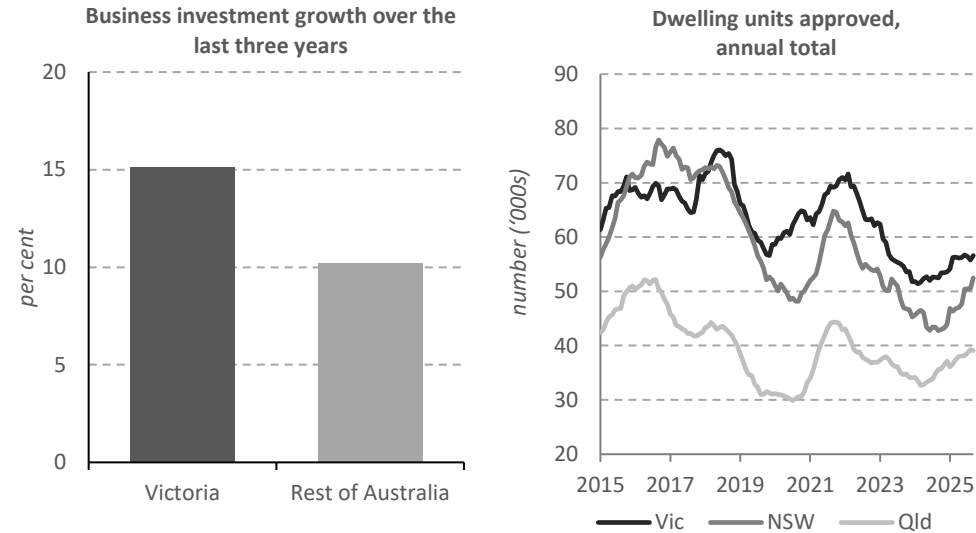


Source: Australian Bureau of Statistics

Real GSP is forecast to grow by 2.25 per cent in 2025-26 and 2.50 per cent in 2026-27, and real GSP per capita – a key measure of living standards – is forecast to increase in each year of the budget and forward estimates. Most major components of GSP are anticipated to add to growth in 2025-26. Household consumption is expected to be the main driver of economic growth, as the recent rise in consumer spending is forecast to gather momentum alongside further growth in real household disposable incomes.

Strong dwelling investment will also add to real GSP growth, supported by easing labour shortages in the construction sector, an elevated pipeline of work to be done, and a rise in demand for new housing, resulting from lower interest rates. Victoria had the highest number of dwelling completions of all states in 2024-25, and also the highest number of dwelling approvals (see Chart 1.2). Business investment has grown faster than the rest of Australia over the past three financial years and is expected to remain at elevated levels. This outlook is supported by positive national surveyed business investment intentions and a strong construction pipeline that includes data centres and renewable energy projects.

Chart 1.2: Growth in business investment over the three years to 2024-25, and dwelling units approved^(a)



Source: Australian Bureau of Statistics

Note:

(a) 12-month rolling sum.

Victoria's labour market has been strong and inclusive in recent years. High demand for labour, combined with a large increase in labour supply, has led to strong employment growth across the state. The shares of men, women and young people in work are all above pre-pandemic levels, and women's workforce participation has reached record highs. Victoria's unemployment rate remains historically low at 4.7 per cent, and regional Victoria continues to benefit from a strong labour market, recording the lowest regional unemployment rate of any state at 3.5 per cent.

After growing by a strong 2.5 per cent in 2024-25, employment is forecast to grow by a further 1.25 per cent in 2025-26, higher than the 0.50 per cent forecast in the *2025-26 Budget*. Unemployment is expected to remain broadly stable, at 4.75 per cent in 2025-26, well below the long-term pre-pandemic average of 5.5 per cent.

The healthy labour market is expected to underpin further solid wages growth. Wages increased by 3.3 per cent in 2024-25 and are forecast to grow by a similar 3.25 per cent in 2025-26. Wages growth is expected to exceed inflation in 2025-26 and over the forward estimates, resulting in further rises in real wages.

A strong labour market, improvements in household spending, elevated business investment and growing dwelling investment continue to support a positive outlook, as momentum in Victoria's economy grows. While risks to the outlook remain, particularly from United States trade policies and geopolitical tensions, Victoria's economy remains resilient. Low unemployment, a skilled workforce, elevated business investment, a diverse industry mix, and the scope for the exchange rate and monetary policy to act as buffers to global shocks mean the Victoria economy is well-placed to navigate uncertainty and continue growing in the years ahead.

STRONG FINANCIAL MANAGEMENT

In response to the COVID-19 pandemic, the Government developed a comprehensive fiscal strategy in the *2020-21 Budget* to protect Victorian households and businesses and provide a strong foundation for recovery. This initially involved a four-step plan to support Victorians, grow the economy and return to surpluses over the medium term.

The Government has consistently reported on its progress over the last five years, and updated the plan in the *2024-25 Budget* to introduce a fifth step. This plan provides a clear framework:

- **Step 1:** creating jobs, reducing unemployment and restoring economic growth
- **Step 2:** returning to an operating cash surplus
- **Step 3:** returning to operating surpluses
- **Step 4:** stabilising net debt levels as a proportion of GSP
- **Step 5:** reducing net debt as a proportion of GSP.

Progress towards achieving the Government's fiscal strategy

The first step – creating jobs, reducing unemployment and restoring economic growth – has been achieved, with strong employment outcomes continuing and robust economic growth.

The second step in the Government's fiscal strategy – returning to an operating cash surplus – means the State is generating sufficient cash inflows to exceed its cash outflows on operating activities, a key pillar of fiscal sustainability. The Government has achieved an operating cash surplus for the past three years, including an operating cash surplus of \$3.2 billion in 2024-25. The Government continues to forecast operating cash surpluses across the budget and forward estimates, reaching \$6.1 billion in 2028-29.

The third step – returning to an operating surplus – is important, as this is where the Government generates sufficient revenues to cover its cash expenditure and support the ongoing replacement of existing assets. The Government is forecasting an operating surplus of \$0.7 billion in 2025-26, an improvement of around \$100 million from the *2025-26 Budget* forecast. Operating surpluses across the forward estimates of \$1.9 billion in 2026-27, \$2.4 billion in 2027-28 and \$1.5 billion in 2028-29 are also projected. This represents an average operating surplus across the forward estimates of \$2.0 billion per year.

The fourth step – stabilising net debt as a percentage of GSP – involves progressively improving operating cash flow surpluses while growing the economy. These surpluses will fund a higher proportion of capital expenditure, reducing the reliance on borrowings. The *2025-26 Budget Update* continues to forecast the achievement of this step from 2026-27.

The fifth step involves reducing net debt as a percentage of GSP. Net debt to GSP is still forecast to decline from 25.2 per cent in 2026-27 to 25.0 per cent in 2027-28 and then decline further to 24.9 per cent in 2028-29 consistent with the *2025-26 Budget*.

Financial position

The net result from transactions for the general government sector is forecast to be in surplus of \$0.7 billion in 2025-26. This is an increase from that published in the *2025-26 Budget*.

The Government continues to forecast operating surpluses in 2026-27 of \$1.9 billion, \$2.4 billion in 2027-28 and \$1.5 billion in 2028-29.

Net cash flows from operating activities for the general government sector are forecast to be in surplus by \$5.6 billion in 2025-26 and remain in surplus over the forward estimates.

Table 1.1: General government fiscal aggregates

	<i>Unit of measure</i>	<i>2025-26 revised</i>	<i>2026-27 estimate</i>	<i>2027-28 estimate</i>	<i>2028-29 estimate</i>
Net result from transactions	\$ billion	0.7	1.9	2.4	1.5
Net cash flows from operating activities	\$ billion	5.6	7.7	6.7	6.1
Government infrastructure investment ^{(a)(b)}	\$ billion	21.5	19.2	15.9	15.6
Net debt	\$ billion	165.8	176.2	183.8	192.6
Net debt to GSP ^(c)	per cent	24.9	25.2	25.0	24.9

Notes:

(a) Includes general government net infrastructure investment and the estimated cash flows for public private partnership projects.

(b) Includes the estimated private sector construction-related expenditure associated with the North East Link held in the public non-financial corporations (PNFC) sector.

(c) The ratios to GSP may vary from publications year to year due to revisions to the Australian Bureau of Statistics GSP data.

Total revenue for the general government sector is expected to be \$109.8 billion in 2025-26, an increase of \$1.5 billion from the *2025-26 Budget*. Revenue growth is then expected to average 2.3 per cent a year over the forward estimates, reaching \$117.4 billion in 2028-29.

Total general government sector expenditure is expected to be \$109.1 billion in 2025-26 and is expected to grow by an average of 2.0 per cent over the forward estimates, reaching \$115.8 billion in 2028-29.

Consistent with the goal of returning to pre-COVID levels, Government infrastructure investment (GII) is projected to continue to moderate over the forward estimates. GII is projected to be \$15.6 billion by 2028-29, \$8.6 billion less than its 2023-24 peak of \$24.2 billion. This reflects the Government's commitment to a sustainable infrastructure program. A sustainable pipeline of infrastructure projects will continue to provide certainty to the construction industry and maintain a steady flow of investment in social and economic infrastructure for all Victorians.

Net debt is expected to be \$165.8 billion at June 2026 and increase to \$192.6 billion by June 2029. This is an improvement in all years across the budget and forward estimates, including an improvement of \$1.4 billion by June 2029 when compared with the *2025-26 Budget*.

As a proportion of GSP, net debt is projected to be 24.9 per cent at June 2026, an improvement of 0.2 per cent when compared with the *2025-26 Budget*. Net debt is then projected to be 25.2 per cent at June 2027 before reducing to 25.0 per cent by June 2028 and then further declining to 24.9 per cent by June 2029. This is consistent with the estimates in the *2025-26 Budget*.

Long-term objectives and targets

The Government's long-term financial management objectives, set out in Table 1.2, remain unchanged from the *2025-26 Budget*.

Table 1.2: Long-term financial management objectives

<i>Priority</i>	<i>Objective</i>
Sound financial management	Victoria's finances will be managed in a responsible manner to provide capacity to fund services and infrastructure and support households and businesses at levels consistent with sound financial management.
Improved services	Public services will improve over time.
Building infrastructure	Public infrastructure will grow steadily over time to meet the needs of a growing population.
Efficient use of public resources	Public sector resources will be invested in services and infrastructure to maximise the economic, social and environmental benefits.
A resilient economy	Increase economic resilience by supporting an innovative and diversified economy that will unlock employment growth, long-term economic growth and productivity in Victoria.

Progress towards these long-term financial management objectives is supported by the measures and targets in Table 1.3. These measures and targets are also unchanged from the *2025-26 Budget*.

Table 1.3: Financial measures and targets

<i>Financial measures</i>	<i>Target</i>
Net debt to GSP	General government net debt as a percentage of GSP to stabilise and reduce in the medium term.
Interest expense to revenue	General government interest expense as a percentage of revenue to stabilise in the medium term.
Superannuation liabilities	Fully fund the unfunded superannuation liability by 2035.
Operating cash surplus	A net operating cash surplus consistent with maintaining general government net debt at a sustainable level.

The Government will review and publish its financial objectives and measures, consistent with requirements under the *Financial Management Act 1994*, as part of the forthcoming 2026-27 budget.

CHAPTER 2 – ECONOMIC CONTEXT

- Victoria's economy is growing and the labour market remains robust, despite national cost-of-living pressures and elevated interest rates weighing on some sectors of the economy.
- Victorian employment rose by 2.5 per cent in 2024-25, following strong growth in recent years. The overall participation rate, the participation rate for women, and the share of working-age Victorians in employment, reached record levels. The unemployment rate averaged 4.4 per cent in 2024-25, remaining historically low.
- The economy grew by 1.1 per cent in 2024-25, and growth is expected to increase to 2.25 per cent in 2025-26, supported by household consumption, dwelling investment and public demand. Business investment is expected to remain at a high level.
- Employment is forecast to grow by a further 1.25 per cent in 2025-26. The unemployment rate is expected to average 4.75 per cent, remaining below its long-term pre-pandemic average.
- Despite ticking up recently, inflation is currently below the national inflation rate. It has also eased significantly from its peak in December 2022, which has enabled the Reserve Bank of Australia to lower interest rates since early 2025. Inflation is expected to be 3.00 per cent in 2025-26.
- Wages grew faster than inflation in 2024-25 and are forecast to keep doing so in 2025-26 and over the forward estimates, leading to further real wages growth.
- Risks to Victoria's economy include global geopolitical conditions and US trade policy developments, and uncertainty around the outlook for household consumption.

VICTORIAN ECONOMIC CONDITIONS AND OUTLOOK

Victoria's economy continues to grow and is benefiting from recent modest interest rate cuts and lower inflation, while the labour market remains healthy. However, household cost-of-living pressures, business input cost pressures such as for labour and materials, and substantial increases in interest rates from May 2022 have all weighed on demand in Victoria in the past couple of years, as they have nationally. Victoria's real gross state product (GSP) grew by 1.1 per cent in 2024-25. Real GSP is now 12.7 per cent larger than it was in 2018-19, before the COVID-19 pandemic, and 4.1 per cent larger in per capita terms. A pickup in economic activity is expected, with growth in real incomes and interest rate cuts supporting a gradual recovery in household spending. Economic growth in 2025-26 is expected to be higher than in the past two years.

Economic growth has supported strong labour market outcomes. Victorian employment rose by 2.5 per cent in 2024-25, and follows strong growth in recent years, with employment rising by 8.6 per cent over the three years to October 2025. Both the participation rate and the share of working-age Victorians in employment reached record highs in 2024-25, while the unemployment rate averaged 4.4 per cent, which was well below the 20-year pre-pandemic average of 5.5 per cent.

Despite a recent uptick, growth in consumer prices has fallen significantly from its peak in December 2022, and wages grew faster than inflation in 2024-25 for the first time since the pandemic. In response to easing inflation, the Reserve Bank of Australia (RBA) began cutting interest rates in early 2025, and the cash rate is now 75 basis points below its cyclical peak of 4.35 per cent. Although inflation has declined markedly from its highs, cost-of-living pressures continue to affect some households, as overall price levels remain significantly above those at the end of 2021. Further growth in real incomes over the coming year is expected to continue to help ease these pressures.

The Victorian economy is forecast to grow by 2.25 per cent in 2025-26, increasing to 2.5 per cent from 2026-27 onwards (see Box 2.1), with household consumption expected to be the main driver of economic growth. The recent improvement in household spending is forecast to pick up further over the year, as continued real wage growth and lower interest rates strengthen real household disposable incomes. Dwelling investment and public demand are also expected to support economic growth, and business investment is expected to remain at a high level.

Box 2.1: Short- and long-term impacts on Gross State Product forecasts

Forecasts for Victoria's GSP growth have been revised down by a modest 0.25 percentage points from 2025-26 onwards (see Table 2.1).

In the near-term, this reflects a weaker outlook for exports in 2025-26, due primarily to the impacts of drought on agricultural production. Victorian agricultural exports grew strongly in 2024-25. This was led by beef and other meat exports, reflecting both strong demand and higher slaughter rates due to recent drought conditions. Meat export volumes are expected to decline in 2025-26, as producers look to rebuild herd sizes as seasonal conditions improve. The Australian Bureau of Agricultural and Resource Economics and Sciences forecasts national beef export volumes to fall by 10 per cent in 2025-26, with similar declines for other meat production.

Lower GSP growth projections in later years mainly reflect a downward revision to assumed productivity growth as part of the '3-Ps' of estimating Victoria's medium-term trend GSP growth: population, participation and productivity. Productivity growth has slowed in Australia and other advanced economies in recent decades, and Victoria has not been immune from this trend.

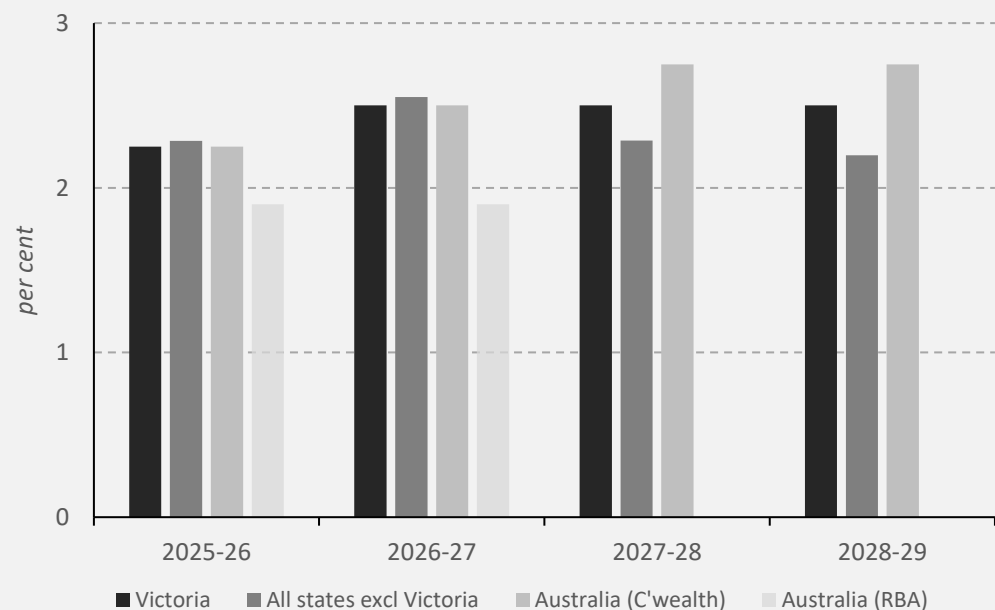
Victoria’s productivity growth is now assumed to be 0.8 per cent per year. This reassessment is in line with recent revisions made by other official forecasters. The RBA lowered its assumed national productivity growth rate to 0.7 per cent at the end of its two-year forecast horizon, and NSW Treasury lowered its assumption to 0.8 per cent over the long run. The Commonwealth, in its *2025-26 Budget*, also downgraded the long-run level of potential GDP by 0.25 per cent, due to continuing weak underlying productivity growth.

Additionally, the labour force participation growth assumption has been revised up, consistent with high rates of participation expected to remain elevated in the medium term (see Box 2.2). This reflects the continued trend of higher workforce participation among women, and increases to the participation rate for people aged over 55 years.

Collectively, the changes to productivity and participation growth assumptions result in a downgrade to the real GSP trend growth assumption from 2.75 per cent to around 2.50 per cent. Despite this revised outlook, economic growth in Victoria is projected to remain broadly in line with national trends over the forecast period (see Chart 2.1).

Victorian GSP per capita – a key measure of living standards – is also forecast to increase in each year of the Budget and forward estimates.

Chart 2.1: GSP/GDP growth forecasts, by selected jurisdiction ^{(a)(b)}



Sources: Department of Treasury and Finance; Commonwealth 2025-26 Budget; RBA November 2025 Statement on Monetary Policy; 2025-26 budgets of all states and territories.

Notes:

(a) 'All states excl Victoria' includes GSP forecasts for all other states and territories, weighted by their shares of Australian (excluding Victoria) gross domestic product.

(b) RBA forecasts only extend to 2026-27.

Forecast employment growth has been revised significantly upwards by 0.75 percentage points in 2025-26 due to the strength of the Victorian labour market. Employment is forecast to increase by 1.25 per cent in 2025-26. The unemployment rate, which was 4.7 per cent in October 2025, is expected to remain broadly stable and average 4.75 per cent in 2025-26, remaining below its 20-year pre-pandemic average of 5.5 per cent.

Table 2.1 sets out the latest economic forecasts, with the *2025-26 Budget* forecasts in italics where different.

Table 2.1: Victorian economic forecasts ^(a) (per cent)

	2024-25 <i>actual</i>	2025-26 <i>forecast</i>	2026-27 <i>forecast</i>	2027-28 <i>projection</i>	2028-29 <i>projection</i>
Real gross state product	1.1	2.25	2.50	2.50	2.50
		<i>2.50</i>	<i>2.75</i>	<i>2.75</i>	<i>2.75</i>
Employment	2.5	1.25	1.50	1.75	1.75
		<i>0.50</i>			
Unemployment rate ^(b)	4.4	4.75	4.75	4.75	4.75
Consumer price index ^(c)	2.4	3.00	2.75	2.50	2.50
		<i>2.75</i>			
Wage price index ^(d)	3.3	3.25	3.25	3.25	3.00
					<i>3.25</i>
Population ^(e)	1.80 ^(f)	1.70	1.70	1.70	1.70
	<i>1.70</i>				

Sources: Australian Bureau of Statistics; Department of Treasury and Finance

Notes:

(a) Percentage change in year-average terms compared with the previous year, except for the unemployment rate (see note (b)) and population (see note (e)). Forecasts are rounded to the nearest 0.25 percentage points, except for population (see note (e)). The key assumptions underlying the economic forecasts include interest rates that broadly follow market economists' expectations; an Australian dollar trade-weighted index of 59.9; and oil prices that follow the path suggested by oil futures.

(b) Year-average.

(c) Melbourne consumer price index.

(d) Wage price index, Victoria (based on total hourly rates of pay, excluding bonuses).

(e) Percentage change over the year to 30 June. Forecasts are rounded to the nearest 0.1 percentage point.

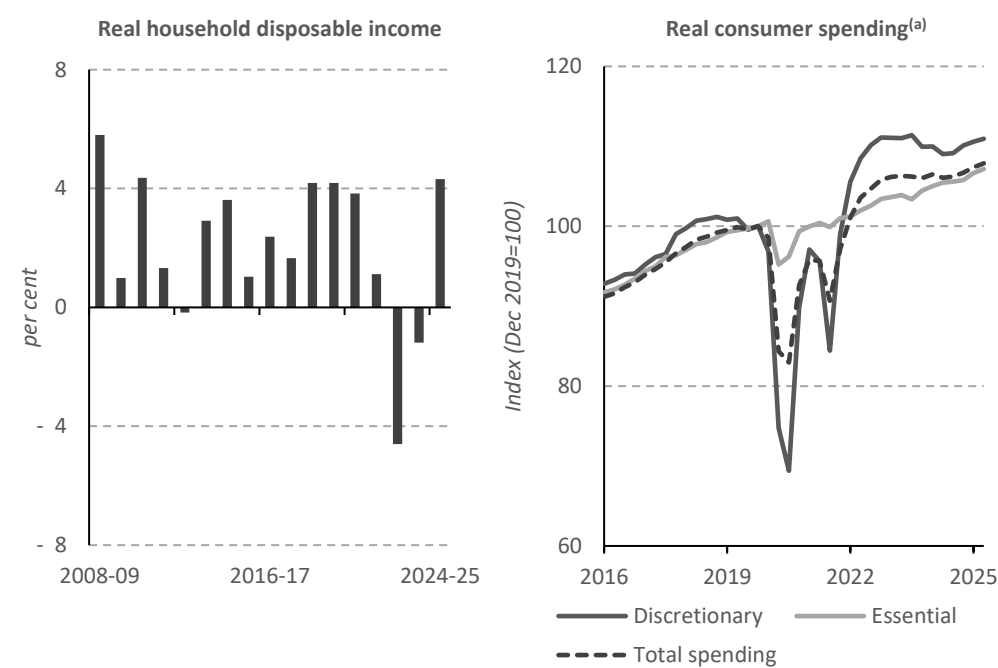
(f) Estimate, actual not yet available.

Gross state product

Victoria's economy grew by 1.1 per cent in 2024-25 and is forecast to grow by 2.25 per cent in 2025-26. Dwelling investment and public consumption recorded the strongest growth in 2024-25, alongside a modest increase in household consumption. Most major components of GSP are forecast to contribute to growth in 2025-26, except for net exports. The recovery in household consumption is expected to be the main driver of growth over the coming year, alongside strength in dwelling investment, while business investment is forecast to remain at elevated levels.

Household consumption grew modestly in 2024-25 amid ongoing cost-of-living pressures, although growth was higher than in the previous year. A pickup in spending is underway, with spending growth a little stronger in the second half of the financial year. This recovery includes spending on discretionary items, which has risen in recent quarters, and is consistent with survey measures that suggest households are more confident about the outlook and their finances. The recovery in spending has also been supported by an improvement in real household disposable income, driven by solid wages growth, personal income tax cuts from 1 July 2024 and interest rate reductions (see Chart 2.2). Household spending is expected to gather momentum over the coming year alongside further growth in real incomes and underpinned by elevated savings. A forecast increase in property prices, which will boost household wealth, should also support an increase in consumer spending.

Chart 2.2: Annual growth in Victorian real household disposable income, and real consumer spending by category



Sources: Australian Bureau of Statistics; Department of Treasury and Finance

Note:

(a) 'Transport services' and 'net expenditure interstate' are excluded from the discretionary and essentials categories due to difficulties attributing them between categories, although they are included in the total.

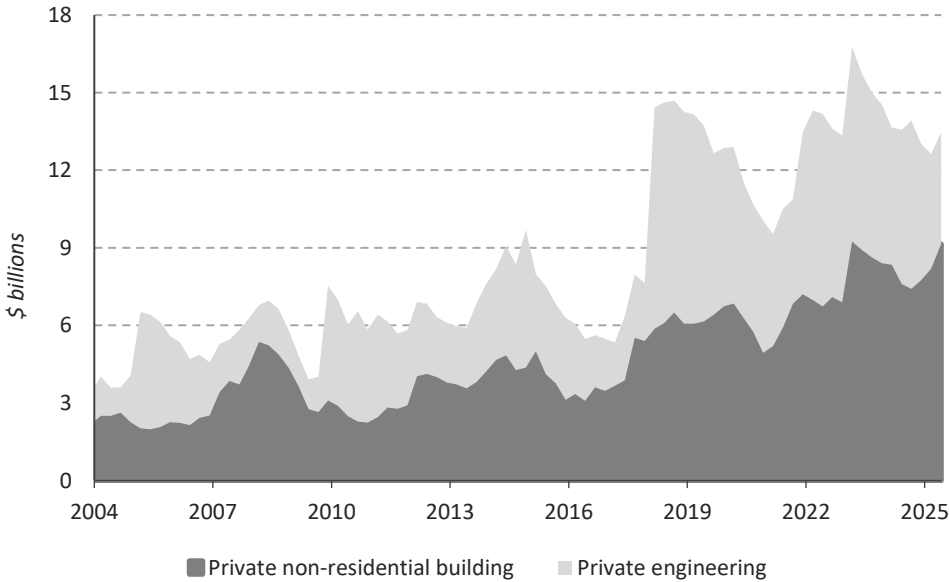
Dwelling investment rose by 4.5 per cent in 2024-25, reaching its highest level in six years. This increase in residential construction has been supported by a significant easing in construction cost growth and improved labour availability, particularly for starting trades (e.g. bricklayers and concreters). These easing supply constraints are enabling the sector to work through an elevated pipeline of work, resulting in a fall in average house completion times from about 11 months in June 2023 to about 6.5 months in June 2025.

Dwelling investment is forecast to increase strongly in 2025-26, as demand for new housing gradually picks up. Modestly rising house prices, supported by lower interest rates, are expected to make it increasingly attractive to build a new dwelling relative to purchasing an existing home. There is also still an elevated pipeline of work to be done that builders will work through as labour shortages ease further, which will support activity in the near term.

The level of business investment remained around a record high in 2024-25, with the rate of growth easing following three years of strong increases. The level of business investment per worker also remains elevated, after reaching a record high in 2023-24. Recent growth has been driven by intellectual property investment, which includes digitisation and cyber security, in addition to engineering construction including renewable energy projects. Investment in data centres has also been strong. This has been broadly offset by weaker non-residential building construction and slower machinery and equipment investment.

Business investment is expected to grow moderately in 2025-26. Recent strength in non-residential building approvals, notably for data centres, will further support the non-residential construction pipeline, which is at an elevated level (see Chart 2.3). Surveyed business conditions have improved as input costs continue to moderate, and surveyed investment intentions point to further growth in 2025-26.

Chart 2.3: Value of private construction work yet to be done in Victoria^(a)



Source: Australian Bureau of Statistics

Note:

(a) The value of work remaining to be done on jobs under construction at the end of the period.

Public demand contributed to GSP growth in 2024-25, mainly driven by increased Commonwealth spending in social benefit programs such as the National Disability Insurance Scheme and aged care services, as well as infrastructure projects. Growth in public demand is forecast to moderate in 2025-26. Commonwealth operating spending is again expected to be the main driver of growth in public demand, albeit at a slower pace than in recent years. The Victorian Government's pipeline of infrastructure projects will also continue to underpin public investment levels.

Net international trade detracted slightly from GSP growth in 2024-25. Goods exports rose, driven by pharmaceuticals and meat products. Victorian meat producers increased supply in response to drought conditions and high global demand. Services exports also increased, reflecting growth in education exports and tourism. However, the increase in exports was more than offset by higher goods and services imports, notably a rise in overseas travel by Victorians.

This net easing is forecast to continue in 2025-26. Goods exports are expected to be lower due to recent drought conditions, which will constrain meat exports. Goods imports are expected to grow modestly, alongside a recovery in household consumption and elevated business investment. Services exports are forecast to increase in 2025-26, while services imports are expected to increase modestly, including through a further rise in overseas travel by Victorians.

The labour market

The Victorian labour market remains healthy. The shares of working-age Victorians in employment and participating in the labour force are both at historically high levels. Measures of spare capacity in the labour market remain low, including the unemployment rate and underemployment rate (which captures people who want to work additional hours). Moreover, some lead indicators of labour demand, such as job vacancies, remain elevated relative to historical levels.

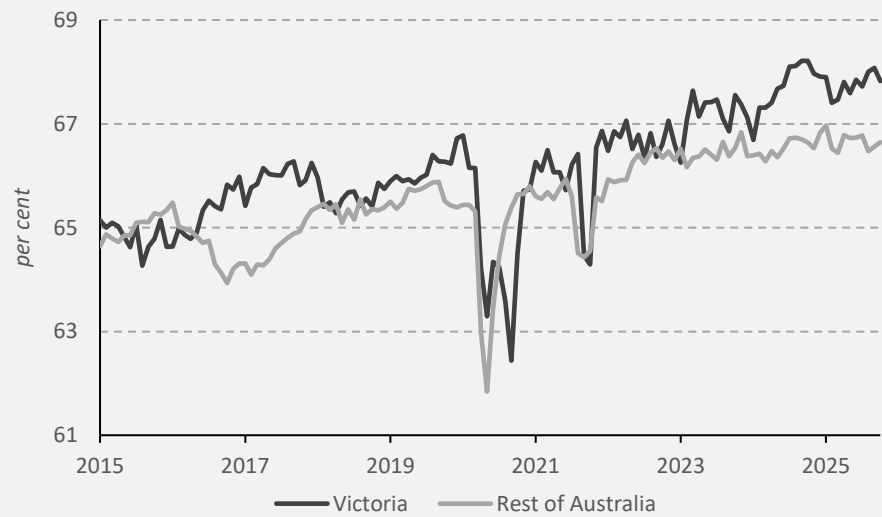
Box 2.2: Trends in Victoria's labour force

Victorian employment has grown strongly in recent years, rising by 8.6 per cent over the three years to October 2025. Solid economic growth, together with a large increase in labour supply, have supported this outcome.

The increase in Victoria's labour supply partly reflects strong population growth. Victoria's population growth rebounded strongly over 2022 and 2023, after declining sharply during the pandemic.

Alongside this strong population growth, strong labour demand has encouraged a large increase in labour force participation, which has further grown the supply of workers (see Chart 2.4). Victoria's participation rate reached a fresh high in 2024-25, with increases in both male and female participation. Participation of women in the workforce has risen significantly compared with pre-COVID levels, and it reached a new record high in September 2025.

Chart 2.4: Labour force participation rate, Victoria and rest of Australia

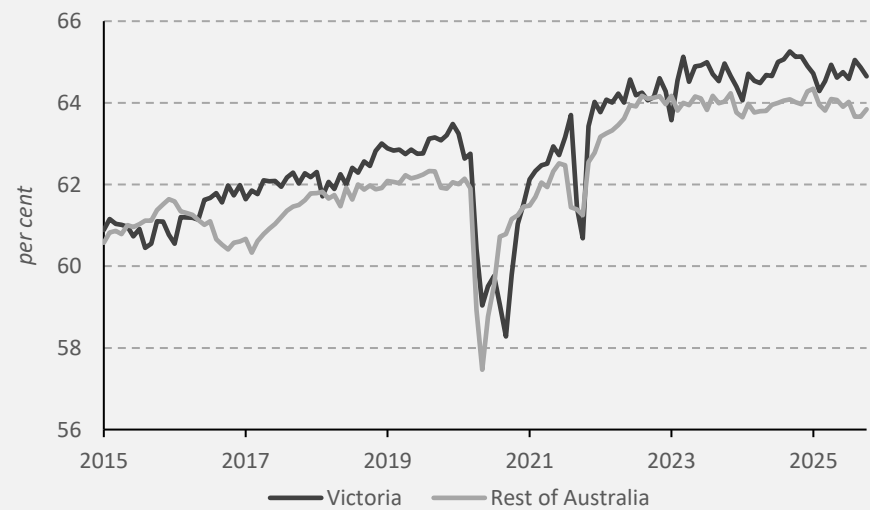


Source: Australian Bureau of Statistics

This rise in workforce participation, coupled with strong demand for workers, has led to a significant rise in the share of Victorians in employment relative to the period before the pandemic. Victoria's employment-to-population ratio is at historically high levels, and above the national average (see Chart 2.5).

Significant gains in the state's participation rate are expected to be broadly maintained, with the participation rate forecast to remain at elevated levels over the forecast horizon.

Chart 2.5: Employment-to-population ratio, Victoria and rest of Australia



Source: Australian Bureau of Statistics

Employment growth was strong at 2.5 per cent in 2024-25 (see Box 2.2). Strong employment growth in 2024-25 followed significant gains in employment since the peak impacts of the pandemic in September 2020. Employment is expected to grow by 1.25 per cent in 2025-26, significantly higher than the 0.50 per cent forecast at the *2025-26 Budget*. The forecast upgrade reflects recent employment outcomes, with solid growth in non-market sector employment and an improvement in consumer-facing jobs. Growth in labour supply was supported by sustained increases in women's workforce participation, which has reached new record highs in recent months.

Chart 2.6: Unemployment rate, Victoria



Source: Australian Bureau of Statistics

The unemployment rate averaged 4.4 per cent in 2024-25, which remains low by historical standards (see Chart 2.6). In 2025-26, the unemployment rate is expected to increase modestly to 4.75 per cent, around the rate estimated to be consistent with stable inflation within the RBA's target band, and below the 20-year pre-pandemic average of 5.5 per cent.

Prices and wages

Inflation continued to ease over the past year, despite an uptick in the September quarter 2025. In year-ended terms, inflation declined from 3.0 per cent in September 2024 to 2.6 per cent in September 2025. This is well down from a peak of 8.0 per cent in December 2022, although the scale of previous global price increases means cost-of-living pressures remain for some households. The decline in inflation has enabled the RBA to begin reducing interest rates.

The easing of inflation has been broadly driven by slower growth in prices for goods. Automotive fuel prices have fallen over the past year, due to sustained lower global oil prices. Price growth has slowed for new dwellings. Electricity prices have fallen significantly, reflecting the impact of temporary energy rebates.

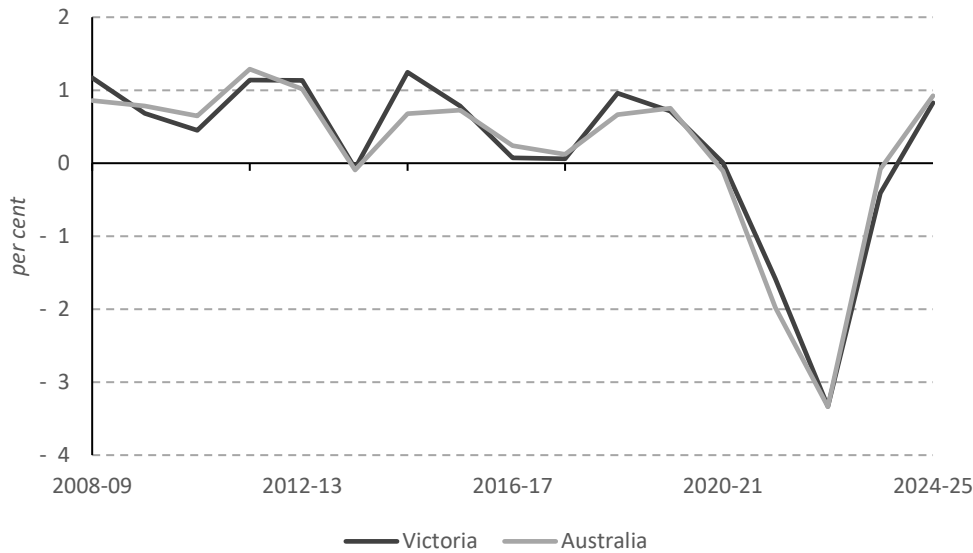
Price growth among services has been more persistent, though it has eased modestly in recent quarters. Prices for rents, insurance, education and health services have continued to grow over the past year, though inflation in rents and insurance is down from recent peaks.

In year-average terms, headline inflation was 2.4 per cent in 2024-25. It is forecast to increase to 3.00 per cent in 2025-26, due largely to the end of Commonwealth energy rebates.

Victorian wages grew by a solid 3.3 per cent in 2024-25. This was higher than the increase in consumer prices, resulting in a rise in real wages for the first time since the pandemic (see Chart 2.7). Private-sector wages growth of 3.4 per cent, while a little lower than its recent peak, outpaced public-sector wages growth of 2.9 per cent in 2024-25.

Wages are expected to continue to grow solidly in 2025-26, at 3.25 per cent, representing further real wages growth. Given the steep increase in consumer prices over the past few years, however, it will take time for wages growth to offset these price increases. Growth in private-sector wages is expected to remain firm, although moderating a little due to a modest easing in labour market conditions. The increase in minimum and award wages will contribute to overall wages growth, with the Fair Work Commission raising the national minimum wage and modern awards by 3.5 per cent (which applied from 1 July 2025).

Chart 2.7: Annual growth in real wages, Victoria and Australia



Source: Australian Bureau of Statistics

Population

Victoria's population growth has moderated after two years of strong increases. Over the year to March 2025, population grew by 1.8 per cent, which is around its long-term average rate and down from its recent peak of 2.8 per cent in September 2023. The earlier strong growth reflected a rebound in immigration – especially international students – following the lifting of pandemic-related migration restrictions by the Commonwealth. More recently, the growth in international student arrivals has slowed. At the same time, departures of foreign students have steadily grown as many students who arrived following the pandemic graduate or complete their studies.

Overall, net overseas migration is expected to make a lower contribution to population growth compared with recent years. Departures and arrivals of students are expected to stabilise and broadly return to pre-pandemic levels. From 2025-26, Victoria's population growth is forecast to return to its long-term average growth rate of around 1.7 per cent per year.

AUSTRALIAN ECONOMIC CONDITIONS AND OUTLOOK

The Australian economy grew by 1.4 per cent in 2024-25. Growth was driven by public demand, although there has been a gradual recovery in private-sector activity. Employment growth was strong, and the unemployment rate remained low by historical standards.

In its November 2025 *Statement on Monetary Policy*, the RBA forecast the Australian economy to grow by 1.9 per cent in 2025-26, which is a little below the RBA's May forecast of 2.1 per cent. Growth is expected to be driven by household consumption and public demand. The RBA expects household consumption to be supported by the recovery in real household incomes that began in mid-2024, alongside income tax cuts and lower inflation. Lower interest rates are also anticipated to boost private-sector demand, particularly in interest-sensitive parts of the economy such as dwelling investment. Public demand will continue to support growth, albeit at a lower rate than in past years, in part due to plans to reduce the rate of increase of Commonwealth spending on some services.

National labour market conditions are expected to ease a little in 2025-26. The RBA forecasts employment to grow by 1.1 per cent over the year to the June quarter 2026, following growth of 2.2 per cent over the previous year. It forecasts the unemployment rate to rise modestly, although remaining below pre-pandemic levels. Growth in nominal wages is expected to ease, with the RBA forecasting Australian wages to grow by 3.0 per cent over the year to June 2026, down from 3.4 per cent over the year to June 2025.

Australian headline inflation is expected to increase temporarily, mostly due to the scheduled unwinding of electricity rebates. The headline annual national inflation rate was 3.2 per cent in the September quarter 2025, down from its peak in December 2022 of 7.8 per cent. The RBA forecasts inflation to increase temporarily to 3.7 per cent in year-ended terms by June 2026, due largely to the end of cost-of-living relief measures, particularly the Commonwealth's Energy Bill Relief Fund. The RBA expects underlying inflation to fall to around the midpoint of its 2 to 3 per cent inflation target range by mid-2027.

INTERNATIONAL ECONOMIC CONDITIONS AND OUTLOOK

The global economy proved resilient in the first half of 2025, despite a period of heightened uncertainty following the United States' imposition of import tariffs earlier in the year. Global economic growth in 2025 has so far been supported by front-loading of trade and investment ahead of higher tariffs, and fiscal stimulus in some economies. However, uncertainty around tariff policy has affected confidence, which has likely weighed on households and businesses spending and investment decisions. It will also take some time for firms to fully pass the tariffs onto consumers, and supply-chain costs will also be affected by the rerouting of trade.

In its October 2025 *World Economic Outlook*, the International Monetary Fund (IMF) forecast the global economy to grow by 3.2 per cent in 2025 and by 3.1 per cent in 2026. Economic growth forecasts have increased slightly since the *2025-26 Budget*, which was around the peak of the tariff uncertainty, but are still below the historical (2000–2019) global average of 3.7 per cent. Despite China being most affected by US tariffs, the IMF projects only a modest decline in its economic growth but notes that prospects there remain subdued alongside prolonged weakness in domestic demand.

Global inflation is showing mixed signs. Disinflation following the pandemic-related peaks has stalled in some economies – mainly in the United States, where inflation is expected to increase in 2026 as the impact of US tariffs is progressively passed onto consumers. However, inflation is expected to further ease in most economies, and the IMF has forecast global inflation to continue to decline, from 5.8 per cent in 2024 to 4.2 per cent in 2025 and to 3.7 per cent in 2026.

RISKS TO THE VICTORIAN OUTLOOK

Risks to the Victorian outlook from global conditions remain elevated. US announcements on trade policy since earlier this year have raised uncertainty and led to increased risks for the global economy. Although some of the earlier, more significant, announced tariff increases did not eventuate, ongoing uncertainty around US tariffs remains a risk to the outlook. A further escalation in trade tensions would increase uncertainty for businesses and consumers and negatively affect spending and investment decisions. While Victoria's direct exposure to current tariffs is relatively low, trade and economic growth among Victoria's major trading partners, such as China, may be significantly more affected. Any escalation of protectionist measures by countries, including non-tariff barriers, could further suppress investment, disrupt supply chains and stifle productivity growth.

Broader geopolitical risks also remain elevated, which could affect Victoria's economy. For example, any re-escalation or expansion in the Middle East conflict may increase global inflation, with disruptions to global shipping routes and energy markets.

Domestically, the outlook for consumer spending remains a risk to Victoria's economy, both to the downside and upside. Household consumption could be weaker than forecast if the labour market softens more than expected, or households increase precautionary savings due to increased uncertainty about the economic outlook. Alternatively, household consumption could be stronger than expected, should households rebuild their savings buffers more slowly than expected in an environment of lower interest rates, rising property prices and a still-healthy labour market.

The path of inflation, and hence the outlook for interest rates, remains a source of uncertainty. Although inflation has eased significantly from its peak, inflation increased in the September quarter 2025 and services inflation remains relatively high. If inflation remains elevated, or even picks up further amid ongoing low labour productivity and hence higher unit labour costs, this could lead to higher inflation expectations. This may result in the RBA maintaining interest rates at higher levels than are currently anticipated.

Chapter 6 *Sensitivity analysis* provides further information on the estimated economic and fiscal impacts of weaker global growth and weak domestic confidence, and stronger-than-expected growth in Victorian consumer spending.

CHAPTER 3 – BUDGET POSITION AND OUTLOOK

- The *2025-26 Budget Update* outlines the changes in the Government's fiscal position by the end of the forward estimates compared with the *2025-26 Budget*.
- The Government continues to deliver on its five-step fiscal strategy to restore the State's finances following the COVID-19 pandemic.
- Net cash flows from operating activities for the general government sector are forecast to be in surplus by \$5.6 billion in 2025-26 and remain in surplus over the forward estimates, with a \$6.1 billion surplus in 2028-29.
- The net result from transactions for the general government sector is forecast to be in surplus by \$0.7 billion in 2025-26. This is an increase from that published in the *2025-26 Budget*.
- The Government continues to forecast operating surpluses, with \$1.9 billion in 2026-27, \$2.4 billion in 2027-28 and \$1.5 billion in 2028-29.
- Net debt is expected to be \$165.8 billion at June 2026 and increase to \$192.6 billion by June 2029. This is an improvement in all years across the budget and forward estimates, including an improvement of \$1.4 billion by June 2029 when compared with the *2025-26 Budget*.
- As a proportion of GSP, net debt is projected to be 25.2 per cent at June 2027 before reducing to 25.0 per cent by June 2028 and then further declining to 24.9 per cent by June 2029 consistent with the *2025-26 Budget*.
- Government infrastructure investment (GII) is expected to average \$18.0 billion a year over the budget and forward estimates (moderating to \$15.6 billion by 2028-29).
- The Government is on track to fully fund the State's unfunded superannuation liability by 2035.

This chapter presents the revised budget performance and position of the Victorian public sector, incorporating the general government sector, the public non-financial corporations (PNFC) sector and the public financial corporations (PFC) sector for the budget year and forward estimates.

It takes into account the financial impacts as at 13 November 2025 of all decisions that affect the financial statements, unless otherwise stated. This chapter also reconciles and explains any major movements since the *2025-26 Budget* that affect the estimated net result from transactions.

GENERAL GOVERNMENT SECTOR

Overview

As first outlined in the *2020-21 Budget*, the Government developed a fiscal strategy in response to the COVID-19 pandemic and to provide a strong foundation for recovery. It involved a four-step plan to support Victorians through the pandemic and to restore the budget over the medium term.

In the *2024-25 Budget*, the Government updated the plan to introduce a fifth step. This updated plan continues to provide a clear framework:

- **Step 1:** creating jobs, reducing unemployment and restoring economic growth
- **Step 2:** returning to an operating cash surplus
- **Step 3:** returning to operating surpluses
- **Step 4:** stabilising net debt levels as a proportion of GSP
- **Step 5:** reducing net debt as a proportion of GSP.

Economic indicators demonstrate the success of step 1. The Victorian economy continues to grow, with GSP above pre-pandemic levels, and the labour market remains healthy.

The Government has achieved step 2 of operating cash surpluses for the past three years, including an operating cash surplus of \$3.2 billion in the *2024-25 Financial Report*. The Government continues to forecast operating cash surpluses across the forward estimates with \$5.6 billion in 2025-26, reaching \$6.1 billion in 2028-29.

The net result from transactions for the general government sector is forecast to be in surplus of \$0.7 billion in 2025-26 (step 3). This is an increase from that published in the *2025-26 Budget*.

The Government continues to forecast operating surpluses of \$1.9 billion in 2026-27, \$2.4 billion in 2027-28 and \$1.5 billion in 2028-29.

The *2025-26 Budget Update* continues to forecast the achievement of the Government's fiscal strategy, with net debt as a percentage of GSP stabilising (step 4) and then declining (step 5) by the end of the forward estimates. Net debt as a proportion of GSP is forecast to decline from 25.2 per cent by June 2027 to 25.0 per cent by June 2028, and then decline further to 24.9 per cent by June 2029.

Table 3.1: General government fiscal aggregates

	Unit of measure	2025-26 revised	2026-27 estimate	2027-28 estimate	2028-29 estimate
Net result from transactions	\$ billion	0.7	1.9	2.4	1.5
Net cash flows from operating activities	\$ billion	5.6	7.7	6.7	6.1
Government infrastructure investment ^{(a)(b)}	\$ billion	21.5	19.2	15.9	15.6
Net debt	\$ billion	165.8	176.2	183.8	192.6
Net debt to GSP ^(c)	per cent	24.9	25.2	25.0	24.9

Notes:

(a) Includes general government net infrastructure investment and the estimated cash flows for public private partnership projects.

(b) Includes the estimated private sector construction-related expenditure associated with the North East Link held in the PNFC sector.

(c) The ratios to GSP may vary from publications year to year due to revisions to the Australian Bureau of Statistics GSP data.

Total revenue for the general government sector is expected to be \$109.8 billion in 2025-26, an increase of \$1.5 billion or 1.3 per cent, from the *2025-26 Budget*. Revenue growth is expected to average 2.3 per cent a year over the forward estimates, reaching \$117.4 billion in 2028-29.

Total general government sector expenditure is expected to be \$109.1 billion in 2025-26 and grow by an average of 2.0 per cent a year over the forward estimates, reaching \$115.8 billion in 2028-29. This estimated average annual growth in expenditure is comparatively low relative to the forecast growth in the size of the Victorian economy as measured by GSP. Total expected expenditure includes the impact of all relevant government decisions, including those relating to service delivery and savings.

Government infrastructure investment (GII) peaked at \$24.2 billion in 2023-24 and remains projected to progressively moderate across the forward estimates to \$15.6 billion by 2028-29, consistent with a return to pre-COVID levels of investment. GII averages \$18.0 billion a year over the budget and forward estimates period, marginally higher than forecast at the *2025-26 Budget*.

Net debt is expected to be \$165.8 billion at June 2026 and increase to \$192.6 billion by June 2029. This is an improvement in all years across the budget and forward estimates, including an improvement of \$1.4 billion by June 2029 when compared with the *2025-26 Budget*.

As a proportion of GSP, net debt is projected to be 24.9 per cent at June 2026, an improvement of 0.2 per cent when compared with the *2025-26 Budget*. Net debt is then projected to be 25.2 per cent at June 2027, before reducing to 25.0 per cent by June 2028 and 24.9 per cent by June 2029. This is consistent with estimates in the *2025-26 Budget*.

Interest expense as a share of total revenue is expected to average 8.0 per cent a year over the budget and forward estimates.

BUDGET AND FORWARD ESTIMATES OUTLOOK

Table 3.2 summarises the operating statement for the general government sector. A comprehensive operating statement is presented in Chapter 4 *Estimated financial statements and notes*.

Table 3.2: Summary operating statement for the general government sector ^(a) (\$ million)

	2025-26 revised	2026-27 estimate	2027-28 estimate	2028-29 estimate
Revenue and income from transactions				
Taxation	42 095	44 096	46 291	48 394
Dividends, TER and interest ^(b)	3 084	2 741	2 431	2 498
Sales of goods and services	7 942	8 350	8 594	8 515
Grants	52 880	52 291	53 046	54 247
Other revenue and income	3 804	3 914	3 635	3 739
Total revenue and income from transactions	109 805	111 390	113 998	117 393
% change	8.3	1.4	2.3	3.0
Expenses from transactions				
Employee expenses	39 036	40 023	41 247	42 771
Superannuation ^(c)	5 320	5 344	5 493	5 576
Depreciation	6 331	6 443	6 526	6 652
Interest expense	7 723	8 461	9 453	10 469
Grant expense	18 425	18 242	17 950	18 360
Other operating expenses	32 260	30 934	30 931	32 016
Total expenses from transactions	109 095	109 447	111 600	115 844
% change	4.9	0.3	2.0	3.8
Net result from transactions – net operating balance	710	1 943	2 398	1 549
Total other economic flows included in net result ^(d)	(357)	(233)	87	(72)
Net result	353	1 710	2 485	1 476

Notes:

(a) Figures in this table are subject to rounding to the nearest million and may not add up to totals.

(b) Comprises dividends, income tax and rate equivalent revenue (TER) and interest.

(c) Comprises superannuation interest expense and other superannuation expenses.

(d) This typically includes gains and losses from the disposal of non-financial assets, adjustments for bad and doubtful debts and revaluations of financial assets and liabilities.

Revenue outlook

Total revenue for the general government sector is forecast to be \$109.8 billion in 2025-26. Total revenue is then expected to grow by an average of 2.3 per cent a year over the forward estimates, reaching \$117.4 billion in 2028-29.

Taxation

Taxation revenue is forecast to be \$42.1 billion in 2025-26 and grow by an average of 4.8 per cent per year over the forward estimates, broadly in line with nominal economic growth.

- Revenue from taxes on employers' payroll and labour force, inclusive of payroll tax, the COVID Debt Levy – Payroll 10m+, and the Mental Health and Wellbeing Levy, is forecast to be \$11.9 billion in 2025-26, and is expected to grow by an average of 5.1 per cent per year over the forward estimates. The Victorian labour market remains healthy and continues to support the near-term outlook, following solid labour market outcomes in 2024-25. Over the medium term, employment is expected to continue to grow in combination with solid wages growth, supporting revenue growth at around trend levels over the forward estimates.
- Revenue from land taxes, comprising land tax, the Absentee Owner Surcharge, Vacant Residential Land Tax and the COVID Debt Levy – Landholdings, is expected to be \$7.5 billion in 2025-26. Land taxes revenue in 2025-26 reflects a moderation in the growth of land values over 2024. Land taxes are expected to grow by an average of 5.2 per cent per year over the forward estimates, with the return to growth in residential property values in 2025, and the easing of non-residential property value growth, flowing through to land tax revenue in 2026-27.
- Revenue from land transfer duty is forecast to be \$10.1 billion in 2025-26 then grow by an average 5.2 per cent per year over the forward estimates. The forecast increase in revenue is driven by both higher settlement volumes and an increasing average duty per transaction. These have been supported by population and income growth, as well as recent reductions in the cash rate by the Reserve Bank of Australia. Victorian dwelling prices are expected to return to around historical average growth rates in 2025-26, supported by robust longer-term drivers.
- Revenue from gambling taxes is forecast to be \$2.8 billion in 2025-26 and grow by an average of 1.7 per cent per year over the forward estimates. Growth in electronic gaming machine revenue is expected to slow as gambling harm minimisation measures take effect in hotels and clubs.
- Revenue from motor vehicle taxes is forecast to be \$3.8 billion in 2025-26 and grow by an average of 5.1 per cent per year over the forward estimates. Duty on vehicle registrations and transfers is expected to recover in 2025-26 after declining in 2024-25. Growth in motor vehicle registration fees is expected to be driven by the indexation of registration fees in line with consumer price index forecasts, and population growth.
- Insurance tax revenue is expected to grow to \$2.3 billion in 2025-26 and grow by an average of 4.7 per cent per year over the forward estimates, reflecting both an expected slowdown in premium price growth and the Government's gradual reduction in the businesses insurance duty rate.

Dividends, income tax equivalent and interest

Dividends and income tax equivalent revenue is projected to be \$1.7 billion in 2025-26 and decrease to \$1.3 billion by 2028-29.

Note 4.2.2 of Chapter 4 *Estimated financial statements and notes* contains further details of dividends and income tax equivalent revenue by sector and entity.

Interest revenue is received on the cash and deposits held by general government sector entities. Total interest revenue is expected to be \$1.4 billion in 2025-26 before moderating to \$1.2 billion by 2028-29.

Sales of goods and services

Revenue generated by the sales of goods and services is expected to be \$7.9 billion in 2025-26 and grow by an average of 2.3 per cent a year over the forward estimates, reaching \$8.5 billion in 2028-29.

Grants

Total grant revenue is expected to be \$52.9 billion in 2025-26 and increase by an average of 0.9 per cent a year over the forward estimates, reaching \$54.2 billion in 2028-29.

Victoria's goods and services tax (GST) revenue is forecast to be \$27.8 billion in 2025-26 and grow by an average of 0.1 per cent per year over the forward estimates. This is primarily driven by strong growth in national GST pool forecasts which is offset by an expected decline in Victoria's GST relativity forecasts. Victoria's recommended GST relativity (GST relativity under the new GST distribution system, a blended relativity) is expected to decline in 2026-27 due to pandemic-related spending no longer having a material impact in GST relativity calculations. Over the remainder of the forward estimates, Victoria's GST relativity is expected to fall further as commodity prices are assumed to return to long-run averages.

Other revenue and income

Other revenue and income includes fines, royalties, donations and gifts, assets received free of charge and other miscellaneous revenues. Other revenue and income is expected to be \$3.8 billion in 2025-26, moderating to \$3.7 billion in 2028-29.

Chapter 4 *Estimated financial statements and notes* contains further details of expected movements in the major categories of general government revenue.

Expenses outlook

Total expenses for the general government sector are forecast to be \$109.1 billion in 2025-26 and increase by an average of 2.0 per cent a year over the forward estimates to \$115.8 billion in 2028-29.

Expenditure growth is moderating over the forward estimates and supports the Government's fiscal strategy to achieve an operating surplus in 2025-26 and beyond.

- Employee expenses (including superannuation) are forecast to be \$44.4 billion in 2025-26. Average growth over the forward estimates of 2.9 per cent a year is forecast, consistent with service delivery requirements and enterprise bargaining agreements.
- Depreciation expense is forecast to be \$6.3 billion in 2025-26 and grow by an average of 1.7 per cent a year over the forward estimates to \$6.7 billion by 2028-29. Growth in depreciation is broadly in line with levels of investment in infrastructure including schools, hospitals and transport infrastructure.
- Interest expense is forecast to be \$7.7 billion in 2025-26, and to increase to \$10.5 billion by 2028-29, as the Government increases borrowings to continue investing in infrastructure as set out below in the Capital Expenditure section and Chart 3.1 Government Infrastructure Investment. Interest expense as a share of total revenue is expected to average 8.0 per cent a year over the budget and forward estimates.
- Grant expenses are forecast to be \$18.4 billion in 2025-26. Grant expenses are then expected to decrease by an average of 0.1 per cent a year over the forward estimates.
- Other operating expenses are forecast to be \$32.3 billion in 2025-26. Other operating expenses are then expected to decrease by an average of 0.3 per cent a year over the forward estimates.

Chapter 4 *Estimated financial statements and notes* contains further details of major components of expenditure incurred by the State towards the delivery of services.

Reconciliation of estimates to the 2025-26 Budget

Relative to the 2025-26 Budget, the net result from transactions has been revised up by an average of \$45 million across 2025-26 to 2028-29 (Table 3.3).

Table 3.3: Reconciliation of estimates to the 2025-26 Budget ^(a) (\$ million)

	2025-26 revised	2026-27 estimate	2027-28 estimate	2028-29 estimate
Net result from transactions: 2025-26 Budget	611	1 925	2 379	1 505
Policy variations				
Revenue policy initiatives	(92)	(234)	(10)	(9)
Output policy initiatives ^(b)	(560)	(337)	(315)	(175)
	(652)	(571)	(325)	(184)
Economic/demographic variations				
Taxation	500	543	476	479
Investment income ^(c)	624	298	(102)	(31)
	1 124	841	374	447
Commonwealth grant variations				
General purpose grants	272	226	140	116
Specific purpose grants ^(d)	452	32	8	(13)
	724	258	148	103
Administrative variations				
Contingency offset for new policy initiatives ^(e)	..	..	..	..
Other administrative variations	(1 097)	(509)	(178)	(323)
	(1 097)	(509)	(178)	(323)
Total variation since 2025-26 Budget	99	19	19	44
Net result from transactions: 2025-26 Budget Update	710	1 943	2 398	1 549

Notes:

(a) Figures in this table are subject to rounding to the nearest million and may not add up to totals.

(b) This is represented in Table 3.4 as the 2025-26 Budget Update output policy initiatives.

(c) Comprises dividends and income tax and rate equivalent revenue.

(d) Reflects the change in grant revenue as per Note 4.2.4 of Chapter 4 less associated expense movements.

(e) Represents releases from the provisions for future services demand allocation included in the 2025-26 Budget Update. Further information on total output contingencies can be found at Note 4.3.7 of Chapter 4 Estimated financial statements and notes.

Policy variations

Policy variations reflect specific initiatives by the Government that have a fiscal impact and are related to a new policy or represent a change in the Government's existing policy position since the *2025-26 Budget*.

The *2025-26 Budget Update* funds \$1.8 billion in new output initiatives over the four years to 2028-29. Table 3.4 shows the impact of the new output initiatives since the previous publication.

Details of specific new output and revenue policy initiatives are contained in Appendix A *Specific policy initiatives affecting the budget position*.

Table 3.4: Net impact of new output initiatives since the 2025-26 Budget^(a) (\$ million)

	2025-26 revised	2026-27 estimate	2027-28 estimate	2028-29 estimate
New output initiatives	572	587	337	330
Less:				
Reprioritisations and revenue offsets ^(b)	51	53	8	8
Adjustments ^(c)	(40)	2	(245)	(148)
Savings ^(d)	..	196	259	295
New net output policy initiatives	560	337	315	175
Less: Contingency offset for new policy ^(e)	..	..	..	..
Net impact	560	337	315	175

Notes:

(a) Figures in this table are subject to rounding to the nearest million and may not add up to totals.

(b) This includes the reprioritisation of resources previously allocated to departments and revenue offsets.

(c) Primarily incorporates the net impact of the specific creation and release of contingencies held for decisions made but not yet allocated.

(d) Includes output savings only.

(e) Represents releases from the provisions for future services demand allocation associated with 2025-26 Budget Update new output initiatives. Further information on total output contingencies can be found at Note 4.3.7 of Chapter 4 Estimated financial statements and notes.

Economic and demographic variations

Since the *2025-26 Budget*, Victoria's taxation revenue has been revised up by an average of \$499 million per year from 2025-26 to 2028-29, largely due to upgrades to land transfer duty driven by both higher settlement volumes and an increasing average duty per transaction.

Variations in dividends and income tax equivalent revenue by sector and entity are contained in Note 4.2.2 of Chapter 4 *Estimated financial statements and notes*.

Commonwealth grants variations

Commonwealth general purpose grants (or GST grants) have been revised up by an average of \$189 million per year from 2025-26 to 2028-29 compared with the *2025-26 Budget*. These changes were driven by an increase in the national GST pool forecast which largely reflects stronger than expected cash receipts to date in 2025-26. This has been partially offset by a modest decline in Victoria's population share due to updated interstate migration data.

Administrative variations

Other administrative variations are expected to reduce the operating result by an average of \$527 million per year from 2025-26 to 2028-29 compared with the *2025-26 Budget*. The variations since the *2025-26 Budget* include:

- adjustments to the provisions for future services demand allocation that are outlined in Note 4.3.7 in Chapter 4 *Estimated financial statements and notes*
- an increase in depreciation expense associated with the revaluation of non-financial assets in the transport sector in 2024-25
- a decrease in Treasury Corporation of Victoria (TCV) interest expense estimates due to a broader decline in TCV bond yields and lower budget sector borrowings estimates compared with the *2025-26 Budget*.

Capital expenditure

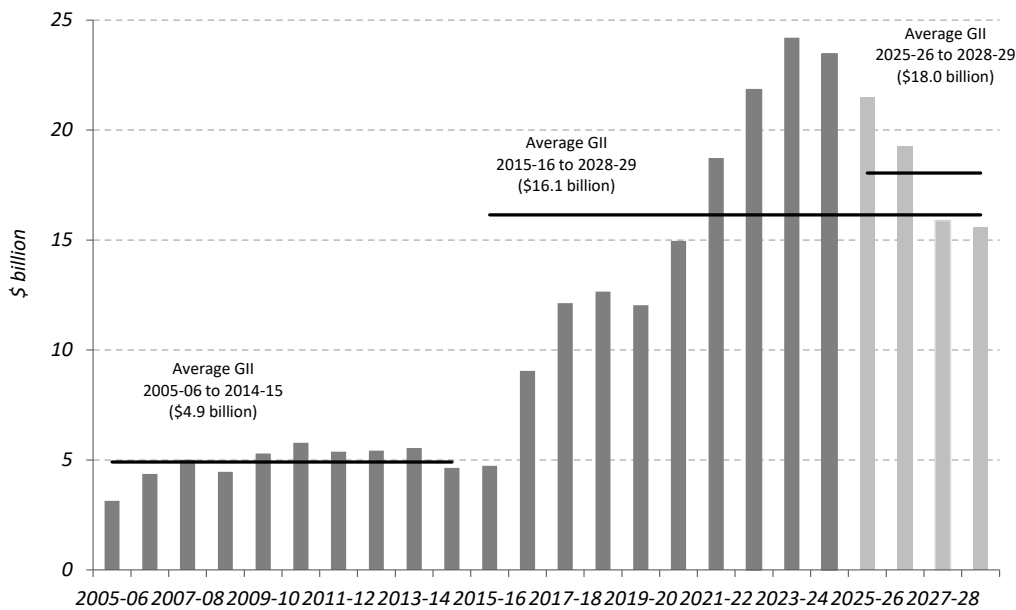
Government infrastructure investment (GII) measures investment funded by the Government and estimated private sector construction-related expenditure on public private partnership projects.

This includes investments in health, housing, education, transport and cultural precincts, as well as major productivity-enhancing initiatives such as Victoria’s Housing Statement, the North East Link, the Suburban Rail Loop, the Level Crossing Removal Program and the Metro Tunnel and West Gate Tunnel projects opening in 2025.

The State is continuing to invest in an economically and fiscally sustainable way. The largest new projects in the 2025-26 Budget are jointly funded with the Commonwealth Government – the \$4.1 billion Sunshine Station Superhub and \$1.2 billion Road Blitz package – and funding for these projects extends beyond the forward estimates.

Appendix A *Specific policy initiatives affecting the budget position* details the specific new asset initiatives.

Chart 3.1: Government infrastructure investment (a)(b)(c)



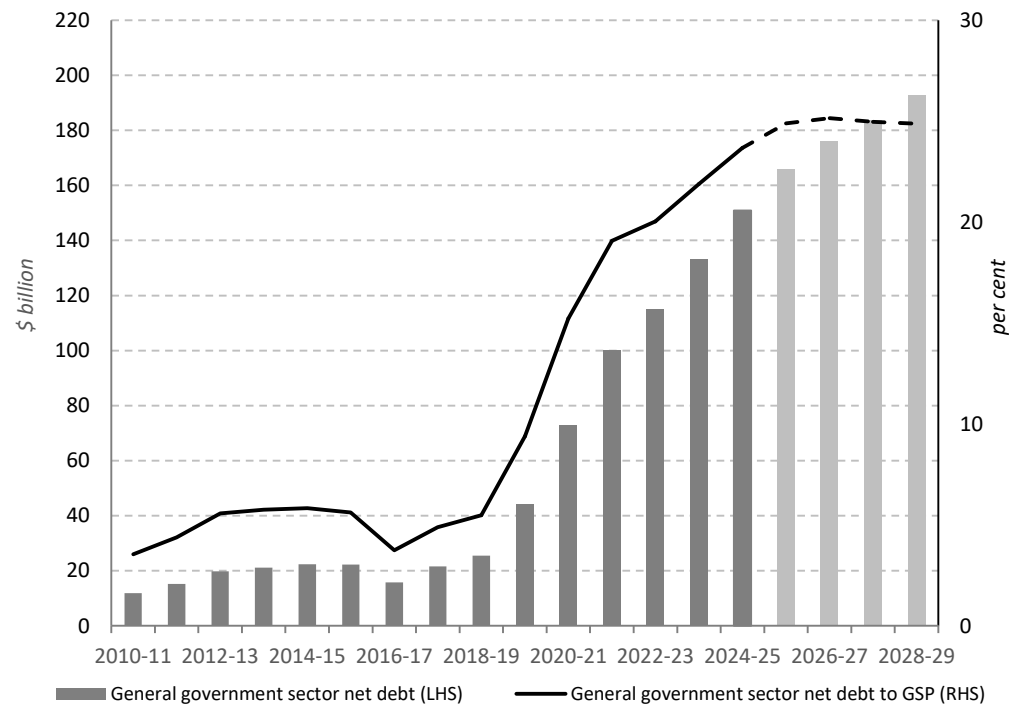
- Notes:
- (a) Includes general government net infrastructure investment and the estimated cash flows for public private partnership projects.
 - (b) Includes the estimated private sector construction-related expenditure associated with the North East Link held in the PNFC sector.
 - (c) Excludes the impact of the medium-term lease over the operations of the Port of Melbourne and the divestment of Victoria’s share of Snowy Hydro Limited.

Net debt

Stabilising and reducing net debt as a percentage of GSP – the fourth and fifth steps in the Government’s fiscal strategy – are important objectives for the Government. Net debt is projected to be \$165.8 billion at June 2026 and increase to \$192.6 billion by June 2029 (see Chart 3.2). This is an improvement in all years across the budget and forward estimates, including an improvement of \$1.4 billion by June 2029 when compared with the *2025-26 Budget*.

As a proportion of GSP, net debt is projected to be 24.9 per cent at June 2026, an improvement of 0.2 per cent when compared with the *2025-26 Budget*. Net debt is then projected to be 25.2 per cent in June 2027, before declining to 25.0 per cent by June 2028 and 24.9 per cent by June 2029. This is consistent with the estimates in the *2025-26 Budget*.

Chart 3.2: General government net debt to GSP



The application of cash resources for the general government sector (as shown in Table 3.5) outlines the annual movements in net debt.

Table 3.5: Application of cash resources for the general government sector ^(a) (\$ million)

	2025-26 <i>revised</i>	2026-27 <i>estimate</i>	2027-28 <i>estimate</i>	2028-29 <i>estimate</i>
Net result from transactions	710	1 943	2 398	1 549
Add back: Operating cash flows not recognised in the net operating balance ^(b)	4 862	5 743	4 332	4 523
Net cash flows from operating activities	5 572	7 687	6 730	6 072
Less: Total net investment in fixed assets ^(c)	19 564	18 016	14 201	14 937
Surplus/(deficit) of cash from operations after funding net investment in fixed assets	(13 992)	(10 329)	(7 471)	(8 866)
Less:				
Leases and service concession arrangements ^(d)	1 337	538	583	410
Other movements	(432)	(430)	(436)	(481)
Decrease/(increase) in net debt	(14 897)	(10 437)	(7 618)	(8 794)

Notes:

(a) Figures in this table are subject to rounding to the nearest million and may not add up to totals.

(b) Includes depreciation, prepayments and movements in the superannuation liability and liability of employee benefits for the year, and the progressive unwinding of the grant of a right to the operator liability.

(c) Includes total purchases of plant, property and equipment, and net capital contributions to other sectors of government net of proceeds from asset sales.

(d) Includes most operating leases, which are required to be recognised as lease liabilities, and also includes the financial liabilities relating to public private partnership projects.

Unfunded superannuation liability

The Government is on track to fully fund the State's unfunded superannuation liability by 2035. Note 4.3.3 of Chapter 4 *Estimated financial statements and notes* shows information on the reported superannuation liability.

FISCAL RISKS

This section outlines a number of risks which, if realised, are likely to impact on the State's financial position and budget outcomes.

Details of specific contingent assets and liabilities, defined as possible assets or liabilities 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, are contained within Chapter 7 *Contingent assets and contingent liabilities*.

General fiscal risks

There are risks to Victoria's economic outlook and the forecasts are subject to uncertainty.

Risks to the Victorian outlook from global conditions remain elevated. US announcements on trade policy since earlier this year have raised uncertainty and led to increased risks for the global economy. Although some of the earlier, more significant, announced tariff increases did not eventuate, ongoing uncertainty around US tariffs remains a risk to the outlook. Another risk stems from elevated geopolitical tensions. For example, any re-escalation or expansion in the Middle East conflict may increase global inflation, with disruptions to global shipping routes and energy markets.

Domestically, the outlook for consumer spending remains a risk to Victoria's economy, both to the downside and upside. Household consumption could be weaker than forecast if the labour market softens more than expected, or households increase precautionary savings due to increased uncertainty about the economic outlook. Alternatively, household consumption could be stronger than expected, should households rebuild their savings buffers more slowly than expected in an environment of lower interest rates, rising property prices and a still-healthy labour market.

The path of inflation, and hence the outlook for interest rates, remains a source of uncertainty. Although inflation has eased significantly from its peak, inflation increased in the September quarter 2025 and services inflation remains relatively high. If inflation proves persistent or picks up further, this could have implications for the RBA's monetary policy. The stance of monetary policy will affect the outlook for economic activity and employment growth, impacting revenue and expenditure. For example, GST revenue, land transfer duty revenue and interest expense are significantly linked to changes in economic growth, inflation and/or interest rates.

The Government's forecast revenues, expenses and borrowings are predicated on a series of assumptions, including those related to the global economy. If these assumptions do not eventuate, the actual financial outcomes may differ from the Government's current budget.

Chapter 6 *Sensitivity analysis* contains information on the impact of variations in the macroeconomic outlook on the Government's key fiscal aggregates. This includes a downside scenario which considers the implications of weaker global growth and weak domestic confidence, and an upside scenario where Victorian consumer spending is stronger than forecast.

Further detail on the economic outlook and risks to the outlook is included in Chapter 2 *Economic context*.

State taxes

State tax forecasts are primarily modelled on the relationships between taxation revenue and projected economic variables. As a result, the main source of uncertainty for state taxation estimates is unforeseen changes in the economic outlook.

Victoria's labour market remains healthy. The share of working-age Victorians in employment and labour force participation are both at historically high levels. Measures of spare capacity remain low and some lead indicators of labour demand remain elevated relative to historical levels. If the labour market remains resilient and total employment levels grow stronger than forecast, this could lead to stronger wage growth, bolstering the revenue outlook for taxes on employers' payroll and labour force.

Property-related taxes

Revenue from property-based taxes is subject to unique risks and historically has been volatile as property markets can exhibit large cycles typically related to changes in interest rates and changes in sentiment.

Property prices and transaction volumes have been supported by interest rate cuts in February, May and August 2025. However, borrowing costs remain elevated, and credit conditions are expected to improve only moderately throughout 2025-26, presenting potential risks to revenue from land transfer duty in the near term and land tax in the medium term. At the same time, stronger income growth and improving interstate migration, combined with the relative affordability of Victorian dwellings, pose upside risks to property-related taxes.

Non-residential properties are expected to see the recent reduction in borrowing costs flow through to higher transaction volumes and market activity. If investor sentiment further improves, this could lead to higher transaction volumes and increased property values, which would pass through to land transfer duty and land taxes. Conversely, there is a risk to the revenue outlook if the cooling of historically high growth in industrial property values occurs faster than expected. While there is positive activity emerging for CBD office properties, the speed at which this is reflected in property valuations is also a risk to the outlook.

Interest expenses

The State's debt portfolio is made up predominantly of fixed-interest debt, which means that most of the interest expense on existing debt is not exposed to movements in interest rates. However, typically 6 to 10 per cent of this debt matures each year and must be refinanced at prevailing market interest rates. The interest expense on the refinancing of maturing debt, along with new borrowings and a small proportion of floating-rate notes in the portfolio, are subject to changes in interest rates.

The interest rate forecasts used in the estimates for interest expenses are based on the forward interest rates derived from the yield curve for the Treasury Corporation of Victoria bonds traded in financial markets. Currently, the Treasury Corporation of Victoria yield curve is upward sloping, implying that future interest rates will be higher than current interest rates. Consequently, the interest expense estimates assume that the average interest rate on new and refinanced borrowings will increase over time.

Employee expenses

Employee expenses are the State's largest expense. Two important determinants of employee expenses are wages growth and the number of employees. Wages growth is primarily driven by enterprise bargaining agreements, which are subject to the Government's Wages Policy. Other factors contributing to projected employee expenses include the anticipated composition and profile of the workforce.

Demand for government services

Another key uncertainty is whether growth in demand for government services will exceed or be lower than current projections. This can occur, for example, as a result of higher than forecast population growth or expenditure in response to unforeseen events such as natural disasters, including bushfires and floods.

The estimates incorporate contingency provisions to mitigate the impact of expenditure risks that may be realised during the next four years. The contingency provisions are sized to allow for the likely growth in Victoria's population and the derived increased demand for core government services.

Note 4.3.7 and Note 4.3.8 of Chapter 4 *Estimated financial statements and notes* discloses general government output and asset contingencies not allocated to departments.

Capital program risks

Additional Commonwealth investment in the joint infrastructure program included in the *Commonwealth Budget 2025-26* continued the positive trend in strengthening the partnership to fund nationally significant projects.

For the past year, Victoria and other jurisdictions across Australia have addressed challenges with the supply of labour and materials by moderating their major public transport infrastructure expenditure and investing in programs to increase the supply of skilled workers. While materials cost growth is easing, nationwide shortfalls in skilled labour across the construction industry remain a challenge.

Specific fiscal risks

Commonwealth schools funding

In January 2025, Victoria signed the 10-year multilateral Better and Fairer Schools (BFS) head agreement. It will run from 1 January 2025 to 31 December 2034. At the time of finalisation of the *2025-26 Budget Update*, negotiations are underway on an interim bilateral agreement which sets out agreed Victorian and Commonwealth Schooling Resource Standard (SRS) commitments for 2026 while long-term trajectories are still being negotiated.

Estimates of funding required to acquit the SRS target each year are based on estimated student numbers and profile projections and are subject to indexation.

As expenditure targets are based on actual rather than forecast student data, there is a risk that allocated funding does not meet final expenditure targets.

Commonwealth housing funding

The National Agreement on Social Housing and Homelessness (NASHH) was signed by the Commonwealth, states and territories in May 2024 for the term 1 July 2024 to 30 June 2029. The NASHH replaces the National Housing and Homelessness Agreement.

Commonwealth funding contributions are indexed annually by wage inflation and funding is allocated among the states on a population basis, therefore annual payments may vary from estimates.

Victoria is required to match the Commonwealth's funding contribution towards the homelessness component of funding. The matched funding requirement could vary from estimates due to actual indexation and population share diverging from budget estimates.

Disability reform

The National Cabinet meeting on 6 December 2023 made significant decisions on the future of disability services and funding. National Cabinet agreed to jointly design, fund and commission a system of foundational supports, with funding split evenly between states and the Commonwealth, as well as adjustments to state and territory NDIS contribution escalation rates up to 8 percent.

The Commonwealth, states and territories continue to negotiate disability reforms following the release of the NDIS Review, the December 2023 National Cabinet decisions outlined above and the Commonwealth's recent announcements regarding Thriving Kids and changes to NDIS eligibility. These are linked to the below Commonwealth health funding negotiations.

Commonwealth health funding

The National Health Reform Agreement (NHRA) sets out joint responsibility between the states and territories and the Commonwealth for supporting Australia's public hospital system.

Victoria is expected to receive \$7.8 billion from the Commonwealth under a one-year agreement for the 2025-26 NHRA, which was signed in early 2025. In addition to the above funding, the interim schedule includes a one-off sum of \$402 million to fund public hospitals and health reform arrangements for the period 1 July 2025 to 30 June 2026.

Negotiations on a five-year agreement are currently underway following the federal election in May 2025, which will set the parameters for future Commonwealth contributions to public hospital funding.

National Skills Agreement

The National Skills Agreement (NSA) replaced the National Agreement for Skills and Workforce Development and commenced on 1 January 2024, expiring 31 December 2028.

The NSA provides access to up to \$3.2 billion in funding to Victoria over the five-year term of the agreement. This includes up to \$231 million in funding to Victoria for specific policy initiatives, subject to matched funding. Victoria has signed seven implementation plans for specific policy initiatives under the NSA. Finalisation of the implementation plans may vary Victoria's revenue under the agreement in the forward estimates.

Victoria's GST revenue

Victoria's GST revenue is broadly determined by three key factors:

- the amount of GST collected by the Commonwealth (the national GST pool)
- Victoria's GST relativity
- Victoria's share of the national population.

GST relativities are used to distribute the national GST pool and are sensitive to a broad range of factors, including demographics, infrastructure needs, developments in property markets and global commodity prices (particularly for iron ore, thermal coal and coking coal).

The Productivity Commission has commenced an inquiry into the Commonwealth Government's 2018 changes to the GST distribution system and will deliver a final report by the end of 2026. The outcomes of the inquiry and any Commonwealth Government response remain uncertain.

The national GST pool is predominantly dependent on nominal consumption in Australia and the outlook for nominal consumption is influenced by various factors. There is uncertainty around the national inflation outlook and the cash rate path. Higher interest rates than forecast would weigh on household disposable income and negatively impact household consumption. Uncertainty from global conditions, particularly from US tariffs, presents additional risk to the outlook of national consumption. Conversely, an increase in housing price growth may support national consumption and dwelling investment over the forecast horizon.

Further uncertainty in the national GST pool forecast is driven by the outcomes of GST compliance activity undertaken by the Australian Taxation Office.

Evolving migration patterns might result in a decline or increase in Victoria's population share growth compared with other states, decreasing or increasing Victoria's share of GST.

Commonwealth no-worse-off guarantee for GST entitlement

In 2018, the Commonwealth changed the GST distribution system.

During a six-year transition period commencing in 2021-22, each state or territory is entitled to receive additional Commonwealth financial assistance to ensure it is no worse off compared to its GST entitlement had full equalisation been maintained. The no-worse-off guarantee was legislated until the end of the transition period in 2026-27. On 29 November 2024, the Council on Federal Financial Relations signed an agreement to extend the guarantee for three years to 2029-30, to provide funding certainty for states and territories for that period.

The *Commonwealth Budget 2025-26* forecast that, without the guarantee, Victoria would lose \$8.1 billion in GST revenue between 2025-26 and 2028-29. Victoria continues to work with other state governments and the Commonwealth to ensure Victoria receives its fair share of GST.

NON-FINANCIAL PUBLIC SECTOR

The non-financial public sector (NFPS) consolidates the public non-financial corporation (PNFC) and general government sectors. The PNFC sector is comprised of entities providing services that are primarily funded from user charges and fees. The largest PNFCs provide water, housing, and transport services.

Please note that the sum of the general government sector and PNFC sector results does not equal the results shown for the NFPS due to inter-sector transfers.

Summary operating statement

Table 3.6: Summary operating statement for the non-financial public sector ^(a) (\$ million)

	2025-26 <i>revised</i>	2026-27 <i>estimate</i>	2027-28 <i>estimate</i>	2028-29 <i>estimate</i>
Revenue and income from transactions				
Taxation	41 505	43 476	45 646	47 890
Interest income	890	753	769	761
Dividends and income tax equivalent income	1 476	1 254	955	1 033
Sales of goods and services	16 358	17 057	17 657	18 218
Grants	52 917	52 317	53 064	54 269
Other revenue and income	4 519	4 691	4 483	4 626
Total revenue and income from transactions	117 665	119 548	122 574	126 799
<i>% change</i>	9.1	1.6	2.5	3.4
Expenses from transactions				
Employee expenses	41 008	42 002	43 257	44 847
Superannuation				
Net superannuation interest expense	788	768	753	697
Other superannuation	4 784	4 836	5 005	5 150
Depreciation	11 428	11 545	11 825	12 144
Interest expense	8 497	9 433	10 578	11 891
Grant expense	16 437	16 336	16 133	16 524
Other operating expenses	37 747	35 711	35 765	37 130
Total expenses from transactions	120 688	120 631	123 315	128 381
<i>% change</i>	6.7	0.0	2.2	4.1
Net result from transactions	(3 024)	(1 083)	(741)	(1 583)
Total other economic flows included in net result	128	(239)	97	(82)
Net result	(2 896)	(1 322)	(644)	(1 664)

Note:

(a) This is a summary operating statement. The comprehensive operating statement is presented in Chapter 5.

The net result from transactions of the NFPS is projected to improve from a deficit of \$3 billion in 2025-26 to a deficit of \$1.6 billion by 2028-29. This is driven by the net result from transactions for the general government sector as discussed earlier in this chapter as well as the PNFC sector. The PNFC sector's net result from transactions is projected to improve by approximately \$600 million over the forward estimates. This is primarily driven by the improving profitability of Development Victoria and of the water sector based on demand projections.

Application of cash resources

The NFPS is forecast to record an operating cash flow surplus of \$6.7 billion in 2025-26 before increasing to \$9.5 billion in 2026-27 and then decreasing to \$8.5 billion in 2027-28 and \$7.8 billion in 2028-29. By 2028-29, the NFPS operating cash flow surplus is projected to fund 39.6 per cent of the NFPS infrastructure program, with the remainder funded by borrowings.

Table 3.7: Application of cash resources for the non-financial public sector (\$ million)

	2025-26 <i>revised</i>	2026-27 <i>estimate</i>	2027-28 <i>estimate</i>	2028-29 <i>estimate</i>
Net result from transactions	(3 024)	(1 083)	(741)	(1 583)
Add back: operating cash flows not recognised in the net operating balance ^(a)	9 705	10 611	9 264	9 422
Net cash flows from operating activities	6 682	9 528	8 523	7 839
Less: Total net investment in fixed assets ^(b)	23 958	23 363	18 298	19 776
Surplus/(deficit) of cash from operations after funding net investments in fixed assets	(17 276)	(13 835)	(9 776)	(11 937)
Less:				
Leases and service concession arrangements ^(c)	2 712	1 387	1 186	689
Other movements	(354)	(200)	(318)	(401)
Decrease/(increase) in net debt	(19 635)	(15 022)	(10 644)	(12 224)

Notes:

- (a) Includes depreciation, prepayments, movements in the superannuation liability and liability of employee benefits for the year, and the progressive unwinding of the grant of a right to the operator liability.
- (b) Includes total purchases of plant, property and equipment, and capital contributions to other sectors of government net of proceeds from asset sales.
- (c) Includes most operating leases, which are required to be recognised as lease liabilities, and also includes the financial liabilities relating to public private partnership projects.

For the NFPS, the total net investment in fixed assets is projected to average \$21.3 billion a year over the budget and forward estimates and, in addition to the Government infrastructure investment discussed earlier in this chapter, includes:

- investment in transport infrastructure and rolling stock to meet patronage levels and improve network performance such as the new regional and metropolitan trains, Next Generation Trams, Metro Tunnel infrastructure works and stabling and maintenance facilities for rolling stock
- the State Electricity Commission's investments in Renewable Energy Parks in Melbourne and Horsham
- various water and sewer related infrastructure projects, such as the Western Treatment Plant primary treatment capacity upgrade, rollout of digital water meters, various regional Water Treatment and Reclamation Plant upgrades including Bendigo, Gisborne, Wodonga and Warrnambool, and the East Grampians rural water supply project.

NON-FINANCIAL PUBLIC SECTOR NET DEBT AND NET FINANCIAL LIABILITIES

Table 3.8 details NFPS net debt and net financial liabilities.

Table 3.8: Non-financial public sector net debt and net financial liabilities (\$ billion)

	2025-26 revised	2026-27 estimate	2027-28 estimate	2028-29 estimate
Assets				
Cash and deposits	16.8	16.8	17.3	18.1
Advances paid	0.4	0.4	0.3	0.3
Investments, loans and placements	20.1	21.2	22.9	24.6
Total	37.3	38.4	40.5	43.0
Liabilities				
Deposits held and advances received	1.8	1.9	1.8	1.8
Borrowings	230.3	246.4	259.2	273.9
Total	232.2	248.3	261.0	275.8
Net debt ^(a)	194.9	209.9	220.5	232.8
Superannuation liability	17.3	17.4	16.2	14.9
Net debt plus superannuation liability	212.2	227.3	236.7	247.7
Other liabilities (net) ^(b)	42.0	41.3	40.8	39.7
Net financial liabilities ^(c)	254.1	268.6	277.6	287.4
				(per cent)
Net debt to GSP ^(d)	29.3	30.0	29.9	30.1
Net debt plus superannuation liability to GSP ^(d)	31.9	32.4	32.1	32.0
Net financial liabilities to GSP ^(d)	38.2	38.3	37.7	37.1
Net debt plus superannuation liability to revenue ^(e)	180.3	190.1	193.1	195.4

Notes:

(a) Net debt is the sum of borrowings, deposits held and advances received less the sum of cash and deposits, advances paid, and investments, loans and placements.

(b) Other liabilities (net) include other employee entitlements and provisions and other non-equity liabilities, less other non-equity financial assets.

(c) Net financial liabilities is total liabilities less financial assets (excluding investments in other sector entities).

(d) The GSP-based ratios may vary between publications due to revisions to the Australian Bureau of Statistics GSP data.

(e) This is the sum of the NFPS net debt plus the superannuation liability as a proportion of NFPS total operating revenue.

Due to ongoing investments in infrastructure projects over the budget and forward estimates, primarily in the general government sector, NFPS net debt is projected to increase to \$232.8 billion by 2028-29. Given this, the NFPS net debt to GSP ratio is projected to increase from 29.3 per cent in 2025-26 to 30.1 per cent in 2028-29.

Table 3.9 provides projections of several additional indicators of financial sustainability for the NFPS.

Table 3.9: Indicators of financial sustainability of non-financial public sector (per cent)

	2025-26 <i>revised</i>	2026-27 <i>estimate</i>	2027-28 <i>estimate</i>	2028-29 <i>estimate</i>
Operating cash flow surplus to revenue	5.7	8.0	7.0	6.2
Gross debt to revenue ^(a)	197.3	207.7	212.9	217.5
Interest expense to revenue	7.2	7.9	8.6	9.4

Note:

(a) Gross debt includes borrowings, deposits held, and advances received.

The operating cash flow surplus to revenue ratio indicates the proportion of cash generated from operations that can be used to fund infrastructure. Due to improvements in the general government sector operating cash position, this ratio is forecast to increase from 5.7 per cent in 2025-26 to 6.2 per cent by 2028-29.

Gross debt, which is primarily to fund the total net investment in fixed assets as discussed above, is expected to grow by an average of 5.9 per cent a year over the forward estimates. This is at a faster rate than the average revenue growth rate of 2.5 per cent a year over the same period. As a result, the ratio of gross debt to revenue, which indicates the overall debt burden, is estimated to be 197.3 per cent in 2025-26 and increases to 217.5 per cent in 2028-29.

The NFPS interest expense to revenue ratio, which is a measure of the State's debt service burden, is also expected to increase over the budget and forward estimates period. This increase is driven by increases in the stock of debt and the higher interest rate environment.

STATE OF VICTORIA

The State of Victoria financial results are obtained by consolidating the public financial corporations (PFC) sector with the NFPS. PFCs can be categorised into two broad types: those that provide services to the general public and businesses (such as WorkSafe Victoria, the Transport Accident Commission, Breakthrough Victoria and State Trustees Limited), and those that predominantly provide financial services to other government entities (such as the Victorian Funds Management Corporation, Treasury Corporation of Victoria and the Victorian Managed Insurance Authority).

Table 3.10: Summary operating statement of the State of Victoria ^(a) (\$ million)

	2025-26 revised	2026-27 estimate	2027-28 estimate	2028-29 estimate
Revenue and income from transactions				
Taxation	41 475	43 445	45 614	47 857
Interest income	1 761	1 587	1 617	1 610
Dividends income	3 995	4 040	4 512	4 570
Sales of goods and services	23 295	24 403	25 445	26 481
Grants	52 680	52 045	52 787	52 921
Other revenue and income	4 555	4 421	4 522	4 665
Total revenue and income from transactions	127 761	129 941	134 498	138 105
% change	9.1	1.7	3.5	2.7
Expenses from transactions				
Employee expenses	40 646	41 637	42 885	44 471
Superannuation:				
Net superannuation interest expense	788	768	753	697
Other Superannuation	4 847	4 902	5 073	5 220
Depreciation	11 504	11 616	11 891	12 207
Interest expense	8 961	9 818	10 961	12 272
Grant expense	16 439	16 341	16 138	16 531
Other operating expenses	49 550	48 190	49 501	51 754
Total expenses from transactions	132 736	133 271	137 201	143 152
% change	6.5	0.4	2.9	4.3
Net result from transactions	(4 976)	(3 330)	(2 703)	(5 048)
Total other economic flows included in net result	2 662	1 565	2 437	2 769
Net result	(2 313)	(1 764)	(265)	(2 279)

Note:

(a) This is a summary operating statement. The comprehensive operating statement is presented in Chapter 5.

Table 3.10 shows that the State's net result from transactions is projected to be a deficit of \$5 billion in 2025-26, improving to a deficit of \$3.3 billion in 2026-27 and a deficit of \$2.7 billion in 2027-28, before returning to a deficit of \$5 billion in 2028-29.

The net result from transactions excludes other economic flows such as capital gains on the investments held by the State's insurance agencies, movements in deferred tax assets, risk margins and claims handling expenses. Other economic flows are projected to average \$2.4 billion a year over the budget and forward estimates noting that the annual figure varies between \$1.6 billion and \$2.8 billion.

Table 3.11: Summary balance sheet for the State of Victoria**(\$ billion)**

	2025-26 revised	2026-27 estimate	2027-28 estimate	2028-29 estimate
Assets				
Total financial assets ^(a)	133.9	139.7	147.2	155.3
Total non-financial assets ^(b)	532.0	549.3	579.8	593.6
Total assets	665.9	689.0	727.0	748.8
Liabilities				
Borrowings	245.6	262.2	275.4	290.7
Other provisions	61.4	65.4	69.8	74.9
Other liabilities ^(c)	73.2	73.2	71.5	69.8
Total liabilities	380.2	400.8	416.8	435.3
Net assets	285.7	288.2	310.2	313.5

Notes:

- (a) Financial assets include cash and deposits, advances paid, investments, loans and placements, receivables, and investments accounted for using the equity method.
- (b) Non-financial assets include inventories, non-financial assets held for sale, land, buildings, infrastructure, plant and equipment, and other non-financial assets.
- (c) Other liabilities consist of payables, superannuation, employee benefits, deposits held and advances received, contract liabilities, unearned income and grant of a right to the operator liability.

Table 3.11 shows that the State's net assets are projected to increase over the budget and forward estimates, from \$285.7 billion in 2025-26 to \$313.5 billion by 2028-29. This reflects a forecast increase in total assets of \$82.9 billion over this period, partly offset by a \$55.1 billion increase in liabilities.

The increase in total assets is largely due to the State's non-financial assets, including infrastructure, being estimated to increase from \$532 billion in 2025-26 to \$593.6 billion by 2028-29.

The projected increase in total liabilities, from \$380.2 billion in 2025-26 to \$435.3 billion by 2028-29, is largely due to borrowings increasing from \$245.6 billion in 2025-26 to \$290.7 billion by 2028-29.

CHAPTER 4 – ESTIMATED FINANCIAL STATEMENTS AND NOTES

ESTIMATED CONSOLIDATED GENERAL GOVERNMENT SECTOR COMPREHENSIVE OPERATING STATEMENT

For the financial year ended 30 June

(\$ million)

	Notes	2025-26 budget	2025-26 revised	2026-27 estimate	2027-28 estimate	2028-29 estimate
Revenue and income from transactions						
Taxation	4.2.1	41 677	42 095	44 096	46 291	48 394
Interest income		1 330	1 363	1 227	1 237	1 219
Dividends and income tax equivalent income	4.2.2	1 097	1 721	1 514	1 194	1 279
Sales of goods and services	4.2.3	8 041	7 942	8 350	8 594	8 515
Grants	4.2.4	52 586	52 880	52 291	53 046	54 247
Other revenue and income	4.2.5	3 612	3 804	3 914	3 635	3 739
Total revenue and income from transactions		108 343	109 805	111 390	113 998	117 393
Expenses from transactions						
Employee expenses	4.3.1	38 835	39 036	40 023	41 247	42 771
Superannuation:						
Net superannuation interest expense	4.3.2	789	784	764	748	692
Other superannuation	4.3.2	4 463	4 536	4 580	4 744	4 883
Depreciation	4.4.2	5 884	6 331	6 443	6 526	6 652
Interest expense	4.5.2	7 569	7 723	8 461	9 453	10 469
Grant expense	4.3.4	18 764	18 425	18 242	17 950	18 360
Other operating expenses	4.3.5	31 428	32 260	30 934	30 931	32 016
Total expenses from transactions	4.3.7	107 732	109 095	109 447	111 600	115 844
Net result from transactions –		611	710	1 943	2 398	1 549
Net operating balance						
Other economic flows included in net result						
Net gain/(loss) on disposal of non-financial assets		20	20	18	18	18
Net gain/(loss) on financial assets or liabilities at fair value		149	216	197	291	325
Share of net profit/(loss) from associates/joint venture entities		(45)	(45)	(45)	(12)	(12)
Other gains/(losses) from other economic flows	4.6.1	(424)	(548)	(404)	(211)	(404)
Total other economic flows included in net result		(300)	(357)	(233)	87	(72)
Net result		312	353	1 710	2 485	1 476

ESTIMATED CONSOLIDATED GENERAL GOVERNMENT SECTOR COMPREHENSIVE OPERATING STATEMENT (*CONTINUED*)

For the financial year ended 30 June

(\$ million)

	Notes	2025-26 budget	2025-26 revised	2026-27 estimate	2027-28 estimate	2028-29 estimate
Other economic flows –						
Other comprehensive income						
Items that will not be reclassified to net result						
Changes in non-financial assets revaluation surplus		3 274	3 397	3 726	21 668	5 002
Remeasurement of superannuation defined benefit plans	4.3.2	482	1 611	508	507	527
Other movements in equity		25	(91)	(9)	(5)	(7)
Items that may be reclassified subsequently to net result						
Net gain/(loss) on financial assets at fair value		3	3	3	3	3
Net gain/(loss) on equity investments in other sector entities at proportional share of the carrying amount of net assets ^(a)	4.4.6	(22 932)	(24 113)	(3 150)	(5 158)	(4 148)
Total other economic flows – Other comprehensive income		(19 147)	(19 193)	1 078	17 014	1 377
Comprehensive result – Total change in net worth		(18 836)	(18 840)	2 788	19 499	2 854
KEY FISCAL AGGREGATES ^(b)						
Net operating balance		611	710	1 943	2 398	1 549
Less: Net acquisition of non-financial assets from transactions ^(c)	4.3.9	(13 966)	(14 776)	6 422	2 210	4 433
Net lending/(borrowing)		14 577	15 486	(4 478)	189	(2 885)

The accompanying notes form part of these Estimated Financial Statements.

Notes:

(a) The value in 2025-26 includes the derecognition of completed Metro Tunnel assets transferred to VicTrack, as required under AASB 16 Leases.

(b) The fiscal aggregates are defined in Note 8.9 of the 2024-25 Financial Report.

(c) The value in 2025-26 includes the transfer of the Metro Tunnel assets from the Department of Transport and Planning in the general government sector to VicTrack in the public non-financial corporations sector upon its completion.

ESTIMATED CONSOLIDATED GENERAL GOVERNMENT SECTOR BALANCE SHEET

As at 30 June

(\$ million)

	Notes	2026 budget ^(a)	2026 revised	2027 estimate	2028 estimate	2029 estimate
Assets						
Financial assets						
Cash and deposits		14 261	14 191	14 532	14 605	15 114
Advances paid	4.5.3	6 379	6 229	6 217	6 183	6 148
Receivables and contract assets	4.2.6	10 833	10 567	11 196	11 778	12 369
Investments, loans and placements	4.5.3	18 553	18 616	19 737	21 353	23 034
Investments accounted for using equity method		1 121	1 322	1 245	657	721
Investments in other sector entities	4.4.6	100 675	101 863	104 301	105 985	106 063
Total financial assets		151 822	152 787	157 228	160 562	163 449
Non-financial assets						
Inventories		279	295	324	295	299
Non-financial assets held for sale		145	145	138	130	123
Land, buildings, infrastructure, plant and equipment	4.4.1, 4.4.3	277 611	276 829	287 094	311 044	320 512
Other non-financial assets	4.4.4	6 954	7 033	6 883	6 779	6 680
Total non-financial assets		284 990	284 303	294 439	318 249	327 614
Total assets	4.4.5	436 811	437 090	451 667	478 810	491 063
Liabilities						
Deposits held and advances received		1 546	1 546	1 547	1 548	1 559
Payables	4.3.6	6 555	6 369	6 388	6 386	6 380
Borrowings	4.5.1	200 614	203 253	215 140	224 412	235 349
Employee benefits	4.3.1	12 422	11 885	12 242	12 601	12 960
Superannuation	4.3.3	18 625	17 300	17 403	16 207	14 948
Other provisions		4 048	3 973	3 673	3 625	3 727
Other liabilities	4.2.7	22 531	22 298	22 019	21 277	20 532
Total liabilities		266 341	266 623	278 413	286 057	295 456
Net assets		170 471	170 467	173 254	192 753	195 607
Equity						
Accumulated surplus/(deficit)		43 146	44 204	46 414	49 400	51 396
Reserves		127 325	126 262	126 841	143 353	144 211
Net worth		170 471	170 467	173 254	192 753	195 607
FISCAL AGGREGATES ^(b)						
Net financial worth		(114 519)	(113 837)	(121 185)	(125 495)	(132 007)
Net financial liabilities		215 194	215 699	225 486	231 481	238 070
Net debt		162 968	165 764	176 201	183 818	192 612

The accompanying notes form part of these Estimated Financial Statements.

Notes:

(a) Balances represent actual opening balances at 1 July 2025 plus 2025-26 budgeted movements.

(b) The fiscal aggregates are defined in Note 8.9 of the 2024-25 Financial Report.

ESTIMATED CONSOLIDATED GENERAL GOVERNMENT SECTOR CASH FLOW STATEMENT

For the financial year ended 30 June

(\$ million)

	Notes	2025-26 budget	2025-26 revised	2026-27 estimate	2027-28 estimate	2028-29 estimate
Cash flows from operating activities						
Receipts						
Taxes received		41 201	41 409	44 179	45 862	47 936
Grants		52 593	53 008	52 290	53 046	54 247
Sales of goods and services ^(a)		8 919	8 891	9 074	9 398	9 311
Interest received		1 168	1 201	1 049	1 036	1 008
Dividends and income tax equivalent receipts		1 124	1 748	1 541	1 197	1 282
Other receipts		2 543	2 674	2 673	2 375	2 487
Total receipts		107 548	108 931	110 807	112 915	116 270
Payments						
Payments for employees		(38 497)	(39 235)	(39 679)	(40 900)	(42 425)
Superannuation		(4 429)	(4 693)	(4 732)	(6 182)	(6 309)
Interest paid		(7 343)	(7 486)	(8 409)	(9 353)	(10 369)
Grants and subsidies		(18 695)	(18 360)	(18 224)	(17 866)	(18 283)
Goods and services ^(a)		(30 942)	(32 101)	(30 992)	(30 751)	(31 630)
Other payments		(1 480)	(1 484)	(1 085)	(1 132)	(1 183)
Total payments		(101 386)	(103 359)	(103 120)	(106 184)	(110 199)
Net cash flows from operating activities		6 162	5 572	7 687	6 730	6 072
Cash flows from investing activities						
Cash flows from investments in non-financial assets						
Purchases of non-financial assets	4.3.8	(17 190)	(15 610)	(16 075)	(14 445)	(15 212)
Sales of non-financial assets		1 064	355	1 045	951	988
Net cash flows from investments in non-financial assets		(16 125)	(15 255)	(15 030)	(13 494)	(14 224)
Net cash flows from investments in financial assets for policy purposes		(2 270)	(4 308)	(2 985)	(707)	(714)
Subtotal		(18 396)	(19 564)	(18 016)	(14 201)	(14 937)
Net cash flows from investment in financial assets for liquidity management purposes		(669)	(1 052)	(950)	(1 247)	(1 254)
Net cash flows from investing activities		(19 065)	(20 616)	(18 966)	(15 448)	(16 191)
Cash flows from financing activities						
Advances received (net)		(60)	(60)	(11)	(10)	..
Net borrowings		13 716	15 788	11 619	8 790	10 617
Deposits received (net)		11	11	11	11	11
Other financing (net) ^(b)		695	695	..	..	..
Net cash flows from financing activities ^(b)		14 363	16 435	11 619	8 791	10 628
Net increase/(decrease) in cash and cash equivalents ^(b)		1 460	1 390	340	73	508
Cash and cash equivalents at beginning of reporting period ^{(b)(c)}		12 800	12 800	14 190	14 530	14 604
Cash and cash equivalents at end of reporting period ^(d)		14 260	14 190	14 530	14 604	15 112

ESTIMATED CONSOLIDATED GENERAL GOVERNMENT SECTOR CASH FLOW STATEMENT (CONTINUED)

For the financial year ended 30 June

(\$ million)

	Notes	2025-26 budget	2025-26 revised	2026-27 estimate	2027-28 estimate	2028-29 estimate
FISCAL AGGREGATES ^(e)						
Net cash flows from operating activities		6 162	5 572	7 687	6 730	6 072
Net cash flows from investments in non-financial assets		(16 125)	(15 255)	(15 030)	(13 494)	(14 224)
Cash surplus/(deficit)		(9 963)	(9 684)	(7 344)	(6 764)	(8 152)

The accompanying notes form part of these Estimated Financial Statements.

Notes:

(a) Sales of goods and services and payments for goods and services are inclusive of goods and services tax.

(b) On 1 July 2025, the Building Legislation Amendment (Buyer Protections) Act 2025 became effective, and the Building and Plumbing Commission (BPC) was established as a building industry regulator to succeed the former Victorian Building Authority. This resulted in responsibility for the Domestic Building Insurance function in the VMIA, within the PFC sector, transferring to the BPC in the general government sector and the restatement of certain line items.

(c) 2025-26 budget figures have been restated to represent actual opening balances at 1 July 2025.

(d) Cash and cash equivalents at the end of the reporting period does not equal cash and deposits on the balance sheet. This is due to overdrafts being included in the cash flow statement balances.

(e) The fiscal aggregates are defined in Note 8.9 of the 2024-25 Financial Report.

ESTIMATED CONSOLIDATED GENERAL GOVERNMENT SECTOR STATEMENT OF CHANGES IN EQUITY

For the financial year ended 30 June

(\$ million)

	Accumulated surplus/(deficit)	Non-financial assets revaluation surplus	Investment in other sector entities revaluation surplus	Other reserves	Total
2025-26 budget ^(a)					
Balance at 1 July 2025	41 982	107 890	37 805	1 630	189 307
Net result for the year	312				312
Other comprehensive income for the year	507	3 274	(22 932)	3	(19 147)
Transfer to/(from) accumulated surplus	345	(345)		..	..
Total equity as at 30 June 2026	43 146	110 819	14 873	1 633	170 471
2025-26 revised					
Balance at 1 July 2025	41 982	107 890	37 805	1 630	189 307
Net result for the year	353				353
Other comprehensive income for the year	1 521	3 397	(24 113)	3	(19 193)
Transfer to/(from) accumulated surplus	349	(349)		..	..
Total equity as at 30 June 2026	44 204	110 938	13 691	1 633	170 467
2026-27 estimate					
Balance at 1 July 2026	44 204	110 938	13 691	1 633	170 467
Net result for the year	1 710				1 710
Other comprehensive income for the year	499	3 726	(3 150)	3	1 078
Transfer to/(from) accumulated surplus	..	..			..
Total equity as at 30 June 2027	46 414	114 663	10 541	1 636	173 254
2027-28 estimate					
Balance at 1 July 2027	46 414	114 663	10 541	1 636	173 254
Net result for the year	2 485				2 485
Other comprehensive income for the year	501	21 668	(5 158)	3	17 014
Transfer to/(from) accumulated surplus	..	..			..
Total equity as at 30 June 2028	49 400	136 332	5 383	1 639	192 753
2028-29 estimate					
Balance at 1 July 2028	49 400	136 332	5 383	1 639	192 753
Net result for the year	1 476				1 476
Other comprehensive income for the year	520	5 002	(4 148)	3	1 377
Transfer to/(from) accumulated surplus	..	..			..
Total equity as at 30 June 2029	51 396	141 334	1 235	1 642	195 607

The accompanying notes form part of these Estimated Financial Statements.

Note:

(a) Balances represent actual opening balances at 1 July 2025 plus 2025-26 budgeted movements.

4.1 ABOUT THIS REPORT

Basis of preparation

This note summarises the basis applied in preparing and presenting these Estimated Financial Statements, which includes the budget year and the estimates for the three forward years.

The detailed accounting policies applied in preparing the Estimated Financial Statements for the 2025-26 budget year, and the three forward years, are consistent with those in the *2024-25 Financial Report* for the State of Victoria as presented to Parliament. The audited 30 June 2025 asset and liability balances, as reported in the *2024-25 Financial Report*, form the basis on which asset and liability balances are projected over the next four years.

The accrual basis of accounting has been applied in preparing the Estimated 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.

The Estimated Financial Statements are presented in Australian dollars, which is also the functional currency of the Victorian general government sector.

The Estimated Financial Statements have been prepared in accordance with the historical cost convention. Historical cost is based on the fair value of the consideration given in exchange for assets. Exceptions to the historical cost convention include:

- general government sector investments in other sector entities, which are measured at net asset value
- non-financial physical assets including service concession arrangement assets and right-of-use assets which, subsequent to initial recognition, are measured at a revalued amount being their fair value at the reporting date less any subsequent accumulated depreciation and subsequent impairment losses. Revaluations are made with sufficient regularity to ensure the carrying amounts do not materially differ from their fair value
- certain liabilities, most notably unfunded superannuation, which are subject to actuarial assessments
- financial assets classified at fair value through other comprehensive income, which are measured at fair value with movements reflected in other economic flows – other comprehensive income
- financial assets classified at fair value through profit and loss, which are measured at fair value with movements reflected in other economic flows included in the net result.

For assets and liabilities measured at fair value in the estimated balance sheet, the principles of AASB 13 *Fair Value Measurement* have been applied.

In accordance with FRD 103 *Non-financial physical assets*, the State applies Appendix F of AASB 13 prospectively as part of the next scheduled formal or interim asset valuations (whichever is earlier) over the five-year revaluation cycle to 30 June 2029.

As required by AASB 1049 *Whole of Government and General Government Sector Financial Reporting*, the estimated comprehensive operating statement distinguishes between transactions and other economic flows based on the principles in the Government Finance Statistics (GFS) Manual. Transactions are those economic flows that are considered to arise as a result of policy decisions, usually interactions between two entities by mutual agreement, and also flows within an entity, such as depreciation where the owner is simultaneously acting as the owner of the depreciating asset and as the consumer of the service provided by the asset. Taxation is regarded as mutually agreed interactions between the Government and the taxpayer. Transactions may be settled in cash or settled in kind (e.g. assets provided/given free of charge or for nominal consideration).

Other economic flows are changes arising from market remeasurements. They include:

- gains and losses from disposals
- revaluations and impairments of non-financial physical and intangible assets
- remeasurement arising from defined benefit superannuation plans
- fair value changes of financial instruments
- gain and losses on equity investments in other sector entities at proportional share of the carrying amount of net assets.

All amounts in the Estimated Financial Statements have been rounded to the nearest \$1 million unless otherwise stated. The Estimated Financial Statements may not add due to rounding.

Reporting entity

The Estimated Financial Statements are prepared for the general government sector, which includes all government departments, offices and other bodies engaged in providing services free of charge or at prices significantly below their cost. The primary function of entities within the general government sector is to provide public services (outputs), which are mainly non-market in nature, for the collective consumption of the community. These services are primarily funded through transferring or redistributing revenue that is collected mainly through taxes and other compulsory levies.

The general government sector is not a separate entity but represents a sector within the State of Victoria reporting entity. Unless otherwise noted, accounting policies applied by the State apply equally to the general government sector.

Basis for consolidation

The Estimated Financial Statements present the estimated consolidated results and position of all reporting entities in the general government sector that are controlled by the State, consistent with the principles of AASB 1049 and AASB 10 *Consolidated Financial Statements*.

Entities in the public non-financial corporations (PNFC) and public financial corporations (PFC) sectors are not consolidated into the financial statements of the general government sector, but are accounted for as equity investments measured at the Government's proportional share of the carrying amount of net assets of PNFC and PFC sector entities before consolidation eliminations.

Where the carrying amount of a PNFC or PFC entity's net assets before consolidation eliminations is less than zero, the carrying amount is not included in the general government sector. Any change in the carrying amount of the investment from period to period is accounted for as if the change in carrying amount is a change in fair value and accounted for consistent with AASB 9 *Financial Instruments* and AASB 1049.

Where control of an entity is expected to be obtained during the reporting period, its results are included in the estimated comprehensive operating statement from the date on which control is obtained. Where control is expected to cease during a reporting period, the entity's results are included for that part of the period for which control would exist. Where entities adopt dissimilar accounting policies and their effect is considered material, adjustments are made to ensure consistent policies are adopted in the Estimated Financial Statements. However, there were no adjustments required to these Estimated Financial Statements resulting from general government entities adopting dissimilar accounting policies.

All material transactions and balances between entities within the general government sector are eliminated.

Except as stated in Note 4.6.4, the significant entities consolidated within the sector comprise those general government sector entities listed in Note 8.8 of Chapter 4 of the *2024-25 Financial Report* for the State of Victoria.

Compliance

These Estimated Financial Statements have been prepared in accordance with Sections 23L-23N of the *Financial Management Act 1994*, having regard to Australian Accounting Standards (AAS), which include Interpretations issued by the Australian Accounting Standards Board (AASB).

The Estimated Financial Statements are presented in a manner consistent with the principles of AASB 1049 and other relevant AASs. However, the prospective nature of these Estimated Financial Statements means that some AAS disclosures are neither relevant nor practical and have been omitted. Where applicable, those AAS paragraphs relevant to not-for-profit entities have been applied. Because AASs do not prescribe requirements for preparing and presenting prospective financial statements, the Estimated Financial Statements have been prepared having regard to the principles set out in New Zealand Public Benefit Entity Financial Reporting Standard 42 *Prospective Financial Statements*.

The GFS information included in this report is based on the *Australian System of Government Finance Statistics: Concepts, Sources and Methods 2015 Cat. No. 5514.0* (ABS GFS).

The information presented in the estimated financial statements takes into account the financial impacts as at 13 November 2025 of all decisions that affect the financial statements, unless otherwise stated.

Key financial measures

During the COVID-19 pandemic the Government prioritised the use of its balance sheet to support the Victorian community, Victorian households and the economy. While Victoria's economy has rebounded strongly, the ongoing impacts of the pandemic on the state's fiscal position are still present.

The Government's financial sustainability objectives for the *2025-26 Budget Update* are that:

- the net operating balance will return to a surplus by 2025-26
- an operating cash surplus will be maintained over the budget and forward estimates period
- net debt to GSP will stabilise and begin to decline by the end of the forward estimates period.

The Government's long-term financial management objectives and fiscal measures and targets for the *2025-26 Budget Update* are set out in Chapter 1 *Economic and fiscal overview*.

Key judgements, estimates and assumptions

Judgements, estimates and assumptions are required to be made about the carrying values of assets and liabilities that are not readily apparent from other sources, and the forecasting of certain revenue and expenses. The estimates and associated assumptions are based on professional judgements derived from historical experience and various other factors that are believed to be reasonable under the circumstances.

Risks to Victoria's economic outlook remain. These risks include the outlook for consumer spending, the outlook for inflation, and hence for interest rates, as well as prospects for global economic growth against a backdrop of heightened uncertainty regarding the impact of United States' trade policies. This means that these estimates are subject to a degree of uncertainty. For example, goods and services tax (GST) revenue, land transfer duty revenue and interest expense are significantly linked to changes in economic growth, inflation and/or interest rates.

Economic assumptions

The Estimated Financial Statements have been prepared using the economic assumptions listed below.

Economic assumptions

	2024-25 actual	2025-26 forecast	2026-27 forecast	2027-28 projection	2028-29 projection
					(\$ billion)
Nominal gross state product	637.4	665.8	700.5	736.4	774.4
					(percentage change) ^(a)
Real gross state product	1.1	2.25	2.50	2.50	2.50
Employment	2.5	1.25	1.50	1.75	1.75
Unemployment rate ^(b)	4.4	4.75	4.75	4.75	4.75
Consumer price index ^(c)	2.4	3.00	2.75	2.50	2.50
Wage price index ^(d)	3.3	3.25	3.25	3.25	3.00
Population ^(e)	1.80 ^(f)	1.70	1.70	1.70	1.70

Notes:

- (a) Percentage change in year-average terms compared with the previous year, except for the unemployment rate (see note (b)) and population (see note (e)). Forecasts are rounded to the nearest 0.25 percentage points, except for population (see note (e)).
The key assumptions underlying the economic forecasts include interest rates that broadly follow market economists' expectations; an Australian dollar trade-weighted index of 59.9; and oil prices that follow the path suggested by oil futures.
- (b) Year-average.
- (c) Melbourne consumer price index.
- (d) Wage price index, Victoria (based on total hourly rates of pay, excluding bonuses).
- (e) Percentage change over the year to 30 June. Forecasts are rounded to the nearest 0.1 percentage point.
- (f) Estimate, actual not yet available.

Economic risks that affect the Estimated Financial Statements

There are risks to Victoria's economic outlook and the forecasts are subject to uncertainty.

Risks to the Victorian outlook from global conditions remain elevated. Ongoing global uncertainty around US tariffs remains a risk to the outlook, although some of the earlier, more significant, announced tariff increases did not eventuate. Elevated geopolitical tensions are also contributing to uncertainty: for example, any escalation or expansion in the Middle Eastern conflict may increase global inflation, with disruptions to global shipping routes and energy markets.

Domestically, the outlook for consumer spending remains a risk to Victoria's economy, both to the downside and upside. Household consumption could be weaker than forecast if the labour market softens more than expected, or households increase precautionary savings due to increased uncertainty about the economic outlook. Alternatively, household consumption could be stronger than expected, should households rebuild their savings buffers more slowly than expected in an environment of lower interest rates, rising property prices and a still-healthy labour market.

The path of inflation, and hence the outlook for interest rates, remains a source of uncertainty. Although inflation has eased significantly from its peak, inflation increased in the September quarter 2025 and services inflation remains relatively high. If inflation proves persistent or picks up further, this could have implications for the RBA's monetary policy. The stance of monetary policy will affect the outlook for economic activity and employment growth, impacting revenue and expenditure. For example, GST revenue, land transfer duty revenue and interest expense are significantly linked to changes in economic growth, inflation and/or interest rates.

Further detail on the economic outlook and risks to the outlook is included in Chapter 2 *Economic context*.

4.2 HOW FUNDS ARE RAISED

Introduction

This section presents the sources and amounts of revenue and income and the related receivables and other liabilities forecast for the general government sector.

Revenue and income recognition is determined by the State based on the substance of the arrangement in accordance with the requirements of AASB 15 *Revenue from Contracts with Customers*, AASB 16 *Leases*, AASB 1058 *Income of Not-for-Profit Entities* and AASB 1059 *Service Concession Arrangements: Grantors*.

Structure

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4.2.1 Taxation

(\$ million)

	2025-26 budget	2025-26 revised	2026-27 estimate	2027-28 estimate	2028-29 estimate
TAXES ON EMPLOYERS' PAYROLL AND LABOUR FORCE					
Payroll tax	9 585	9 585	10 053	10 544	11 058
COVID Debt Levy – Payroll \$10m+	1 147	1 147	1 215	1 287	1 364
Mental Health and Wellbeing Levy	1 147	1 147	1 215	1 287	1 364
Total taxes on employers' payroll and labour force	11 879	11 879	12 483	13 118	13 785
TAXES ON IMMOVABLE PROPERTY					
Land tax	6 377	6 354	6 566	6 915	7 399
COVID Debt Levy – Landholdings	1 177	1 177	1 216	1 278	1 365
Emergency Services and Volunteers Fund ^(a)	1 623	1 550	1 579	1 713	1 714
Congestion levy	222	209	213	218	223
Metropolitan improvement levy	221	228	228	228	228
Windfall gains tax	135	84	97	106	111
Total taxes on immovable property	9 755	9 602	9 898	10 458	11 040
TAXES ON THE PROVISION OF GOODS AND SERVICES					
Gambling taxes ^(b)					
Public lotteries	675	672	694	716	746
Electronic gaming machines	1 432	1 499	1 530	1 557	1 538
Casino	201	193	196	197	199
Racing and other sports betting	416	416	423	434	445
Other	19	18	19	19	20
Financial and capital transactions					
Land transfer duty	9 562	10 098	10 605	11 140	11 742
Metropolitan planning levy	22	26	27	28	30
Financial accommodation levy	225	220	248	270	299
Growth areas infrastructure contributions	223	223	250	250	250
Infrastructure Contributions ^(c)	..	..	7	98	99
Levies on statutory corporations ^(d)	176	176	176	176	..
Taxes on insurance	2 302	2 280	2 386	2 498	2 613
Total taxes on the provision of goods and services	15 253	15 822	16 561	17 384	17 981
TAXES ON THE USE OF GOODS AND PERFORMANCE OF ACTIVITIES					
Motor vehicle taxes					
Vehicle registration fees	2 390	2 390	2 531	2 679	2 831
Duty on vehicle registrations and transfers	1 412	1 412	1 462	1 523	1 584
Liquor licence fees	34	34	35	37	38
Other	953	956	1 125	1 093	1 134
Total taxes on the use of goods and performance of activities	4 790	4 792	5 153	5 332	5 588
Total taxation	41 677	42 095	44 096	46 291	48 394

Notes:

- (a) This line item was previously listed as the Fire Services Property Levy. From 1 July 2025 this line item was replaced by the Emergency Services and Volunteers Fund and includes emergency and disaster response services, including Fire Rescue Victoria, Country Fire Authority, Victoria State Emergency Service, Triple Zero Victoria, the State Control Centre, and Emergency Recovery Victoria.
- (b) The public lotteries, electronic gaming machines, casino, racing and other sports betting and other gambling taxes balances include gambling licence revenue forecasts of \$215 million in 2025-26, \$215 million in 2026-27, \$215 million in 2027-28 and \$222 million in 2028-29, recognised under AASB 15. The balance of these items is recognised under AASB 1058.
- (c) Infrastructure Contributions will be implemented from 1 January 2027 as a charge on property development in the 10 pilot Train and Tram Zone (TTZ) Activity Centres and expanded to 48 additional TTZ Activity Centres from 1 July 2027. All revenue raised will be provided for state and local government investments in infrastructure for Train and Tram Zone Activity Centres.
- (d) The sixth tranche of the environmental contribution levy commenced on 1 July 2024 for a period of four years concluding on 30 June 2028.

4.2.2 Dividends and income tax equivalent income (\$ million)

	2025-26 budget	2025-26 revised	2026-27 estimate	2027-28 estimate	2028-29 estimate
Dividends from PFC sector	83	494	492	90	91
Dividends from PNFC sector	149	133	119	126	132
Dividends from non-public sector	640	944	726	826	903
Dividends	872	1 571	1 338	1 043	1 126
Income tax equivalent income from PFC sector	4	4	4	5	5
Income tax equivalent income from PNFC sector	216	140	165	140	141
Income tax equivalent income	220	144	170	145	146
Local government rate equivalent income	6	6	6	6	7
Total dividends and income tax equivalent income	1 097	1 721	1 514	1 194	1 279

Dividends by entity (\$ million)

	2025-26 budget	2025-26 revised	2026-27 estimate	2027-28 estimate	2028-29 estimate
Public financial corporations					
Victorian Managed Insurance Authority	..	2	2	2	2
WorkSafe Victoria	..	..	..	..	..
Transport Accident Commission ^{(a)(b)}	..	408	408	8	8
Treasury Corporation of Victoria	75	75	72	70	71
State Trustees Ltd	2	4	4	4	4
Victorian Funds Management Corporation	3	5	6	7	7
Other/not allocated	3	..	..	..	..
Dividends from PFC sector	83	494	492	90	91
Public non-financial corporations					
Greater Western Water	31	..	42	39	41
Melbourne Water Corporation	4	1	8	10	6
South East Water Corporation	26	19	8	7	15
Yarra Valley Water Corporation	11	37	10	10	17
Development Victoria	25	25	..	8	..
Others/not allocated ^(c)	51	51	51	52	52
Dividends from PNFC sector	149	133	119	126	132

Notes:

- (a) Due to the requirements of AASB 1023 General Insurance Contracts, some amounts equivalent to dividends that are to be paid by the Transport Accident Commission are received and reported as contributions forming part of grant revenue. Noting that these payments are subject to annual review, the Transport Accident Commission is currently forecast to make a dividend equivalent payment of \$1.15 billion in 2028-29. Based on the data underlying the budget estimates, the Transport Accident Commission is expected to remain financially sustainable across the forward estimates.
- (b) The \$408 million dividends due from the Transport Accident Commission in 2025-26 and 2026-27 resulted from a reclassification and rephase of a \$800 million capital repatriation that was projected in the 2025-26 Budget.
- (c) This includes additional dividends that are payable by entities in the PNFC sector to reflect savings and efficiency initiatives that were announced in the 2023-24 Budget.

4.2.3 Sales of goods and services

(\$ million)

	2025-26 budget	2025-26 revised	2026-27 estimate	2027-28 estimate	2028-29 estimate
Amounts recognised as revenue from contracts with customers (AASB 15)					
Sale of goods	102	102	101	102	105
Provision of services ^(a)	6 746	6 694	7 092	7 311	7 235
Amounts recognised as income of not-for-profit entities (AASB 1058)					
Motor vehicle regulatory fees	257	257	284	292	319
Other regulatory fees	812	757	793	808	775
Refunds and reimbursements	19	58	..	1	..
Amounts recognised as lease income (AASB 16)					
Rental	105	75	80	81	81
Total sales of goods and services	8 041	7 942	8 350	8 594	8 515

Note:

(a) Further disclosure on the provision of services is available on the Department of Treasury and Finance's website (www.dtf.vic.gov.au/aggregate-financial-statements#consolidated-comprehensive-operating-statement).

4.2.4 Grants ^(a)

(\$ million)

	2025-26 budget	2025-26 revised	2026-27 estimate	2027-28 estimate	2028-29 estimate
Grants from the Commonwealth					
General purpose grants	27 561	27 833	27 262	27 691	27 940
Specific purpose grants for on-passing	6 428	6 011	6 711	7 006	7 307
Specific purpose grants	18 144	18 640	17 886	17 906	17 488
Total grants from the Commonwealth	52 133	52 485	51 860	52 602	52 736
Other contributions and grants	453	396	431	444	1 512
Total grants	52 586	52 880	52 291	53 046	54 247

Note:

(a) Grants predominantly relate to grants from the Commonwealth Government which are recognised under AASB 1058. The State has not recognised any material grant revenue under AASB 15 over the budget and forward estimates.

4.2.5 Other revenue and income

(\$ million)

	2025-26 budget	2025-26 revised	2026-27 estimate	2027-28 estimate	2028-29 estimate
Amounts recognised as revenue from contracts with customers (AASB 15)					
Royalties	151	151	152	156	122
Other revenue – health	261	261	261	261	261
Other miscellaneous revenue	1 031	1 196	852	845	849
Amounts recognised as income of not-for-profit entities (AASB 1058)					
Fair value of assets received free of charge or for nominal consideration ^(a)	31	164	7	7	7
Fines	857	741	859	877	999
Donations and gifts ^(b)	210	210	212	213	214
Other income – education	392	392	405	419	432
Other miscellaneous income ^(c)			308	..	..
Amounts recognised as lease income (AASB 16)					
Other non-property rental	31	31	31	28	25
Revenue items accounted for under AASB 1059					
Revenue related to economic service concession arrangements	648	657	827	830	830
Total other revenue and income	3 612	3 804	3 914	3 635	3 739

Notes:

(a) The fair value of assets received free of charge or for nominal consideration in the 2025-26 revised budget reflects adjustments for expected costs under the Metro Tunnel service concession arrangement.

(b) Primarily relates to donations to health services from non-government sources.

(c) Other miscellaneous income reflects the estimated amounts for reimbursement of expenditure.

4.2.6 Receivables and contract assets

(\$ million)

	2026 budget	2026 revised	2027 estimate	2028 estimate	2029 estimate
Contractual					
Sales of goods and services	679	615	720	756	790
Accrued investment income	103	72	73	74	76
Other receivables	2 769	2 769	2 829	2 909	2 978
Allowance for impairment losses of contractual receivables	(143)	(142)	(142)	(142)	(142)
Statutory					
Sales of goods and services	1	1	1	1	1
Taxes receivable	6 549	6 523	6 947	7 378	7 836
Fines and regulatory fees	2 612	2 547	2 536	2 549	2 583
GST input tax credits recoverable	541	541	542	543	543
Other receivables	121	..	..	..	..
Allowance for impairment losses of statutory receivables	(2 399)	(2 360)	(2 312)	(2 292)	(2 297)
Other					
Contract assets	2	2	2	2	2
Total receivables and contract assets	10 833	10 567	11 196	11 778	12 369
Current receivables and contract assets	9 789	9 523	10 155	10 741	11 337
Non-current receivables and contract assets	1 044	1 044	1 040	1 036	1 033

4.2.7 Other liabilities

(\$ million)

	2026 budget	2026 revised	2027 estimate	2028 estimate	2029 estimate
Contract liabilities	438	438	438	438	438
Unearned income and grant of a right to the operator liability	22 093	21 860	21 581	20 839	20 094
Total other liabilities	22 531	22 298	22 019	21 277	20 532
Represented by:					
Current other liabilities	2 387	2 393	2 377	2 424	2 448
Non-current other liabilities	20 144	19 905	19 642	18 854	18 085

4.3 HOW FUNDS ARE SPENT

Introduction

This section presents the major components of expenditure incurred by the general government sector towards the delivery of services and on capital or infrastructure projects during the year, as well as any related obligations.

Structure

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4.3.1 Employee expenses and provision for employee benefits

Employee expenses and employee benefits are forecast on the basis of staffing profiles and current salaries, conditions and on-costs. For the forecast period, employee expenses and employee benefits mainly include the expected financial impact of previous and current budget decisions and approved wage outcomes in line with the Government's Wages Policy, which applies to all Victorian public sector enterprise agreements. Forecast employee expenses also reflect the estimated impact of budget decisions that affect employee expense levels. More than 95 per cent of employee expenses over the budget and forward estimates in the operating statement are salaries and wages. Employee expenses are recognised in the period in which the employee provides the services.

Provision for employee benefits (balance sheet)					(\$ million)
	2026 <i>budget</i>	2026 <i>revised</i>	2027 <i>estimate</i>	2028 <i>estimate</i>	2029 <i>estimate</i>
Current					
Accrued salaries and wages	982	440	455	471	486
Other employee benefits	146	146	146	146	146
Annual leave	3 369	3 370	3 406	3 442	3 476
Long service leave	6 653	6 655	6 804	6 953	7 097
Total current employee benefits and on-costs	11 149	10 611	10 811	11 011	11 205
Non-current					
Long service leave	1 273	1 274	1 431	1 590	1 756
Total non-current employee benefits and on-costs	1 273	1 274	1 431	1 590	1 756
Total employee benefits	12 422	11 885	12 242	12 601	12 960

4.3.2 Superannuation expense (operating statement) (\$ million)

	2025-26 budget	2025-26 revised	2026-27 estimate	2027-28 estimate	2028-29 estimate
Defined benefit plans					
Net superannuation interest expense	789	784	764	748	692
Current service cost	1 006	1 027	1 062	1 140	1 218
Remeasurements:					
Expected return on superannuation assets excluding interest income	(482)	(549)	(508)	(507)	(527)
Other actuarial (gain)/loss on superannuation assets	..	(407)	..	..	..
Actuarial and other adjustments to unfunded superannuation liability	..	(656)	..	..	..
Total expense recognised in respect of defined benefit plans	1 312	199	1 317	1 382	1 384
Defined contribution plans					
Employer contributions to defined contribution plans	3 352	3 404	3 411	3 494	3 555
Other (including pensions)	105	105	108	110	110
Total expense recognised in respect of defined contribution plans	3 457	3 509	3 518	3 604	3 665
Total superannuation (gain)/expense recognised in operating statement	4 770	3 709	4 836	4 986	5 049
Represented by:					
Net superannuation interest expense	789	784	764	748	692
Other superannuation	4 463	4 536	4 580	4 744	4 883
Superannuation expense from transactions	5 252	5 320	5 344	5 493	5 576
Remeasurements recognised in other comprehensive income	(482)	(1 611)	(508)	(507)	(527)
Total superannuation expense recognised in operating statement	4 770	3 709	4 836	4 986	5 049

The accounting policies relating to superannuation expenses and liabilities are consistent with the *2025-26 Budget*. However, the forecast assumptions have been revised for each relevant defined benefit superannuation scheme as in the following table.

Superannuation assumptions^(a)

(per cent)

Underlying assumptions for all listed schemes^(b)

Discount rate ^(c)	4.6
Wages growth ^(d)	3.3
Inflation rate ^(d)	2.5

Expected return on assets^(e)

Emergency Services and State Super	6.7
Health Super Fund Defined Benefit Scheme	4.5
Constitutionally protected schemes ^(f)	n.a.

Notes:

(a) The superannuation assumptions are determined in accordance with AASB 119 Employee Benefits.

(b) All rates are nominal annual rates and are applicable to all the listed schemes.

(c) The discount rate is based on a long-term fixed interest Commonwealth bond rate. The rate stated above is an annual effective rate, gross of tax.

(d) The wages growth and inflation rates, for both salary and pension increases, assumed by the actuary are based on the experience of the fund along with long-term economic and market indicators.

(e) The expected return on assets stated is gross of tax. Estimated tax payments are explicitly allowed for in the calculation process.

(f) Pensions payable from constitutionally protected schemes are paid from the Consolidated Fund. These schemes hold no assets, so there is no expected return on assets.

4.3.3 Superannuation liability (balance sheet)

Reconciliation of the superannuation liabilities

(\$ million)

	2025-26 budget	2025-26 revised	2026-27 estimate	2027-28 estimate	2028-29 estimate
Emergency Services and State Super					
Defined benefit obligation	38 525	38 994	38 964	39 002	39 101
Tax liability ^(a)	2 125	2 218	2 224	2 025	1 811
Plan assets	(23 861)	(24 803)	(24 721)	(25 799)	(26 988)
Net liability/(asset)	16 789	16 409	16 467	15 228	13 924
Other funds^(b)					
Defined benefit obligation	3 126	1 709	1 731	1 754	1 782
Tax liability ^(a)	..	..	..	..	..
Plan assets	(1 290)	(818)	(795)	(774)	(758)
Net liability/(asset)	1 836	891	936	980	1 023
Total superannuation					
Defined benefit obligation	41 651	40 703	40 695	40 756	40 883
Tax liability ^(a)	2 125	2 218	2 224	2 025	1 811
Plan assets	(25 151)	(25 621)	(25 515)	(26 573)	(27 746)
Total superannuation liability	18 625	17 300	17 403	16 207	14 948
Represented by:					
Current superannuation liability	550	550	1 885	1 925	2 072
Non-current superannuation liability	18 075	16 750	15 518	14 282	12 876

Notes:

(a) Tax liability is the present value of tax payments on contributions that are expected to be required to fund accrued benefits.

(b) Other plans include constitutionally protected plans and the State's share of liabilities of the defined benefit plan of the Health Super Fund (which is now part of Aware Super).

Reconciliation of the present value of the defined benefit obligation **(\$ million)**

	<i>2025-26 budget</i>	<i>2025-26 revised</i>	<i>2026-27 estimate</i>	<i>2027-28 estimate</i>	<i>2028-29 estimate</i>
Opening balance of defined benefit obligation	43 783	43 783	42 921	42 919	42 780
Current service cost	1 006	1 027	1 062	1 140	1 218
Interest expense	1 907	1 872	1 895	1 889	1 882
Contributions by plan participants	219	224	226	230	235
Remeasurements:					
Actuarial (gain)/loss arising from change in financial assumptions	..	(656)	..	..	..
Benefits paid (including tax paid)	(3 139)	(3 330)	(3 185)	(3 398)	(3 422)
Closing balance of defined benefit obligation	43 776	42 921	42 919	42 780	42 694

Reconciliation of the fair value of superannuation plan assets **(\$ million)**

	<i>2025-26 budget</i>	<i>2025-26 revised</i>	<i>2026-27 estimate</i>	<i>2027-28 estimate</i>	<i>2028-29 estimate</i>
Opening balance of plan assets	25 499	25 499	25 621	25 515	26 573
Interest income	1 118	1 088	1 131	1 141	1 189
Return on plan assets not included in interest income	482	956	508	507	527
Employer contributions	972	1 184	1 214	2 578	2 644
Contributions by plan participants	219	224	226	230	235
Benefits paid (including tax paid)	(3 139)	(3 330)	(3 185)	(3 398)	(3 422)
Closing balance of plan assets	25 151	25 621	25 515	26 573	27 746

4.3.4 Grant expense

(\$ million)

	2025-26 budget	2025-26 revised	2026-27 estimate	2027-28 estimate	2028-29 estimate
Current grant expense					
Commonwealth Government	3 477	3 442	3 568	3 704	3 839
Local government (including grants for on-passing)	1 653	1 216	1 386	1 096	1 116
Private sector and not-for-profit for on-passing	5 559	5 621	5 855	6 110	6 314
Other private sector and not-for-profit	5 027	4 900	4 861	4 638	4 767
Grants within the Victorian Government	2 400	2 511	2 054	1 931	1 942
Grants to other state governments	121	125	124	98	98
Total current grant expense	18 238	17 815	17 847	17 576	18 075
Capital grant expense					
Commonwealth Government	16	18	2	..	..
Local government (including grants for on-passing)	241	250	127	180	180
Private sector and not-for-profit on-passing	262	297	254	178	96
Other private sector and not-for-profit	..	41	..	..	..
Grants within the Victorian Government	..	5	..	..	..
Other grants	7	..	11	17	9
Total capital grant expense	526	610	395	374	286
Total grant expense	18 764	18 425	18 242	17 950	18 360

4.3.5 Other operating expenses

(\$ million)

	2025-26 budget	2025-26 revised	2026-27 estimate	2027-28 estimate	2028-29 estimate
Purchase of supplies and consumables ^(a)	7 595	7 466	7 728	8 112	9 050
Cost of goods sold	223	253	40	89	47
Finance expenses and fees ^(b)	70	91	100	109	112
Purchase of services ^(a)	19 410	20 261	19 555	19 150	19 254
Insurance claims expense	889	909	637	622	634
Maintenance	1 648	1 688	1 684	1 612	1 625
Short-term and low value lease expense	119	104	102	103	109
Other	1 475	1 488	1 088	1 134	1 185
Total other operating expenses	31 428	32 260	30 934	30 931	32 016

Notes:

(a) The following two tables break down the purchase of supplies and consumables and the purchase of services.

(b) Includes items such as bank fees and associated costs involved in entering into loan transactions, and credit card and corporate card charges.

Purchase of supplies and consumables

(\$ million)

	2025-26 budget	2025-26 revised	2026-27 estimate	2027-28 estimate	2028-29 estimate
Medicinal pharmacy and medical supplies	2 492	2 525	2 459	2 469	2 508
Office supplies and consumables	217	243	229	230	231
Specialised operational supplies and consumables	299	253	293	341	343
Other purchase of supplies and consumables	4 586	4 445	4 747	5 072	5 968
Total purchase of supplies and consumables	7 595	7 466	7 728	8 112	9 050

Purchase of services

(\$ million)

	2025-26 budget	2025-26 revised	2026-27 estimate	2027-28 estimate	2028-29 estimate
Service contracts	11 557	11 707	11 680	11 438	11 601
Accommodation/occupancy	1 164	1 167	1 180	1 173	1 188
Medical and client care services	500	499	494	493	498
Staff related expenses (non-labour related)	387	394	376	376	381
Other purchase of services	5 803	6 494	5 825	5 670	5 586
Total purchase of services	19 410	20 261	19 555	19 150	19 254

4.3.6 Payables (\$ million)

	<i>2026 budget</i>	<i>2026 revised</i>	<i>2027 estimate</i>	<i>2028 estimate</i>	<i>2029 estimate</i>
Contractual					
Accounts payable	1 405	1 338	1 357	1 351	1 344
Accrued expenses	5 079	4 960	4 960	4 963	4 965
Statutory					
Accrued taxes payable	70	70	71	72	72
Total payables	6 555	6 369	6 388	6 386	6 380
Represented by:					
Current payables	6 384	6 199	6 219	6 218	6 212
Non-current payables	170	170	169	168	168

4.3.7 Total expenses by classification of the functions of government and by portfolio department

Total expenses from transactions by classification of the functions of government (\$ million)

	2025-26 budget	2025-26 revised	2026-27 estimate	2027-28 estimate	2028-29 estimate
General public services	10 796	11 101	11 789	12 755	13 810
Public order and safety ^(a)	11 735	12 309	11 962	11 556	11 456
Economic affairs ^(a)	4 150	4 184	3 365	2 827	2 600
Environmental protection	1 088	1 350	1 125	1 078	1 017
Housing and community amenities ^(a)	2 733	2 596	2 698	2 593	2 418
Health	32 978	33 437	33 461	34 575	36 067
Recreation, culture and religion ^(a)	1 498	1 397	1 165	874	852
Education	25 553	25 815	26 771	27 399	29 108
Social protection ^(a)	9 225	9 188	8 447	8 389	8 547
Transport	9 332	9 976	9 134	9 255	9 431
Not allocated by function ^(b)	(1 356)	(2 257)	(469)	299	539
Total expenses from transactions	107 732	109 095	109 447	111 600	115 844

Notes:

(a) The variation in this classification over the forward estimates is driven by the funding profile of fixed-term initiatives.

(b) Mainly comprises the provision for future demand growth, departmental underspending, eliminated purchases of supplies and consumables between government entities, and items not yet formalised at the time of publication.

Total expenses from transactions by portfolio department (\$ million)

	2025-26 budget	2025-26 revised	2026-27 estimate	2027-28 estimate	2028-29 estimate
Education	23 439	23 699	23 092	22 889	23 284
Energy, Environment and Climate Action	3 336	3 902	3 036	2 763	2 490
Families, Fairness and Housing	8 753	8 866	8 372	8 299	8 476
Government Services	2 205	1 997	2 186	2 103	2 132
Health	33 457	33 821	33 502	33 851	34 426
Jobs, Skills, Industry and Regions	4 530	4 588	3 814	3 288	3 161
Justice and Community Safety	10 231	10 649	10 238	10 287	10 324
Premier and Cabinet	469	500	472	317	315
Transport and Planning	9 493	10 578	9 465	9 302	9 347
Treasury and Finance ^(a)	15 176	15 417	16 154	17 441	18 798
Parliament	404	405	398	403	411
Courts	841	898	894	898	875
Regulatory bodies and other part funded agencies ^(b)	4 671	4 772	4 753	4 811	4 431
Output contingencies not allocated to departments ^(c)	3 667	2 825	7 118	8 446	10 703
Total expenses by department	120 672	122 917	123 495	125 096	129 173
<i>Less eliminations and adjustments ^(d)</i>	<i>(12 940)</i>	<i>(13 822)</i>	<i>(14 048)</i>	<i>(13 496)</i>	<i>(13 328)</i>
Total expenses from transactions	107 732	109 095	109 447	111 600	115 844

Notes:

(a) The increase over the forward estimates is primarily driven by an increase in interest expense associated with the increase in borrowings over the forward estimates.

(b) Other general government sector agencies not allocated to departmental portfolios.

(c) The following table provides a breakdown of the general government output contingencies not allocated to departments.

(d) Mainly comprising payroll tax (including the COVID Debt Levy – Payroll \$10m+), the mental health and wellbeing levy, departmental underspend estimates and inter-departmental transfers.

General government output contingencies not allocated to departments ^(a) (\$ million)

	2025-26 budget	2025-26 revised	2026-27 estimate	2027-28 estimate	2028-29 estimate
Output milestone ^(b)	2 976	2 360	4 832	5 128	5 395
Future services demand allocation ^(c)	591	365	2 186	3 217	5 207
Provision for unforeseen circumstances ^(d)	100	100	100	100	100
Total general government output contingencies	3 667	2 825	7 118	8 446	10 703

Notes:

(a) This table sets out the key components of output funding provisions, including from the Advance to Treasurer in 2025-26 as set out in the annual appropriation bill at the time of this publication.

(b) A provision to account for release of contingency funding upon conditions being met, including when milestone(s) are reached.

(c) A provision not yet allocated to meet additional price and demand growth for sectors such as health and education. This can include other provisions, decisions made but not yet announced, or a provision which otherwise cannot be appropriately classified in the other categories.

(d) An unallocated provision not allocated to specific purposes but specifically set aside for urgent and unforeseen circumstances.

4.3.8 Purchases of non-financial assets by classification of the functions of government and by portfolio department

Purchases of non-financial assets by classification of the functions of government (\$ million)

	2025-26 budget	2025-26 revised	2026-27 estimate	2027-28 estimate	2028-29 estimate
General public services	181	185	112	116	120
Public order and safety	831	877	444	237	229
Economic affairs	93	121	103	61	63
Environmental protection	216	211	177	88	65
Housing and community amenities	64	96	16	42	42
Health	2 551	2 413	1 515	1 579	942
Recreation, culture and religion	337	118	191	81	25
Education	2 897	3 043	1 447	858	756
Social protection	128	92	150	106	84
Transport	13 164	11 679	11 202	9 019	6 340
Not allocated by function ^(a)	(3 274)	(3 224)	718	2 258	6 545
Total purchases of non-financial assets	17 190	15 610	16 075	14 445	15 212

Note:

(a) Estimated amount available to be allocated to departments and projects in future budgets, including major capital investment. It also includes estimated underspends, which may be subject to carryover.

Purchases of non-financial assets by portfolio department (\$ million)

	2025-26 budget	2025-26 revised	2026-27 estimate	2027-28 estimate	2028-29 estimate
Education	2 739	2 871	1 264	382	143
Energy, Environment and Climate Action	276	270	137	119	100
Families, Fairness and Housing	56	57	56	53	52
Government Services	136	148	96	94	100
Health	1 875	2 160	975	710	288
Jobs, Skills, Industry and Regions	59	104	53	27	18
Justice and Community Safety	388	421	227	111	101
Premier and Cabinet	19	19	12	14	14
Transport and Planning	9 516	11 083	7 643	4 810	1 772
Treasury and Finance	16	18	6	6	6
Parliament	10	16	3	3	3
Courts	147	171	14	4	13
Regulatory bodies and other part funded agencies ^(a)	344	324	292	116	140
Asset contingencies not allocated to departments ^(b)	5 244	1 304	6 113	7 973	8 737
Adjustments ^(c)	(3 634)	(3 357)	(818)	22	3 725
Total purchases of non-financial assets	17 190	15 610	16 075	14 445	15 212

Notes:

(a) Other general government sector agencies not allocated to departmental portfolios.

(b) The following table provides a breakdown of the general government sector asset contingencies not allocated to departments.

(c) Mainly comprises estimated departmental underspend, which may be subject to carryover, and estimated underspends by other regulatory bodies and other part-funded agencies.

General government asset contingencies not allocated to departments ^(a) (\$ million)

	2025-26 budget	2025-26 revised	2026-27 estimate	2027-28 estimate	2028-29 estimate
Asset milestone ^(b)	6 019	1 743	8 049	7 662	7 965
Future growth allocation ^(c)	..	..	601	1 811	1 795
Total general government asset contingencies ^(d)	6 019	1 743	8 650	9 472	9 760

Notes:

- (a) This table sets out the key components of asset funding provisions, including from the Advance to Treasurer in 2025-26 as set out in the annual appropriation bill at the time of this publication.
- (b) A provision to account for release of contingency funding upon a report back delivered or project milestone(s) being reached.
- (c) A provision for future growth not yet allocated to specific projects. This can include other provisions, decisions made but not yet announced, or a provision which otherwise cannot be appropriately classified in the other categories.
- (d) Asset contingencies include equity contributions to other sectors for capital projects which are included as part of net cash flows from investments in financial assets for policy purposes, rather than purchases of non-financial assets, on the cash flow statement.

4.3.9 Net acquisition of non-financial assets from transactions (\$ million)

	2025-26 budget	2025-26 revised	2026-27 estimate	2027-28 estimate	2028-29 estimate
Purchases of non-financial assets (including change in inventories)	17 182	15 603	16 079	14 449	15 215
Less: Sales of non-financial assets	(1 064)	(355)	(1 045)	(951)	(988)
Less: Depreciation and amortisation	(5 884)	(6 331)	(6 443)	(6 526)	(6 652)
Less: Other movements in non-financial assets ^{(a)(b)(c)}	(24 200)	(23 692)	(2 169)	(4 762)	(3 142)
Total net acquisition of non-financial assets from transactions	(13 966)	(14 776)	6 422	2 210	4 433

Notes:

- (a) Other movements in non-financial assets includes transferring fixed assets to other sectors of government, recognising the right-of-use assets under lease arrangements, and recognising service concession arrangements, including from public private partnerships.
- (b) The public private partnerships across the budget and forward estimates relate to the Frankston Hospital Redevelopment, the High Capacity Metro Trains, the Metro Tunnel, the new Footscray Hospital, the new Melton Hospital, the Nyaal Banyul Geelong Convention and Event Centre, and the West Gate Tunnel.
- (c) The value in 2025-26 includes the transfer of the Metro Tunnel assets from the Department of Transport and Planning in the general government sector to VicTrack in the PNFC sector upon its completion.

4.4 MAJOR ASSETS AND INVESTMENTS

Introduction

This section outlines the major assets that the general government sector controls reflecting investing activities in the previous year, current year and future years.

Structure

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4.4.1 Total land, buildings, infrastructure, plant and equipment ^(a) (\$ million)

	2026 <i>budget</i>	2026 <i>revised</i>	2027 <i>estimate</i>	2028 <i>estimate</i>	2029 <i>estimate</i>
Buildings	73 060	73 379	74 257	82 342	83 918
Land and national parks	92 318	93 037	95 949	103 439	106 684
Infrastructure	17 902	17 120	20 911	21 758	24 971
Plant, equipment and vehicles	7 385	7 637	7 200	6 635	4 739
Roads and road infrastructure	64 740	63 449	66 493	74 564	77 872
Earthworks	14 415	14 415	14 427	14 439	14 451
Cultural assets	7 791	7 791	7 857	7 867	7 877
Total land, buildings, infrastructure, plant and equipment	277 611	276 829	287 094	311 044	320 512

Note:

(a) The balances for each class of assets includes those related to service concession arrangement assets and right-of-use assets.

The following two tables are subsets of total land, buildings, infrastructure, plant and equipment by right-of-use (leased) assets and service concession assets.

Total right-of-use (leased) assets: Buildings, infrastructure, plant and equipment (\$ million)

	2026 <i>budget</i>	2026 <i>revised</i>	2027 <i>estimate</i>	2028 <i>estimate</i>	2029 <i>estimate</i>
Buildings	8 129	8 330	7 645	6 962	6 309
Infrastructure	2	2	3	3	4
Plant, equipment and vehicles	755	808	711	614	516
Total right-of-use assets: buildings, infrastructure, plant and equipment	8 887	9 140	8 359	7 579	6 828

**Total service concession assets: Land, buildings, infrastructure,
plant and equipment (\$ million)**

	2026 <i>budget</i>	2026 <i>revised</i>	2027 <i>estimate</i>	2028 <i>estimate</i>	2029 <i>estimate</i>
Buildings	2 428	2 417	2 372	2 312	2 256
Land	2 859	2 979	2 979	2 979	2 979
Infrastructure	1 083	1 269	1 286	1 315	1 331
Plant, equipment and vehicles	524	470	493	531	617
Roads and road infrastructure	19 035	18 519	17 806	17 359	18 751
Earthworks	913	913	913	913	913
Total service concession assets: land, buildings, infrastructure, plant and equipment	26 842	26 568	25 849	25 408	26 845

4.4.2 Depreciation

(\$ million)

	2025-26 budget	2025-26 revised	2026-27 estimate	2027-28 estimate	2028-29 estimate
Buildings ^(a)	3 445	3 520	3 572	3 610	3 694
Infrastructure	62	69	61	61	61
Plant, equipment and vehicles ^(a)	848	864	851	854	852
Roads and road infrastructure ^(a)	1 282	1 650	1 730	1 775	1 832
Cultural assets	12	10	10	10	10
Intangible produced assets ^(b)	233	218	218	216	204
Total depreciation	5 884	6 331	6 443	6 526	6 652

Notes:

(a) Includes estimated depreciation on amounts not yet allocated to projects in 2025-26 to 2028-29.

(b) Amortisation of intangible non-produced assets is included under other gains/(losses) from other economic flows.

The following two tables are subsets of total depreciation expense.

Depreciation of right-of-use (leased) assets

(\$ million)

	2025-26 budget	2025-26 revised	2026-27 estimate	2027-28 estimate	2028-29 estimate
Buildings	805	826	826	823	819
Plant, equipment and vehicles	110	107	107	107	107
Total depreciation of right-of-use assets	915	933	933	930	926

Depreciation of service concession assets

(\$ million)

	2025-26 budget	2025-26 revised	2026-27 estimate	2027-28 estimate	2028-29 estimate
Buildings	74	76	76	76	71
Plant, equipment and vehicles	38	43	38	37	35
Roads and road infrastructure	357	449	504	498	493
Intangible produced assets	1	1	1	1	1
Total depreciation of service concession assets	470	570	619	613	601

4.4.3 Reconciliation of movements in land, buildings, infrastructure, plant and equipment ^(a)

(\$ million)

	2026 budget	2026 revised	2027 estimate	2028 estimate	2029 estimate
Carrying amount at the start of the year	288 244	288 244	276 829	287 094	311 044
Additions of self-owned assets ^(b)	17 155	15 623	16 307	14 674	15 189
Additions of right-of-use assets	177	413	87	94	103
Additions of service concession arrangement assets	374	762	81	80	127
Disposals at written-down value	(944)	(305)	(1 008)	(920)	(956)
Revaluations	3 274	3 397	3 726	21 668	5 002
Asset transfers ^(c)	(25 020)	(25 193)	(2 703)	(5 336)	(3 549)
Depreciation expense	(5 650)	(6 113)	(6 226)	(6 310)	(6 448)
Carrying amount at the end of the year	277 611	276 829	287 094	311 044	320 512

Notes:

(a) The reconciliation of movements comprises land and buildings, infrastructure, plant, equipment, vehicles, roads, roads infrastructure and cultural assets, right-of-use (leased) assets and service concession assets, and excludes intangible assets, investment properties and other non-financial assets.

(b) Represents additions of assets recognised under AASB 116 Property, Plant and Equipment.

(c) Represents the transfer of assets to/from the public non-financial corporations sector. The value in 2025-26 includes the transfer of the Metro Tunnel assets from the Department of Transport and Planning in the general government sector to VicTrack in the public non-financial corporations sector upon its completion.

4.4.4 Other non-financial assets

(\$ million)

	2026 budget	2026 revised	2027 estimate	2028 estimate	2029 estimate
Intangible produced assets	3 378	3 422	3 454	3 467	3 475
Accumulated depreciation	(2 093)	(2 080)	(2 279)	(2 477)	(2 661)
Service concession assets – intangible produced	4 056	4 030	4 106	4 215	4 320
Accumulated depreciation	(1)	(1)	(3)	(4)	(6)
Intangible non-produced assets	76	76	77	78	79
Accumulated amortisation	(67)	(67)	(65)	(64)	(63)
Total intangibles	5 350	5 381	5 290	5 214	5 145
Investment properties	234	269	253	253	253
Other assets	1 371	1 383	1 341	1 312	1 283
Total other non-financial assets	6 954	7 033	6 883	6 779	6 680

4.4.5 Total assets by classification of the functions of government (\$ million)

	2026 budget	2026 revised	2027 estimate	2028 estimate	2029 estimate
General public services	2 684	2 682	2 564	2 315	2 083
Public order and safety	16 858	16 897	16 454	15 843	15 593
Economic affairs	2 654	2 904	2 796	3 065	3 300
Environmental protection	18 344	18 325	18 418	18 411	20 967
Housing and community amenities	4 101	4 149	4 040	4 020	3 996
Health	34 057	34 215	34 523	37 721	37 975
Recreation, culture and religion	9 934	9 716	9 838	9 851	9 809
Education	49 001	49 084	52 237	56 777	56 515
Social protection	2 804	2 768	2 990	3 109	3 280
Transport	149 116	147 524	154 341	169 588	171 114
Not allocated by function ^(a)	147 260	148 826	153 466	158 110	166 430
Total assets	436 811	437 090	451 667	478 810	491 063

Notes:

(a) Represents financial assets that are not able to be allocated by function. This mainly includes balances relating to the general government sector's investment in other sector entities.

4.4.6 Investments in PNFC and PFC sector entities (\$ million)

	2026 budget	2026 revised	2027 estimate	2028 estimate	2029 estimate
Balance of investment in PNFC and PFC sectors at beginning of period	96 401	96 401	101 863	104 301	105 985
Net contributions to other sectors by owner ^(a)	27 205	29 575	5 589	6 843	4 225
Revaluation gain/(loss) for period ^(b)	(22 932)	(24 113)	(3 150)	(5 158)	(4 148)
Investment in other sector entities at end of period	100 675	101 863	104 301	105 985	106 063

Notes:

(a) The value in 2025-26 includes the transfer of the Metro Tunnel assets from the Department of Transport and Planning in the general government sector to VicTrack in the PNFC sector upon its completion.

(b) The value in 2025-26 includes the derecognition of completed Metro Tunnel assets transferred to VicTrack, as required under AASB 16 Leases.

4.5 FINANCING OPERATIONS

Introduction

General government sector operations are financed through a variety of means, including surplus cash flows from operating activities, asset recycling, advances and borrowings.

This section provides information on the balances related to the financing of the general government sector's operations.

Structure

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4.5.1 Borrowings (\$ million)

	2026 <i>budget</i>	2026 <i>revised</i>	2027 <i>estimate</i>	2028 <i>estimate</i>	2029 <i>estimate</i>
Current borrowings					
Domestic borrowings	15 138	15 215	15 086	15 044	14 892
Lease liabilities	611	638	510	376	255
Service concession arrangement liabilities	35	340	1 513	255	270
Derivative financial instruments	1	1	1	1	1
Total current borrowings	15 784	16 194	17 109	15 676	15 417
Non-current borrowings					
Domestic borrowings	173 118	175 213	188 095	199 405	211 222
Lease liabilities	6 334	6 562	5 994	5 491	4 972
Service concession arrangement liabilities	5 185	5 100	3 797	3 732	3 669
Derivative financial instruments	194	184	146	107	69
Total non-current borrowings	184 831	187 059	198 031	208 736	219 932
Total borrowings	200 614	203 253	215 140	224 412	235 349

4.5.2 Interest expense

(\$ million)

	<i>2025-26 budget</i>	<i>2025-26 revised</i>	<i>2026-27 estimate</i>	<i>2027-28 estimate</i>	<i>2028-29 estimate</i>
Interest on interest bearing liabilities and deposits	6 744	6 909	7 671	8 716	9 755
Interest on lease liabilities	394	397	394	391	389
Interest on service concession liabilities	404	391	370	322	302
Discount interest on payables	26	27	25	24	24
Total interest expense	7 569	7 723	8 461	9 453	10 469

4.5.3 Advances paid and investments, loans and placements

(\$ million)

	<i>2026 budget</i>	<i>2026 revised</i>	<i>2027 estimate</i>	<i>2028 estimate</i>	<i>2029 estimate</i>
Current advances paid and investments, loans and placements					
Loans and advances paid	180	187	149	85	17
Equities and managed investment schemes	865	865	882	898	914
Australian dollar term deposits	248	248	249	250	252
Debt securities	2	2	2	2	2
Derivative financial instruments	516	119	117	112	118
Total current advances paid and investments, loans and placements	1 811	1 422	1 399	1 347	1 302
Non-current advances paid and investments, loans and placements					
Loans and advances paid	6 199	6 041	6 068	6 099	6 132
Equities and managed investment schemes	16 895	17 355	18 461	20 065	21 722
Australian dollar term deposits	3	3	3	3	3
Debt securities	23	23	23	23	23
Derivative financial instruments	1	1	1	1	1
Total non-current advances paid and investments, loans and placements	23 120	23 423	24 555	26 189	27 880
Total advances paid and investments, loans and placements	24 932	24 845	25 954	27 536	29 182
Represented by:					
Advances paid	6 379	6 229	6 217	6 183	6 148
Investments, loans and placements	18 553	18 616	19 737	21 353	23 034

4.6 OTHER DISCLOSURES

Introduction

This section includes several additional disclosures that assist with understanding the Estimated Financial Statements.

Structure

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4.6.1 Other gains/(losses) from other economic flows (\$ million)

	2025-26 <i>budget</i>	2025-26 <i>revised</i>	2026-27 <i>estimate</i>	2027-28 <i>estimate</i>	2028-29 <i>estimate</i>
Net (increase)/decrease in allowances for credit losses	(89)	(50)	14	(14)	(41)
Amortisation of intangible non-produced assets	(1)	(1)	(1)	(1)	(1)
Bad debts written off	(287)	(449)	(390)	(362)	(335)
Other gains/(losses)	(47)	(48)	(27)	166	(27)
Total other gains/(losses) from other economic flows	(424)	(548)	(404)	(211)	(404)

4.6.2 Reconciliation of Government Finance Statistics and Australian Accounting Standards

The estimated financial statements have been prepared on the basis of relevant AASs. This note outlines the key convergence differences between the AAS and GFS reporting frameworks, to explain the relationship between the balances and aggregates presented in this financial report and the related balances and aggregates presented under the GFS reporting framework.

GFS information enables policymakers and analysts to study developments in the financial operations, financial position and liquidity situation of governments based on consistent economic reporting rules and definitions.

AASB 1049 provides optional relief from the disclosure of reconciliations of key fiscal aggregates measured in accordance with the GFS where they differ from the key fiscal aggregates provided pursuant to this accounting standard.

The State has adopted the optional relief, which requires an explanation of how each of the key fiscal aggregates required by AASB 1049 are calculated and how it differs from the corresponding key fiscal aggregate measured in accordance with the ABS GFS.

The key fiscal aggregates below, as defined by AASB 1049, have convergence differences with the GFS:

- **Cash surplus/deficit** represents the net cash flows from operating activities plus the net cash flows from investments in non-financial assets (less dividends paid only for the PNFC and PFC sectors).
- **Comprehensive result – total change in net worth** is the amount included in the operating statement representing the total change in net worth other than transactions with owners as owners.
- **Net lending/borrowing** is the financing requirement of government, calculated as the net operating balance less the net acquisition of non-financial assets. It also equals transactions in financial assets less transactions in liabilities. A positive result reflects a net lending position and a negative result reflects a net borrowing position.
- **Net result from transactions – net operating balance** is revenue from transactions minus expenses from transactions. It is a summary measure of the ongoing sustainability of operations. It excludes gains and losses resulting from changes in price levels and other changes in the volume of assets. It is the component of the change in net worth that is due to transactions and can be attributed directly to government policies.
- **Net worth** is calculated as assets less liabilities, which is an economic measure of wealth.

The convergence differences between AASB 1049 and the GFS and their expected impacts applying GFS methodology are outlined in the following table.

<i>Convergence difference</i>	<i>AASB 1049 treatment</i>	<i>ABS GFS treatment</i>	<i>Fiscal aggregate impact</i>
AASB 16 Leases			
	Operating leases are recognised on the balance sheet under AASB 16 <i>Leases</i> unless the lease is shorter than 12 months or where the underlying assets are worth less than \$10 000.	Operating leases are not recognised on the balance sheet.	<ul style="list-style-type: none"> • Cash surplus/deficit • Comprehensive result – Total change in net worth • Net lending/borrowing • Net result from transactions – Net operating balance • Net worth
AASB 1059 Service concession arrangements			
	Economic service concession arrangements, such as toll roads, are recognised on the State's balance sheet under AASB 1059 <i>Service Concession Arrangements: Grantors</i> .	Economic service concession arrangements, such as toll roads, are not recognised on the balance sheet as well as the associated operating statement impacts.	<ul style="list-style-type: none"> • Cash surplus/deficit • Comprehensive result – Total change in net worth • Net lending/borrowing • Net result from transactions – Net operating balance • Net worth
AASB 15 Revenue from Contracts with Customers and AASB 1058 Income of Not-for-Profit Entities			
	Deferral of revenue recognition, such as where performance obligations have not been satisfied, or for capital grants from the Commonwealth Government, is a requirement under AASB 15 <i>Revenue from Contracts with Customers</i> and AASB 1058 <i>Income of Not-for-Profit Entities</i> .	Deferral of revenue recognition, such as where performance obligations have not been satisfied, or for capital grants from the Commonwealth Government, is not recognised. This is recognised consistent with the Commonwealth's treatment of receipts. This timing difference is expected to impact all the key fiscal aggregates. While it is expected that there will not be a net change to the fiscal aggregates over time, there will be convergence differences in any given year.	<ul style="list-style-type: none"> • Cash surplus/deficit • Comprehensive result – Total change in net worth • Net lending/borrowing • Net result from transactions – Net operating balance • Net worth

<i>Convergence difference</i>	<i>AASB 1049 treatment</i>	<i>ABS GFS treatment</i>	<i>Fiscal aggregate impact</i>
Port of Melbourne lease transaction			
Port Licence Fee	The 15-year prepaid Port Licence Fee from the medium-term lease of the Port of Melbourne is recognised upfront upon receipt.	The 15-year prepaid Port Licence Fee from the medium-term lease of the Port of Melbourne is recognised as revenue over the 15-year period.	<ul style="list-style-type: none"> • Comprehensive result – Total change in net worth • Net lending/borrowing • Net result from transactions – Net operating balance • Net worth
Port of Melbourne lease transaction	The Port of Melbourne lease transaction is treated as an operating lease with the leased assets remaining with the PNFC sector.	The Port of Melbourne lease transaction is recognised as a sale of equity from the general government sector.	<ul style="list-style-type: none"> • Cash surplus/deficit • Comprehensive result – Total change in net worth • Net lending/borrowing • Net result from transactions – Net operating balance • Net worth
PNFC/PFC dividends			
	Dividends are classified as after-profit distributions to owners.	<p>Under GFS, dividends paid/payable are recognised as an expense from transactions on the operating statement.</p> <p>Where the dividends paid/payable are considered by the ABS to be in excess of the recent level of dividends and earnings, these are treated as super dividends which reflect a withdrawal of owner's equity.</p>	<ul style="list-style-type: none"> • Comprehensive result – Total change in net worth • Net lending/borrowing • Net result from transactions – Net operating balance • Net worth
Doubtful receivables			
	Provisions for expected credit losses are included on the balance sheet as a reduction in assets.	The act of creating provisions is not considered an economic event and is therefore not included on the balance sheet.	<ul style="list-style-type: none"> • Comprehensive result – Total change in net worth • Net worth

<i>Convergence difference</i>	<i>AASB 1049 treatment</i>	<i>ABS GFS treatment</i>	<i>Fiscal aggregate impact</i>
Provisions			
	Provisions recognised under AASB 137 are recorded when there is a present obligation, the future sacrifice of economic benefits is probable, and the amount of the provision can be measured reliably.	The act of creating provisions is not considered an economic event and is therefore not included on the balance sheet. The associated expense is not recognised on the operating statement.	<ul style="list-style-type: none"> • Comprehensive result – Total change in net worth • Net lending/borrowing • Net result from transactions – Net operating balance • Net worth
Investment in other sector entities			
	The net worth of investments in other sector entities for the general government sector includes doubtful receivables, future tax benefits and deferred tax liabilities of the PNFC and PFC sectors.	The determination of net worth is exclusive of this.	<ul style="list-style-type: none"> • Comprehensive result – Total change in net worth • Net worth

4.6.3 Prospective accounting and reporting changes

New and revised accounting standards have been issued that are not effective for the 2025-26 reporting period. These accounting standards have not been applied to the Estimated Financial Statements. The State is reviewing its existing policies and assessing the potential implications of:

- AASB 17 *Insurance Contracts*, AASB 2022-8 *Amendments to Australian Accounting Standards – Insurance Contracts: Consequential Amendments* and AASB 2022-9 *Amendments to Australian Accounting Standards – Insurance Contracts in the Public Sector*.
 - AASB 17 replaces AASB 4 *Insurance Contracts*, AASB 1023 *General Insurance Contracts* and AASB 1038 *Life Insurance Contracts* for not-for-profit public sector entities for annual reporting periods beginning on or after 1 July 2026.
 - AASB 2022-9 amends AASB 17 to make public sector-related modifications (for example, it specifies the pre-requisites, indicators, and other considerations in identifying arrangements that fall within the scope of AASB 17 in a public sector context). This Standard applies for annual reporting periods beginning on or after 1 July 2026.
 - AASB 2022-8 makes consequential amendments to other AASs so that public sector entities are permitted to continue to apply AASB 4 and AASB 1023 to annual periods before 1 July 2026.

- *AASB 18 Presentation and Disclosure in Financial Statements*
 - AASB 18 replaces AASB 101 *Presentation of Financial Statements* to improve how entities communicate in their financial statements, with a particular focus on information about financial performance in the statement of comprehensive income.
 - AASB 18 applies to annual reporting periods beginning on or after 1 January 2027 for for-profit entities and applies to annual reporting periods beginning on or after 1 January 2028 for not-for-profit public sector entities. The one year deferral allows the AASB to consult with stakeholders and consider potential modifications for not-for-profit public sector entities. On 30 October 2025, the AASB released Exposure Draft ED 338 *Application of AASB 18 and AASB 107 by Superannuation and Not-for-Profit Entities and Operating Cash Flow Reconciliation*, proposing its public sector modifications to AASB 18 for public comments by 27 February 2026.

A number of other standards and amendments have also been issued that apply to future reporting periods. However, they are not expected to have any significant impact on the financial statements in the period of initial application.

4.6.4 **Controlled entities**

Note 8.8 in Chapter 4 of the *2024-25 Financial Report* for the State of Victoria lists significant controlled entities that were consolidated in that financial report.

The following are changes to entities since 1 July 2025, which have been consolidated in this financial report:

General government
Department of Health Oral Health Victoria ^(a)
Department of Energy, Environment, and Climate Actions Safe Food Victoria ^(b) VicGrid ^(c)

Notes:

(a) On 1 July 2025, the Governor in Council under the Health Services Act 1988 has approved the change in name of Dental Health Services Victoria to Oral Health Victoria.

(b) Safe Food Victoria (SFV) will be established under the Safe Food Victoria Act, expected to commence on 1 July 2026, consolidating food safety regulation in Victoria. The Act will abolish existing regulators (PrimeSafe and Dairy Food Safety Victoria) and transfer food safety functions from the Department of Health and Department of Energy, Environment, and Climate Change to SFV, creating a single statutory authority to manage food safety risks and streamline the regulatory framework.

(c) VicGrid was established as a State Body under the State Owned Enterprise Act 1992 on 15 April 2025. On passing of the National Electricity (Victoria) Amendment (VicGrid Stage 2 Reform) Bill 2025, from 1 November 2025 VicGrid has transitioned to a State Business Corporation (SBC) and taken over from the Australian Energy Market Operator (AEMO) the declared network functions in Victoria and will plan and deliver the transmission augmentations needed for Victoria.

CHAPTER 5 – SUPPLEMENTARY UNIFORM PRESENTATION FRAMEWORK TABLES

Table 5.1: Public non-financial corporations sector comprehensive operating statement for the financial year ended 30 June ^(a) (\$ million)

	2025-26 budget	2025-26 revised	2026-27 estimate	2027-28 estimate	2028-29 estimate
Revenue and income from transactions					
Interest income	62	97	86	92	94
Dividend income	20	34	31	33	34
Sales of goods and services	8 714	8 776	9 074	9 454	10 119
Grants	2 433	2 571	2 099	1 968	1 983
Other revenue and income	770	715	777	848	887
Total revenue and income from transactions	12 000	12 193	12 068	12 396	13 117
Expenses from transactions					
Employee expenses	1 979	2 094	2 106	2 139	2 208
Superannuation:					
Net superannuation interest expense	4	4	4	4	4
Other superannuation	241	248	256	261	267
Depreciation	2 319	2 448	2 433	2 525	2 610
Interest expense	1 250	1 241	1 425	1 573	1 857
Grant expense	587	724	345	312	319
Other operating expenses	5 489	5 980	5 464	5 568	5 712
Other property expenses	211	144	153	137	144
Total expenses from transactions	12 079	12 885	12 186	12 519	13 120
Net result from transactions – Net operating balance	(79)	(692)	(118)	(123)	(3)
Net gain/(loss) on disposal of non-financial assets	344	347	29	53	31
Net gain/(loss) on financial assets or liabilities at fair value	7	11	3	(6)	(8)
Share of net profit/(loss) from associates/joint venture entities	16	11	12	11	19
Other gains/(losses) from other economic flows ^(b)	(23 558)	(24 753)	(2 402)	(5 026)	(3 077)
Total other economic flows included in net result	(23 191)	(24 385)	(2 358)	(4 968)	(3 035)
Net result	(23 271)	(25 076)	(2 476)	(5 091)	(3 038)
Other economic flows – Other comprehensive income					
Items that will not be reclassified to net result					
Changes in non-financial assets revaluation surplus	641	1 273	(8)	37	28
Remeasurement of superannuation defined benefit plans	..	11	..	..	..
Other movements in equity	(4)	(2)	19	19	18

Table 5.1: Public non-financial corporations sector comprehensive operating statement for the financial year ended 30 June (continued) (\$ million)

	2025-26 budget	2025-26 revised	2026-27 estimate	2027-28 estimate	2028-29 estimate
Items that may be reclassified subsequently to net result					
Net gain/(loss) on financial assets at fair value	2	2	..	..	..
Total other economic flows – Other comprehensive income	639	1 283	11	56	47
Comprehensive result – Total change in net worth	(22 632)	(23 793)	(2 465)	(5 035)	(2 991)
KEY FISCAL AGGREGATES					
Net operating balance	(79)	(692)	(118)	(123)	(3)
Less: Net acquisition of non-financial assets from transactions ^(c)	32 705	32 834	9 922	9 513	7 369
Net lending/(borrowing)	(32 785)	(33 525)	(10 040)	(9 637)	(7 372)

Notes:

- (a) Savings and efficiency initiatives introduced in the 2023-24 Budget will continue to be implemented by the public non-financial corporations sector. The impact of these initiatives is reflected over the budget and forward estimates.
- (b) The value in 2025-26 includes the derecognition of completed Metro Tunnel assets transferred to VicTrack, as required under AASB 16 Leases.
- (c) The value in 2025-26 includes the transfer of the Metro Tunnel assets from the Department of Transport and Planning in the general government sector to VicTrack in the public non-financial corporations sector upon its completion.

Table 5.2: Public non-financial corporations sector balance sheet as at 30 June (\$ million)

	2026 budget ^(a)	2026 revised	2027 estimate	2028 estimate	2029 estimate
Assets					
Financial assets					
Cash and deposits	2 520	2 604	2 286	2 689	3 007
Advances paid	104	48	48	27	26
Receivables and contract assets	2 099	2 078	1 778	1 751	1 845
Investments, loans and placements	1 118	1 482	1 494	1 506	1 531
Investments accounted for using equity method	215	210	214	216	223
Total financial assets	6 056	6 422	5 820	6 189	6 631
Non-financial assets					
Inventories	1 854	1 710	2 073	1 942	2 044
Non-financial assets held for sale	25	24	24	24	24
Land, buildings, infrastructure, plant and equipment	140 463	140 195	147 066	151 492	155 437
Other non-financial assets	3 727	3 829	4 157	4 515	4 901
Total non-financial assets	146 069	145 758	153 319	157 973	162 407
Total assets	152 125	152 179	159 139	164 162	169 038
Liabilities					
Deposits held and advances received	2 953	2 997	3 138	3 181	3 292
Payables	2 328	1 924	1 871	2 018	2 087
Borrowings	30 682	31 034	34 961	38 236	41 797
Employee benefits	653	655	679	703	727
Superannuation	1	1	1	1	..
Other provisions	23 857	24 013	23 934	23 913	23 904
Other liabilities	8 815	8 881	8 724	8 546	8 369
Total liabilities	69 289	69 505	73 308	76 597	80 175
Net assets	82 836	82 675	85 832	87 565	88 863
Equity					
Accumulated surplus/(deficit)	(70 100)	(71 909)	(74 508)	(79 728)	(82 901)
Reserves	152 937	154 584	160 339	167 292	171 764
Net worth	82 836	82 675	85 832	87 565	88 863
FISCAL AGGREGATES					
Net financial worth	(63 233)	(63 083)	(67 488)	(70 409)	(73 544)
Net financial liabilities	63 233	63 083	67 488	70 409	73 544
Net debt	29 894	29 897	34 270	37 195	40 525

Note:

(a) Balances represent actual opening balances at 1 July 2025 plus 2025-26 budgeted movements.

**Table 5.3: Public non-financial corporations sector cash flow statement
for the financial year ended 30 June**

(\$ million)

	2025-26 budget	2025-26 revised	2026-27 estimate	2027-28 estimate	2028-29 estimate
Cash flows from operating activities					
Receipts					
Grants	2 432	2 578	2 099	1 968	1 982
Sales of goods and services ^(a)	9 402	9 311	10 058	10 216	10 833
Interest received	62	106	86	92	94
Dividends and income tax equivalent receipts	20	34	31	33	34
Other receipts	370	570	393	388	392
Total receipts	12 287	12 600	12 667	12 697	13 334
Payments					
Payments for employees	(1 964)	(2 077)	(2 085)	(2 118)	(2 186)
Superannuation	(245)	(240)	(260)	(265)	(272)
Interest paid	(1 194)	(1 173)	(1 383)	(1 546)	(1 816)
Grants and subsidies	(371)	(511)	(132)	(98)	(88)
Goods and services ^(a)	(6 070)	(6 956)	(6 429)	(6 357)	(6 657)
Other payments	(468)	(399)	(418)	(395)	(415)
Total payments	(10 312)	(11 357)	(10 707)	(10 779)	(11 435)
Net cash flows from operating activities	1 975	1 243	1 960	1 918	1 899
Cash flows from investing activities					
Cash flows from investments in non-financial assets					
Purchases of non-financial assets	(8 730)	(8 857)	(8 580)	(5 881)	(5 863)
Sales of non-financial assets	485	494	165	205	169
Net cash flows from investments in non-financial assets	(8 245)	(8 364)	(8 415)	(5 676)	(5 695)
Net cash flows from investments in financial assets for policy purposes	(27)	18	9	30	13
Subtotal	(8 272)	(8 346)	(8 406)	(5 646)	(5 682)
Net cash flows from investment in financial assets for liquidity management purposes	(35)	30	(72)	(43)	(28)
Net cash flows from investing activities	(8 307)	(8 316)	(8 478)	(5 689)	(5 710)
Cash flows from financing activities					
Advances received (net)	94	100	104	108	113
Net borrowings	2 683	2 644	3 007	2 547	3 121
Deposits received (net)	3	41	37	(65)	(2)
Other financing (net)	2 969	3 789	2 919	1 433	740
Net cash flows from financing activities	5 750	6 574	6 067	4 023	3 972
Net increase/(decrease) in cash and cash equivalents	(583)	(499)	(451)	253	162
Cash and cash equivalents at beginning of reporting period ^{(b)(c)}	3 102	3 102	2 604	2 152	2 406
Cash and cash equivalents at end of reporting period ^{(b)(c)}	2 520	2 604	2 152	2 406	2 567

Table 5.3: Public non-financial corporations sector cash flow statement
for the financial year ended 30 June (continued) (\$ million)

	2025-26 budget	2025-26 revised	2026-27 estimate	2027-28 estimate	2028-29 estimate
FISCAL AGGREGATES					
Net cash flows from operating activities	1 975	1 243	1 960	1 918	1 899
Dividends paid	(149)	(133)	(119)	(126)	(132)
Net cash flows from investments in non-financial assets	(8 245)	(8 364)	(8 415)	(5 676)	(5 695)
Cash surplus/(deficit)	(6 419)	(7 254)	(6 575)	(3 884)	(3 927)

Notes:

(a) Inclusive of goods and services tax.

(b) 2025-26 budget figures have been restated to represent actual opening balances at 1 July 2025.

(c) Cash and cash equivalents at the end of the reporting period does not equal cash and deposits on the balance sheet. This is due to overdrafts being included in the cash flow statement balances.

Table 5.4: Public non-financial corporations sector statement of changes in equity for the financial year ended 30 June ^(a) (\$ million)

	<i>Accumulated surplus/(deficit)</i>	<i>Contributions by owners</i>	<i>Non-financial assets revaluation surplus</i>	<i>Other reserves</i>	<i>Total</i>
2025-26 budget ^(b)					
Balance at 1 July 2025	(46 672)	89 229	34 066	857	77 480
Net result for the year	(23 271)	..	..	..	(23 271)
Other comprehensive income for the year	(8)	..	641	6	639
Dividends paid	(149)	..	..	..	(149)
Transactions with owners in their capacity as owners	..	28 137	..	..	28 137
Total equity as at 30 June 2026	(70 100)	117 367	34 706	863	82 836
2025-26 revised					
Balance at 1 July 2025	(46 672)	89 229	34 066	857	77 480
Net result for the year	(25 076)	..	..	..	(25 076)
Other comprehensive income for the year	(33)	..	1 273	43	1 283
Dividends paid	(127)	..	..	..	(127)
Transactions with owners in their capacity as owners	..	29 115	..	..	29 115
Total equity as at 30 June 2026	(71 909)	118 345	35 339	901	82 675
2026-27 estimate					
Balance at 1 July 2026	(71 909)	118 345	35 339	901	82 675
Net result for the year	(2 476)	..	..	..	(2 476)
Other comprehensive income for the year	(3)	..	(8)	22	11
Dividends paid	(119)	..	..	..	(119)
Transactions with owners in their capacity as owners	..	5 742	..	..	5 742
Total equity as at 30 June 2027	(74 508)	124 086	35 331	922	85 832
2027-28 estimate					
Balance at 1 July 2027	(74 508)	124 086	35 331	922	85 832
Net result for the year	(5 091)	..	..	..	(5 091)
Other comprehensive income for the year	(2)	..	37	21	56
Dividends paid	(126)	..	..	..	(126)
Transactions with owners in their capacity as owners	..	6 895	..	..	6 895
Total equity as at 30 June 2028	(79 728)	130 981	35 368	944	87 565
2028-29 estimate					
Balance at 1 July 2028	(79 728)	130 981	35 368	944	87 565
Net result for the year	(3 038)	..	..	..	(3 038)
Other comprehensive income for the year	(4)	..	28	22	47
Dividends paid	(132)	..	..	..	(132)
Transactions with owners in their capacity as owners	..	4 421	..	..	4 421
Total equity as at 30 June 2029	(82 901)	135 402	35 396	966	88 863

Notes:

(a) Savings and efficiency initiatives introduced in the 2023-24 Budget will continue to be implemented by the public non-financial corporations sector. The impact of these initiatives is reflected over the budget and forward estimates.

(b) Balances represent actual opening balances at 1 July 2025 plus 2025-26 budgeted movements.

**Table 5.5: Net acquisition of non-financial assets –
Public non-financial corporations sector**

(\$ million)

	2025-26 budget	2025-26 revised	2026-27 estimate	2027-28 estimate	2028-29 estimate
Purchases of non-financial assets (including change in inventories)	8 731	8 854	8 581	5 877	5 862
Less: Sales of non-financial assets	(485)	(494)	(165)	(205)	(169)
Less: Depreciation and amortisation	(2 319)	(2 448)	(2 433)	(2 525)	(2 610)
Plus: Other movements in non-financial assets ^{(a)(b)(c)}	26 779	26 922	3 939	6 366	4 286
Total net acquisition of non-financial assets from transactions	32 705	32 834	9 922	9 513	7 369

Notes:

- (a) The other movements in non-financial assets primarily include fixed asset transfers from the general government sector to the public non-financial corporations sector and recognising service concession arrangements arising from public private partnerships.
- (b) The public private partnerships across the budget and forward estimates relate to the North East Link – Primary Package (Tunnels) and the Homes Victoria Ground Lease Model Project 2.
- (c) The value in 2025-26 includes the transfer of the Metro Tunnel assets from the Department of Transport and Planning in the general government sector to VicTrack in the public non-financial corporations sector upon its completion.

**Table 5.6: Non-financial public sector comprehensive operating statement
for the financial year ended 30 June**

(\$ million)

	2025-26 budget	2025-26 revised	2026-27 estimate	2027-28 estimate	2028-29 estimate
Revenue and income from transactions					
Taxation	41 090	41 505	43 476	45 646	47 890
Interest income	850	890	753	769	761
Dividends and income tax equivalent income	747	1 476	1 254	955	1 033
Sales of goods and services	16 404	16 358	17 057	17 657	18 218
Grants	52 600	52 917	52 317	53 064	54 269
Other revenue and income	4 382	4 519	4 691	4 483	4 626
Total revenue and income from transactions	116 074	117 665	119 548	122 574	126 799
Expenses from transactions					
Employee expenses	40 694	41 008	42 002	43 257	44 847
Superannuation:					
Net superannuation interest expense	793	788	768	753	697
Other superannuation	4 704	4 784	4 836	5 005	5 150
Depreciation	9 580	11 428	11 545	11 825	12 144
Interest expense	8 379	8 497	9 433	10 578	11 891
Grant expense	16 752	16 437	16 336	16 133	16 524
Other operating expenses	36 275	37 747	35 711	35 765	37 130
Total expenses from transactions	117 177	120 688	120 631	123 315	128 381
Net result from transactions – Net operating balance	(1 103)	(3 024)	(1 083)	(741)	(1 583)
Other economic flows included in net result					
Net gain/(loss) on disposal of non-financial assets	364	367	47	72	50
Net gain/(loss) on financial assets or liabilities at fair value	156	226	200	285	317
Share of net profit/(loss) from associates/joint venture entities	(29)	(34)	(33)	(1)	7
Other gains/(losses) from other economic flows	(473)	(431)	(454)	(259)	(455)
Total other economic flows included in net result	17	128	(239)	97	(82)
Net result	(1 085)	(2 896)	(1 322)	(644)	(1 664)
Other economic flows – Other comprehensive income					
Items that will not be reclassified to net result					
Changes in non-financial assets revaluation surplus	4 168	5 112	3 717	21 725	5 049
Remeasurement of superannuation defined benefit plans	482	1 622	508	507	527
Other movements in equity	21	(93)	11	13	12
Items that may be reclassified subsequently to net result					
Net gain/(loss) on financial assets at fair value	5	5	3	3	3
Net gain/(loss) on equity investments in other sector entities at proportional share of the carrying amount of net assets	(334)	(43)	(438)	295	(726)
Total other economic flows – Other comprehensive income	4 342	6 603	3 800	22 543	4 864
Comprehensive result – Total change in net worth	3 256	3 707	2 477	21 899	3 200
KEY FISCAL AGGREGATES					
Net operating balance	(1 103)	(3 024)	(1 083)	(741)	(1 583)
Less: Net acquisition of non-financial assets from transactions	17 259	15 307	13 568	8 837	8 805
Net lending/(borrowing)	(18 362)	(18 330)	(14 651)	(9 578)	(10 387)

Table 5.7: Non-financial public sector balance sheet as at 30 June

(\$ million)

	2026 budget ^(a)	2026 revised	2027 estimate	2028 estimate	2029 estimate
Assets					
Financial assets					
Cash and deposits	16 781	16 795	16 818	17 295	18 120
Advances paid	455	407	373	329	322
Receivables and contract assets	12 588	12 139	12 435	12 985	13 653
Investments, loans and placements	19 670	20 098	21 232	22 859	24 565
Investments accounted for using equity method	1 336	1 531	1 458	873	944
Investments in other sector entities	8 818	10 501	10 121	10 466	9 643
Total financial assets	59 647	61 471	62 437	64 806	67 248
Non-financial assets					
Inventories	2 133	2 005	2 396	2 237	2 343
Non-financial assets held for sale	171	170	162	155	147
Land, buildings, infrastructure, plant and equipment	522 495	521 361	538 429	569 258	583 073
Other non-financial assets	8 014	8 213	8 067	7 965	7 879
Total non-financial assets	532 812	531 748	549 055	579 614	593 443
Total assets	592 459	593 219	611 492	644 420	660 691
Liabilities					
Deposits held and advances received	1 805	1 845	1 882	1 818	1 827
Payables	8 528	7 965	7 904	8 020	8 046
Borrowings	227 331	230 323	246 430	259 198	273 938
Employee benefits	13 076	12 540	12 920	13 304	13 688
Superannuation	18 625	17 301	17 404	16 208	14 948
Other provisions	4 224	4 131	3 823	3 768	3 870
Other liabilities	31 207	31 002	30 536	29 613	28 685
Total liabilities	304 795	305 105	320 900	331 930	345 001
Net assets	287 664	288 114	290 591	312 490	315 690
Equity					
Accumulated surplus/(deficit)	62 568	61 750	60 924	60 779	59 631
Reserves	225 096	226 365	229 668	251 711	256 059
Net worth	287 664	288 114	290 591	312 490	315 690
FISCAL AGGREGATES					
Net financial worth	(245 148)	(243 634)	(258 463)	(267 124)	(277 753)
Net financial liabilities	253 966	254 135	268 584	277 589	287 397
Net debt	192 230	194 868	209 890	220 533	232 758

Note:

(a) Balances represent actual opening balances at 1 July 2025 plus 2025-26 budgeted movements.

Table 5.8: Non-financial public sector cash flow statement for the financial year ended 30 June

(\$ million)

	2025-26 budget	2025-26 revised	2026-27 estimate	2027-28 estimate	2028-29 estimate
Cash flows from operating activities					
Receipts					
Taxes received	40 614	40 819	43 560	45 217	47 432
Grants	52 607	53 051	52 317	53 063	54 269
Sales of goods and services ^(a)	17 975	17 863	18 767	19 220	19 734
Interest received	790	830	683	680	667
Dividends and income tax equivalent receipts	779	1 508	1 286	963	1 041
Other receipts	2 912	3 361	3 064	2 763	2 878
Total receipts	115 677	117 433	119 676	121 906	126 021
Payments					
Payments for employees	(40 340)	(41 189)	(41 636)	(42 889)	(44 479)
Superannuation	(4 674)	(4 933)	(4 993)	(6 447)	(6 581)
Interest paid	(8 098)	(8 182)	(9 339)	(10 451)	(11 749)
Grants and subsidies	(16 648)	(16 337)	(16 283)	(16 014)	(16 412)
Goods and services ^(a)	(36 444)	(38 618)	(36 806)	(36 445)	(37 772)
Other payments	(1 486)	(1 492)	(1 091)	(1 138)	(1 189)
Total payments	(107 689)	(110 751)	(110 148)	(113 383)	(118 182)
Net cash flows from operating activities	7 988	6 682	9 528	8 523	7 839
Cash flows from investing activities					
Cash flows from investments in non-financial assets					
Purchases of non-financial assets	(25 817)	(24 365)	(24 548)	(20 213)	(20 958)
Sales of non-financial assets	1 549	849	1 210	1 156	1 156
Net cash flows from investments in non-financial assets	(24 267)	(23 516)	(23 338)	(19 058)	(19 802)
Net cash flows from investments in financial assets for policy purposes	744	(442)	(25)	759	26
Subtotal	(23 524)	(23 958)	(23 363)	(18 298)	(19 776)
Net cash flows from investment in financial assets for liquidity management purposes	(704)	(1 022)	(1 022)	(1 290)	(1 282)
Net cash flows from investing activities	(24 228)	(24 980)	(24 385)	(19 588)	(21 058)
Cash flows from financing activities					
Advances received (net)	(60)	(60)	(11)	(10)	..
Net borrowings	16 470	18 502	14 708	11 456	13 880
Deposits received (net)	12	52	49	(54)	9
Other financing (net) ^(b)	695	695	..	..	..
Net cash flows from financing activities ^(b)	17 118	19 190	14 746	11 392	13 889
Net increase/(decrease) in cash and cash equivalents ^(b)	878	891	(111)	327	670
Cash and cash equivalents at beginning of reporting period ^{(b)(c)}	15 902	15 902	16 794	16 683	17 009
Cash and cash equivalents at end of reporting period ^(d)	16 780	16 794	16 683	17 009	17 679
FISCAL AGGREGATES					
Net cash flows from operating activities	7 988	6 682	9 528	8 523	7 839
Net cash flows from investments in non-financial assets	(24 267)	(23 516)	(23 338)	(19 058)	(19 802)
Cash surplus/(deficit)	(16 279)	(16 835)	(13 811)	(10 535)	(11 963)

Notes:

(a) Inclusive of goods and services tax.

(b) On 1 July 2025, the Building Legislation Amendment (Buyer Protections) Act 2025 became effective, and the Building and Plumbing Commission (BPC) was established as a building industry regulator to succeed the former Victorian Building Authority. This resulted in responsibility for the Domestic Building Insurance function in the VMIA, within the PFC sector, transferring to the BPC in the general government sector and the restatement of certain line items.

(c) 2025-26 budget figures have been restated to represent actual opening balances at 1 July 2025.

(d) Cash and cash equivalents at the end of the reporting period does not equal cash and deposits on the balance sheet. This is due to overdrafts being included in the cash flow statement balances.

**Table 5.9: Non-financial public sector statement of changes in equity
for the financial year ended 30 June**

(\$ million)

	<i>Accumulated surplus/(deficit)</i>	<i>Non-financial assets revaluation surplus</i>	<i>Investment in other sector entities revaluation surplus</i>	<i>Other reserves</i>	<i>Total</i>
2025-26 budget ^(a)					
Balance at 1 July 2025	62 809	209 383	9 728	2 488	284 407
Net result for the year	(1 085)	..	..	..	(1 085)
Other comprehensive income for the year	499	4 168	(334)	9	4 342
Transfer to/(from) accumulated surplus	345	(345)	..	..	..
Total equity as at 30 June 2026	62 568	213 205	9 394	2 497	287 664
2025-26 revised					
Balance at 1 July 2025	62 809	209 383	9 728	2 488	284 407
Net result for the year	(2 896)	..	..	..	(2 896)
Other comprehensive income for the year	1 488	5 112	(43)	46	6 603
Transfer to/(from) accumulated surplus	349	(349)	..	..	..
Total equity as at 30 June 2026	61 750	214 145	9 685	2 534	288 114
2026-27 estimate					
Balance at 1 July 2026	61 750	214 145	9 685	2 534	288 114
Net result for the year	(1 322)	..	..	..	(1 322)
Other comprehensive income for the year	497	3 717	(438)	25	3 800
Transfer to/(from) accumulated surplus	..	..	..	..	..
Total equity as at 30 June 2027	60 924	217 862	9 247	2 559	290 591
2027-28 estimate					
Balance at 1 July 2027	60 924	217 862	9 247	2 559	290 591
Net result for the year	(644)	..	..	..	(644)
Other comprehensive income for the year	499	21 725	295	24	22 543
Transfer to/(from) accumulated surplus	..	..	..	..	..
Total equity as at 30 June 2028	60 779	239 587	9 542	2 583	312 490
2028-29 estimate					
Balance at 1 July 2028	60 779	239 587	9 542	2 583	312 490
Net result for the year	(1 664)	..	..	..	(1 664)
Other comprehensive income for the year	516	5 049	(726)	25	4 864
Transfer to/(from) accumulated surplus	..	..	..	..	..
Total equity as at 30 June 2029	59 631	244 635	8 816	2 608	315 690

Note:

(a) Balances represent actual opening balances at 1 July 2025 plus 2025-26 budgeted movements.

Table 5.10: Net acquisition of non-financial assets – Non-financial public sector (\$ million)

	2025-26 budget	2025-26 revised	2026-27 estimate	2027-28 estimate	2028-29 estimate
Purchases of non-financial assets (including change in inventories)	25 809	24 353	24 552	20 213	20 960
Less: Sales of non-financial assets	(1 549)	(849)	(1 210)	(1 156)	(1 156)
Less: Depreciation and amortisation	(9 580)	(11 428)	(11 545)	(11 825)	(12 144)
Plus: Other movements in non-financial assets ^{(a)(b)}	2 579	3 230	1 770	1 604	1 144
Total net acquisition of non-financial assets from transactions	17 259	15 307	13 568	8 837	8 805

Notes:

- (a) *The other movements in non-financial assets includes recognising right-of-use assets under lease arrangements, and recognising service concession arrangements arising from public private partnerships.*
- (b) *The public private partnerships across the budget and forward estimates relate to the Frankston Hospital Redevelopment, the High Capacity Metro Trains, the Homes Victoria Ground Lease Model Project 2, the Metro Tunnel, the new Footscray Hospital, the new Melton Hospital, the North East Link – Primary Package (Tunnels), the Nyaal Banyul Geelong Convention and Event Centre, and the West Gate Tunnel.*

Table 5.11: Public financial corporations sector comprehensive operating statement
for the financial year ended 30 June ^(a) (\$ million)

	2025-26 budget	2025-26 revised	2026-27 estimate	2027-28 estimate	2028-29 estimate
Revenue and income from transactions					
Interest income	7 717	7 801	8 729	9 938	11 205
Dividend income	2 937	3 017	3 283	3 653	3 634
Sales of goods and services	8 891	9 004	9 457	10 031	10 647
Grants	..	2	..	..	..
Other revenue and income	31	36	37	39	39
Total revenue and income from transactions	19 576	19 860	21 506	23 661	25 525
Expenses from transactions					
Employee expenses	586	594	591	610	627
Other superannuation	61	64	66	68	70
Depreciation	74	76	72	67	64
Interest expense	7 329	7 370	8 271	9 465	10 730
Grant expense	291	224	259	263	1 338
Other operating expenses	13 095	12 962	13 989	15 047	16 057
Other property expenses	11	144	11	79	118
Total expenses from transactions	21 448	21 434	23 260	25 598	29 003
Net result from transactions –	(1 872)	(1 574)	(1 754)	(1 938)	(3 479)
Net operating balance ^(b)					
Other economic flows included in net result					
Net gain/(loss) on disposal of non-financial assets	..	..	..	..	..
Net gain/(loss) on financial assets or liabilities at fair value	500	1 147	599	942	1 317
Share of net profit/(loss) from associates/joint venture entities	..	(1)	(1)	(1)	..
Other gains/(losses) from other economic flows	1 259	1 389	1 233	1 398	1 535
Total other economic flows included in net result	1 759	2 535	1 831	2 340	2 851
Net result	(113)	960	76	403	(628)
Other economic flows –					
Other comprehensive income					
Items that will not be reclassified to net result					
Other movements in equity	(34)	..	..	..	..
Total other economic flows –	(34)	..	..	..	..
Other comprehensive income					
Comprehensive result – Total change in net worth	(147)	960	76	403	(628)
KEY FISCAL AGGREGATES					
Net operating balance	(1 872)	(1 574)	(1 754)	(1 938)	(3 479)
Less: Net acquisition of non-financial assets from transactions	(35)	(47)	(31)	(37)	(22)
Net lending/(borrowing)	(1 837)	(1 527)	(1 723)	(1 900)	(3 457)

Notes:

(a) Savings and efficiency initiatives introduced in the 2023-24 Budget will continue to be implemented by the public financial corporations sector. The impact of these initiatives is reflected in the budget and forward estimates.

(b) Capital gains on the investment portfolios of the State's insurance agencies (WorkSafe Victoria, Transport Accident Commission and Victorian Managed Insurance Authority) are classified as other economic flows. As these capital gains are available to fund claims expenses, the net result more meaningfully reflects the underlying operations and performance of the PFC sector than the net result from transactions.

Table 5.12: Public financial corporations sector balance sheet as at 30 June (\$ million)

	2026 budget ^(a)	2026 revised	2027 estimate	2028 estimate	2029 estimate
Assets					
Financial assets					
Cash and deposits	4 798	5 068	4 923	5 252	5 592
Advances paid	44	58	56	52	48
Receivables	2 974	2 769	2 857	2 917	2 995
Investments, loans and placements	74 850	75 836	80 403	85 536	89 901
Loans receivable from non-financial public sector ^(b)	195 932	199 410	215 243	229 124	244 401
Investments accounted for using equity method	11	10	9	9	8
Total financial assets	278 609	283 152	303 491	322 890	342 945
Non-financial assets					
Land, buildings, infrastructure, plant and equipment	285	273	251	217	199
Other non-financial assets	2 918	2 725	2 674	2 546	2 391
Total non-financial assets	3 203	2 998	2 925	2 763	2 591
Total assets	281 812	286 150	306 416	325 653	345 536
Liabilities					
Deposits held and advances received	258	379	398	415	405
Payables	1 744	1 676	1 716	1 729	1 739
Borrowings ^(c)	212 368	214 723	231 037	245 402	261 171
Employee benefits	156	148	152	156	159
Other provisions	57 517	57 297	61 578	66 087	71 039
Other liabilities	1 386	1 458	1 421	1 390	1 365
Total liabilities	273 430	275 680	296 303	315 178	335 877
Net assets ^(d)	8 382	10 470	10 112	10 475	9 659
Equity					
Accumulated surplus/(deficit)	8 203	9 703	9 287	9 599	8 730
Reserves	179	767	825	875	929
Net worth ^(d)	8 382	10 470	10 112	10 475	9 659
FISCAL AGGREGATES					
Net financial worth	5 180	7 473	7 188	7 712	7 068
Net financial liabilities	(5 180)	(7 473)	(7 188)	(7 712)	(7 068)
Net debt	(62 998)	(65 271)	(69 188)	(74 148)	(78 366)

Notes:*(a) Balances represent actual opening balances at 1 July 2025 plus 2025-26 budgeted movements.**(b) Loans receivable from the non-financial public sector are at amortised cost.**(c) Borrowings with the private sector are at market value.**(d) Treasury Corporation of Victoria's external loan liabilities are at mark-to-market value, while the corresponding assets, that is lending to the non-financial public sector, are at historical value.*

**Table 5.13: Public financial corporations sector cash flow statement
for the financial year ended 30 June**

(\$ million)

	2025-26 budget	2025-26 revised	2026-27 estimate	2027-28 estimate	2028-29 estimate
Cash flows from operating activities					
Receipts					
Grants	..	2	..	..	..
Sales of goods and services ^(a)	9 553	9 947	10 300	10 940	11 618
Interest received	7 324	7 458	8 386	9 595	10 862
Dividends and income tax equivalent receipts	2 937	3 017	3 283	3 653	3 634
Other receipts	42	53	14	43	28
Total receipts	19 855	20 478	21 983	24 231	26 142
Payments					
Payments for employees	(583)	(598)	(588)	(607)	(624)
Superannuation	(61)	(64)	(66)	(68)	(70)
Interest paid	(6 327)	(6 110)	(7 013)	(8 205)	(9 484)
Grants and subsidies	(291)	(224)	(259)	(263)	(1 338)
Goods and services ^(a)	(8 645)	(8 565)	(9 205)	(9 941)	(10 436)
Other payments	(3)	(3)	(4)	(5)	(5)
Total payments	(15 910)	(15 564)	(17 135)	(19 089)	(21 956)
Net cash flows from operating activities	3 945	4 914	4 847	5 142	4 186
Cash flows from investing activities					
Cash flows from investments in non-financial assets					
Purchases of non-financial assets	(41)	(30)	(41)	(30)	(43)
Sales of non-financial assets	1	1	1	1	1
Net cash flows from investments in non-financial assets	(40)	(29)	(41)	(29)	(42)
Net cash flows from investments in financial assets for policy purposes	(29)	(9)	3	4	5
Subtotal	(69)	(38)	(37)	(25)	(37)
Net cash flows from investment in financial assets for liquidity management purposes	(26 240)	(30 723)	(19 461)	(17 729)	(17 983)
Net cash flows from investing activities	(26 309)	(30 761)	(19 499)	(17 754)	(18 019)
Cash flows from financing activities					
Advances received (net)	(9)	20	(5)	(7)	(9)
Net borrowings	23 106	25 758	14 920	12 966	14 371
Deposits received (net)	(3)	88	25	24	(1)
Other financing (net) ^(b)	(1 527)	(547)	(434)	(40)	(188)
Net cash flows from financing activities ^(b)	21 567	25 320	14 506	12 942	14 173
Net increase/(decrease) in cash and cash equivalents ^(b)	(798)	(528)	(145)	330	340
Cash and cash equivalents at beginning of reporting period ^{(b)(c)}	5 596	5 596	5 068	4 923	5 252
Cash and cash equivalents at end of reporting period ^(b)	4 798	5 068	4 923	5 252	5 592
FISCAL AGGREGATES					
Net cash flows from operating activities	3 945	4 914	4 847	5 142	4 186
Dividends paid	(83)	(494)	(492)	(90)	(91)
Net cash flows from investments in non-financial assets	(40)	(29)	(41)	(29)	(42)
Cash surplus/(deficit)	3 822	4 390	4 315	5 022	4 053

Notes:

(a) Inclusive of goods and services tax.

(b) On 1 July 2025, the Building Legislation Amendment (Buyer Protections) Act 2025 became effective, and the Building and Plumbing Commission (BPC) was established as a building industry regulator to succeed the former Victorian Building Authority. This resulted in responsibility for the Domestic Building Insurance function in the VMIA, within the PFC sector, transferring to the BPC in the general government sector and the restatement of certain line items.

(c) 2025-26 budget figures have been restated to represent actual opening balances at 1 July 2025.

Table 5.14: Public financial corporations sector statement of changes in equity
for the financial year ended 30 June ^(a) (\$ million)

	<i>Accumulated surplus/(deficit)</i>	<i>Contributions by owners</i>	<i>Non-financial assets revaluation surplus</i>	<i>Other reserves</i>	<i>Total</i>
2025-26 budget ^(b)					
Balance at 1 July 2025	8 743	540	13	66	9 361
Net result for the year	(113)	..	..	..	(113)
Other comprehensive income for the year	(34)	..	..	..	(34)
Dividends paid	(83)	..	..	..	(83)
Transfer to/(from) accumulated surplus	(310)	310	..	..	..
Transactions with owners in their capacity as owners	..	(749)	..	..	(749)
Total equity as at 30 June 2026	8 203	100	13	66	8 382
2025-26 revised					
Balance at 1 July 2025	8 743	540	13	66	9 361
Net result for the year	960	..	..	..	960
Other comprehensive income for the year	(2)	..	..	1	..
Dividends paid	(494)	..	..	..	(494)
Transfer to/(from) accumulated surplus	496	(496)	..	..	..
Transactions with owners in their capacity as owners	..	643	..	..	643
Total equity as at 30 June 2026	9 703	687	13	67	10 470
2026-27 estimate					
Balance at 1 July 2026	9 703	687	13	67	10 470
Net result for the year	76	..	..	..	76
Other comprehensive income for the year	..	..	..	..	..
Dividends paid	(492)	..	..	..	(492)
Transfer to/(from) accumulated surplus	..	..	..	..	..
Transactions with owners in their capacity as owners	..	58	..	..	58
Total equity as at 30 June 2027	9 287	745	13	67	10 112
2027-28 estimate					
Balance at 1 July 2027	9 287	745	13	67	10 112
Net result for the year	403	..	..	..	403
Other comprehensive income for the year	..	..	..	..	..
Dividends paid	(90)	..	..	..	(90)
Transfer to/(from) accumulated surplus	..	..	..	..	..
Transactions with owners in their capacity as owners	..	50	..	..	50
Total equity as at 30 June 2028	9 599	795	13	67	10 475
2028-29 estimate					
Balance at 1 July 2028	9 599	795	13	67	10 475
Net result for the year	(628)	..	..	..	(628)
Other comprehensive income for the year	..	..	..	..	..
Dividends paid	(91)	..	..	..	(91)
Transfer to/(from) accumulated surplus	(150)	150	..	..	..
Transactions with owners in their capacity as owners	..	(96)	..	..	(96)
Total equity as at 30 June 2029	8 730	849	13	67	9 659

Notes:

(a) Savings and efficiency initiatives introduced in the 2023-24 Budget will continue to be implemented by the public financial corporations sector. The impact of these initiatives is reflected in the budget and forward estimates.

(b) Balances represent actual opening balances at 1 July 2025 plus 2025-26 budgeted movements.

**Table 5.15: Net acquisition of non-financial assets –
Public financial corporations sector**

(\$ million)

	<i>2025-26 budget</i>	<i>2025-26 revised</i>	<i>2026-27 estimate</i>	<i>2027-28 estimate</i>	<i>2028-29 estimate</i>
Purchases of non-financial assets less sale of non-financial assets (including change in inventories)	40	29	41	29	42
Less: Depreciation and amortisation	(74)	(76)	(72)	(67)	(64)
Total net acquisition of non-financial assets from transactions	(35)	(47)	(31)	(37)	(22)

**Table 5.16: State of Victoria comprehensive operating statement
for the financial year ended 30 June**

(\$ million)

	2025-26 budget	2025-26 revised	2026-27 estimate	2027-28 estimate	2028-29 estimate
Revenue and income from transactions					
Taxation	41 060	41 475	43 445	45 614	47 857
Interest income	1 721	1 761	1 587	1 617	1 610
Dividend income	3 597	3 995	4 040	4 512	4 570
Sales of goods and services	23 256	23 295	24 403	25 445	26 481
Grants	52 323	52 680	52 045	52 787	52 921
Other revenue and income	4 414	4 555	4 421	4 522	4 665
Total revenue and income from transactions	126 371	127 761	129 941	134 498	138 105
Expenses from transactions					
Employee expenses	40 326	40 646	41 637	42 885	44 471
Superannuation:					
Net superannuation interest expense	793	788	768	753	697
Other superannuation	4 765	4 847	4 902	5 073	5 220
Depreciation	9 654	11 504	11 616	11 891	12 207
Interest expense	8 886	8 961	9 818	10 961	12 272
Grant expense	16 783	16 439	16 341	16 138	16 531
Other operating expenses	48 237	49 550	48 190	49 501	51 754
Total expenses from transactions	129 445	132 736	133 271	137 201	143 152
Net result from transactions – Net operating balance	(3 075)	(4 976)	(3 330)	(2 703)	(5 048)
Other economic flows included in net result					
Net gain/(loss) on disposal of non-financial assets	364	367	47	72	50
Net gain/(loss) on financial assets or liabilities at fair value	656	1 373	799	1 228	1 634
Share of net profit/(loss) from associates/joint venture entities	(29)	(35)	(34)	(1)	7
Other gains/(losses) from other economic flows	736	958	753	1 139	1 079
Total other economic flows included in net result	1 727	2 662	1 565	2 437	2 769
Net result	(1 348)	(2 313)	(1 764)	(265)	(2 279)
Other economic flows – Other comprehensive income					
Items that will not be reclassified to net result					
Changes in non-financial assets revaluation surplus	4 168	5 112	3 717	21 725	5 049
Remeasurement of superannuation defined benefit plans	482	1 622	508	507	527
Other movements in equity	(13)	(93)	11	13	12
Items that may be reclassified subsequently to net result					
Net gain/(loss) on financial assets at fair value	5	5	3	3	3
Total other economic flows – Other comprehensive income	4 642	6 645	4 238	22 248	5 590
Comprehensive result – Total change in net worth	3 294	4 332	2 474	21 983	3 311
KEY FISCAL AGGREGATES					
Net operating balance	(3 075)	(4 976)	(3 330)	(2 703)	(5 048)
Less: Net acquisition of non-financial assets from transactions	17 241	15 276	13 566	8 829	8 812
Net lending/(borrowing)	(20 315)	(20 252)	(16 896)	(11 531)	(13 860)

Table 5.17: State of Victoria balance sheet as at 30 June

(\$ million)

	2026 budget ^(a)	2026 revised	2027 estimate	2028 estimate	2029 estimate
Assets					
Financial assets					
Cash and deposits	20 536	21 753	21 609	22 393	23 561
Advances paid	360	324	302	268	272
Receivables and contract assets	15 057	14 418	14 773	15 359	16 082
Investments, loans and placements	94 466	95 880	101 579	108 338	114 407
Investments accounted for using equity method	1 347	1 542	1 468	881	952
Total financial assets	131 766	133 917	139 730	147 239	155 274
Non-financial assets					
Inventories	2 133	2 005	2 396	2 237	2 343
Non-financial assets held for sale	171	170	162	155	147
Land, buildings, infrastructure, plant and equipment	522 779	521 633	538 679	569 474	583 272
Other non-financial assets	8 001	8 209	8 025	7 898	7 791
Total non-financial assets	533 083	532 017	549 263	579 764	593 553
Total assets	664 849	665 934	688 992	727 004	748 827
Liabilities					
Deposits held and advances received	1 997	2 051	2 087	2 019	2 023
Payables	9 694	9 027	8 991	9 110	9 124
Borrowings	242 679	245 572	262 168	275 425	290 663
Employee benefits	13 232	12 688	13 072	13 459	13 846
Superannuation	18 625	17 301	17 404	16 208	14 948
Other provisions	61 723	61 410	65 384	69 838	74 891
Other liabilities	32 191	32 138	31 666	30 742	29 819
Total liabilities	380 141	380 187	400 772	416 801	435 313
Net assets	284 708	285 747	288 220	310 203	313 514
Equity					
Accumulated surplus/(deficit)	68 928	68 987	67 720	67 953	66 191
Reserves	215 780	216 759	220 500	242 249	247 323
Net worth	284 708	285 747	288 220	310 203	313 514
FISCAL AGGREGATES					
Net financial worth	(248 374)	(246 270)	(261 042)	(269 562)	(280 039)
Net financial liabilities	248 374	246 270	261 042	269 562	280 039
Net debt	129 313	129 666	140 765	146 444	154 446

Note:

(a) Balances represent actual opening balances at 1 July 2025 plus 2025-26 budgeted movements.

Table 5.18: State of Victoria cash flow statement for the financial year ended 30 June

(\$ million)

	2025-26 budget	2025-26 revised	2026-27 estimate	2027-28 estimate	2028-29 estimate
Cash flows from operating activities					
Receipts					
Taxes received	40 583	40 789	43 529	45 185	47 399
Grants	52 330	52 814	52 045	52 787	52 921
Sales of goods and services ^(a)	25 510	25 835	27 001	27 958	29 010
Interest received	1 268	1 359	1 175	1 186	1 173
Dividends and income tax equivalent receipts	3 629	4 027	4 073	4 520	4 579
Other receipts	2 956	3 413	2 784	2 819	2 917
Total receipts	126 277	128 237	130 607	134 455	137 999
Payments					
Payments for employees	(39 968)	(40 833)	(41 267)	(42 513)	(44 100)
Superannuation	(4 735)	(4 997)	(5 059)	(6 516)	(6 651)
Interest paid	(7 603)	(7 387)	(8 466)	(9 575)	(10 885)
Grants and subsidies	(16 681)	(16 341)	(16 290)	(16 020)	(16 421)
Goods and services ^(a)	(43 961)	(46 081)	(44 517)	(45 085)	(46 785)
Other payments	(1 486)	(1 492)	(1 091)	(1 138)	(1 189)
Total payments	(114 434)	(117 131)	(116 690)	(120 847)	(126 031)
Net cash flows from operating activities	11 843	11 106	13 917	13 609	11 968
Cash flows from investing activities					
Cash flows from investments in non-financial assets					
Purchases of non-financial assets	(25 874)	(24 412)	(24 619)	(20 273)	(21 030)
Sales of non-financial assets	1 550	850	1 211	1 156	1 157
Net cash flows from investments in non-financial assets	(24 323)	(23 562)	(23 408)	(19 116)	(19 873)
Net cash flows from investments in financial assets for policy purposes	(40)	190	22	798	(82)
Subtotal	(24 363)	(23 372)	(23 386)	(18 319)	(19 955)
Net cash flows from investment in financial assets for liquidity management purposes	(3 207)	(4 530)	(4 649)	(5 135)	(3 985)
Net cash flows from investing activities	(27 571)	(27 902)	(28 035)	(23 454)	(23 940)
Cash flows from financing activities					
Advances received (net)	(65)	(50)	(13)	(14)	(4)
Net borrowings	15 865	18 095	13 804	10 547	12 980
Deposits received (net)	12	52	49	(54)	9
Net cash flows from financing activities	15 812	18 098	13 839	10 479	12 985
Net increase/(decrease) in cash and cash equivalents	85	1 302	(279)	634	1 013
Cash and cash equivalents at beginning of reporting period ^{(b)(c)}	20 450	20 450	21 752	21 473	22 107
Cash and cash equivalents at end of reporting period ^{(b)(c)}	20 535	21 752	21 473	22 107	23 120
FISCAL AGGREGATES					
Net cash flows from operating activities	11 843	11 106	13 917	13 609	11 968
Net cash flows from investments in non-financial assets	(24 323)	(23 562)	(23 408)	(19 116)	(19 873)
Cash surplus/(deficit)	(12 480)	(12 456)	(9 491)	(5 508)	(7 905)

Notes:

(a) Inclusive of goods and services tax.

(b) 2025-26 budget figures have been restated to represent actual opening balances at 1 July 2025.

(c) Cash and cash equivalents at the end of the reporting period does not equal cash and deposits on the balance sheet. This is due to overdrafts being included in the cash flow statement balances.

**Table 5.19: State of Victoria statement of changes in equity
for the financial year ended 30 June**

(\$ million)

	<i>Accumulated surplus/(deficit)</i>	<i>Non-financial assets revaluation surplus</i>	<i>Other reserves</i>	<i>Total</i>
2025-26 budget ^(a)				
Balance at 1 July 2025	69 466	209 395	2 554	281 414
Net result for the year	(1 348)	..	..	(1 348)
Other comprehensive income for the year	465	4 168	9	4 642
Transfer to/(from) accumulated surplus	345	(345)	..	..
Total equity as at 30 June 2026	68 928	213 217	2 563	284 708
2025-26 revised				
Balance at 1 July 2025	69 466	209 395	2 554	281 414
Net result for the year	(2 313)	..	..	(2 313)
Other comprehensive income for the year	1 486	5 112	48	6 645
Transfer to/(from) accumulated surplus	349	(349)	..	..
Total equity as at 30 June 2026	68 987	214 158	2 601	285 747
2026-27 estimate				
Balance at 1 July 2026	68 987	214 158	2 601	285 747
Net result for the year	(1 764)	..	..	(1 764)
Other comprehensive income for the year	497	3 717	25	4 238
Transfer to/(from) accumulated surplus	..	..	..	..
Total equity as at 30 June 2027	67 720	217 874	2 626	288 220
2027-28 estimate				
Balance at 1 July 2027	67 720	217 874	2 626	288 220
Net result for the year	(265)	..	..	(265)
Other comprehensive income for the year	499	21 725	24	22 248
Transfer to/(from) accumulated surplus	..	..	..	..
Total equity as at 30 June 2028	67 953	239 599	2 650	310 203
2028-29 estimate				
Balance at 1 July 2028	67 953	239 599	2 650	310 203
Net result for the year	(2 279)	..	..	(2 279)
Other comprehensive income for the year	516	5 049	25	5 590
Transfer to/(from) accumulated surplus	..	..	..	..
Total equity as at 30 June 2029	66 191	244 648	2 675	313 514

Notes:

(a) Balances represent actual opening balances at 1 July 2025 plus 2025-26 budgeted movements.

Table 5.20: Net acquisition of non-financial assets – State of Victoria (\$ million)

	2025-26 budget	2025-26 revised	2026-27 estimate	2027-28 estimate	2028-29 estimate
Purchases of non-financial assets (including change in inventories)	25 866	24 400	24 623	20 273	21 032
Less: Sales of non-financial assets	(1 550)	(850)	(1 211)	(1 156)	(1 157)
Less: Depreciation and amortisation	(9 654)	(11 504)	(11 616)	(11 891)	(12 207)
Plus: Other movements in non-financial assets ^{(a)(b)}	2 579	3 230	1 770	1 604	1 144
Total net acquisition of non-financial assets from transactions	17 241	15 276	13 566	8 829	8 812

Notes:

- (a) *The other movements in non-financial assets includes recognising right-of-use assets under lease arrangements, and recognising service concession arrangements arising from public private partnerships.*
- (b) *The public private partnerships across the budget and forward estimates relate to the Frankston Hospital Redevelopment, the High Capacity Metro Trains, the Homes Victoria Ground Lease Model Project 2, the Metro Tunnel, the new Footscray Hospital, the new Melton Hospital, the North East Link – Primary Package (Tunnels), the Nyaal Banyul Geelong Convention and Event Centre, and the West Gate Tunnel.*

CHAPTER 6 – SENSITIVITY ANALYSIS

The *2025-26 Budget Update* relies on forecasts and judgements about the economic, operating and financial conditions for the Victorian general government sector. Uncertainty in these conditions, for example as a result of international developments and other risks to the national economy, may cause the actual results to differ from budget projections.

This sensitivity analysis explores the effects of variations in the macroeconomic outlook on key fiscal aggregates of the general government sector using two alternative approaches.

The first approach quantifies the fiscal effects of scenarios involving simultaneous variations in economic parameters that represent key risks to the economic outlook described in Chapter 2 *Economic context*. These scenarios were selected to cover plausible shocks that could affect Victoria over the budget period, and the modelling takes account of linkages between key international, Australian and Victorian economic aggregates.

The modelled outcomes are intended to be used as a guide and care should be exercised in interpreting the results. In particular, economic shocks tend to be idiosyncratic, with the modelled scenarios unlikely to completely reflect any future shock that could occur. Departures from these scenarios would likely result in different effects on the budget. Furthermore, the modelled results of the shocks do not incorporate any policy responses to the shocks and their subsequent effects on the economic or fiscal outlook.

The second approach considers the fiscal effects of independent variations in major macroeconomic parameters, holding constant all parameters other than the indicator of interest. This analysis may be useful for assessing the effect on fiscal aggregates of a forecast error in a single economic parameter. In practice, economic variations rarely occur in isolation, and scenario analysis is likely to be more appropriate to illustrate the fiscal impacts of an economic environment materially different from that forecast in this publication.

FISCAL EFFECTS OF VARIATIONS TO THE ECONOMIC OUTLOOK

The scenario component of the sensitivity analysis quantifies two key risks identified in Chapter 2 *Economic context* and presents how these risks might affect the State's economic and fiscal aggregates.

The first scenario considers the implications of weaker international growth and weak domestic confidence, due to considerable uncertainty around increases in tariffs by the United States. The second scenario considers a stronger recovery in household consumption than expected.

The economic effects of these scenarios have been modelled using VURMTAX, a computable general equilibrium model developed by the Centre of Policy Studies at Victoria University. The results of the scenarios are presented as deviations from the 'business as usual' base case, which reflects the central economic forecasts outlined in Chapter 2 *Economic context*.

The changes in economic variables resulting from the modelled shocks are then mapped into estimated revenue and expenditure effects using elasticities that describe the historical relationship between fiscal outcomes and major macroeconomic parameters.¹

Scenario A: Weaker international growth and weak domestic confidence

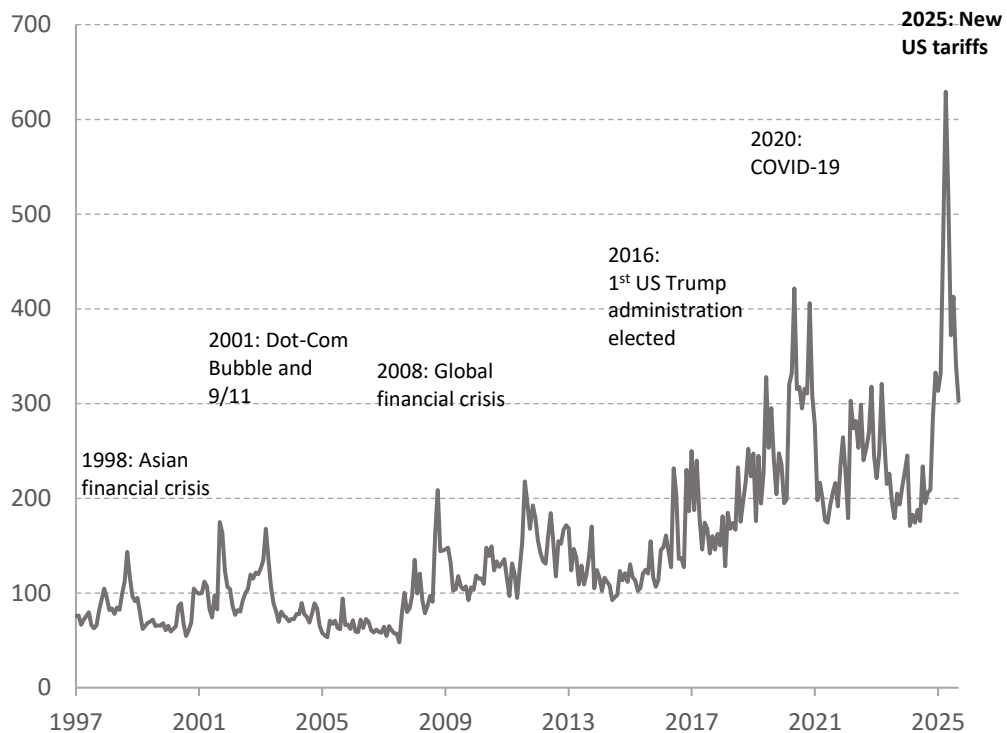
As outlined in Chapter 2 *Economic context*, the potential for lower global growth continues to pose a key risk to the Victorian outlook. The negative impacts of US trade policy announcements on economic growth and inflation have so far been more limited than expected, partly due to redirection of trade flows and limited trade policy retaliation by other major economies. However, the International Monetary Fund (IMF) noted in its October *World Economic Outlook* that this apparent resilience appears to be driven by temporary factors, and it flagged that the effects of trade tensions on the global economy could increase over time. In addition, US trade policies continue to be in a state of flux, with the future trajectory of US policies remaining highly uncertain.

While not the base case, in a downside scenario, a trade war between the US and another major economy could significantly escalate, with tariffs and trade barriers permanently settling at much higher rates than in 2024. Such an outcome between two major economies would lower global trade and economic growth in the short and longer term.

While these developments would directly weigh on global growth, larger negative effects could come via lower confidence among households to spend and among businesses to invest. Although global uncertainty has come down from very high levels, it remains elevated (see Chart 6.1), which could suppress large investments to the extent that firms anticipate delayed or reduced demand and trade opportunities, both in Australia and in other economies. Falls in business investment would compound the effects on global economic growth of reduced global trade. Consumers may also increase precautionary savings in response to general uncertainty and lower equity markets.

¹ The Department of Treasury and Finance maintains a set of elasticities covering the relationships between major economic parameters and revenue and expenditure lines, including superannuation, and dividends and income tax equivalents from the public financial and non-financial corporations.

Chart 6.1: Economic Policy Uncertainty index ^(a)



Sources: Scott Baker (Northwestern University), Nicholas Bloom (Stanford University) and Steven J. Davis (Stanford University), published in October 2025

Note:

(a) Includes 21 countries, weighted by gross domestic product, current prices.

Lower demand for Victorian exports as a result of US tariffs and a significant reduction in global trade and growth among Victoria's other trading partners – compounded by falls in investment and consumer spending in those countries – would weigh on Victoria's economic growth. Although Victorian exports might remain relatively resilient to US tariffs if baseline tariffs for Australia remain lower than for other trading partners, the effect on the Victorian economy would mostly stem from the slowdown in global economic growth and heightened uncertainty that disrupt business sentiment and consumer confidence.

This scenario examines the economic and fiscal impacts in the case of such a major global economic downturn. In this scenario, the modelled global economic downturn is significant – with global demand for Victorian exports assumed to be 1 per cent lower than in the base case – reflecting potential effects of a worsening trade war between the US and another major economy and a significant slowdown in global growth, coupled with sharp falls in confidence that weigh on investment and consumer spending. Weaker confidence in Australia and Victoria is also assumed to lead to domestic businesses delaying investment decisions, which adds to the downside impacts on Victoria's economy over and above the effects of lower global demand.

To quantify the effects of weaker global growth and dampened domestic confidence, this scenario considers the economic and fiscal effects stemming from two shocks simultaneously applied: a large reduction in foreign demand for Victorian exports; and weak domestic business confidence, modelled as a rise in the required rate of return from their investments to reflect heightened investor risk aversion. In the scenario, these shocks are in place throughout 2026 before gradually returning to zero by the end of 2027.

Weaker global demand and weak domestic confidence weigh on the Victorian economy, causing business investment to fall to 2.61 per cent below the base case in 2025-26, and 2.74 per cent below the base case in 2026-27. Lower aggregate demand results in lower household incomes, leading to household consumption being 1.19 per cent lower than the base case in 2025-26 and 1.20 per cent lower in 2026-27. Overall, this results in a fall in the level of Victoria's GSP, relative to the base case, by 0.75 per cent in 2025-26 and by 0.74 per cent in 2026-27. The peak economic impact occurs in 2026, when the negative shocks to global demand and Victorian business confidence are assumed to be the largest. Business investment recovers to above base-case levels later in the forecast period, as these shocks dissipate at the end of 2027.

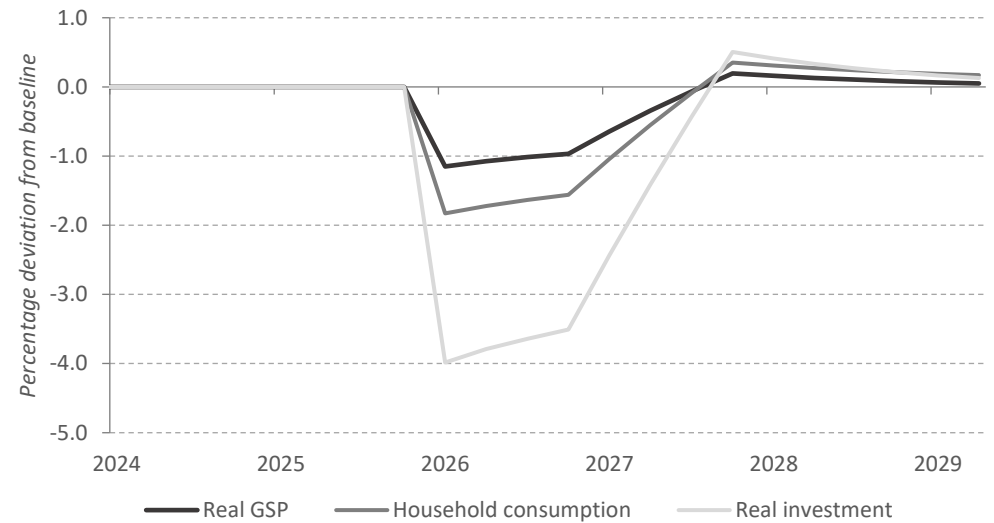
Despite weaker global demand for Victorian exports, in this scenario lower domestic consumption results in producers diverting goods from households to export markets, which offsets the direct trade shock and causes export volumes to rise. Coupled with a fall in imports due to lower household spending, in aggregate the shocks result in an improvement of the trade balance in 2026. This partly offsets the negative impact of weaker global demand and weak domestic confidence, resulting in a smaller impact on GSP relative to the decreases in consumption and investment (see Chart 6.2).

The overall fall in economic activity decreases labour demand, resulting in the level of employment falling by 0.50 per cent in 2025-26 and 0.40 per cent in 2026-27 compared with the base case, before recovering in 2027-28. The unemployment rate is 0.56 percentage points higher in 2025-26 and 0.41 percentage points higher in 2026-27 than the base case, placing downward pressure on wages growth.

Although this scenario applies a negative shock to foreign demand for Victorian exports, there remains significant uncertainty around the implications for the Victorian economy of evolving tariff policies on trading partners. For example, affected foreign manufacturers would be likely to redirect goods that would have otherwise been exported to the US to other countries instead, including Australia. This would help offset the impact on trading partners of lower demand from the US as well as result in cheaper inputs for Victorian producers; but it could also rapidly increase competition for Victorian businesses competing with imports. Some Victorian exporters could benefit by becoming relatively more competitive in the US or other export markets than previously – in a scenario where US tariffs on Australian and Victorian exports settle below those on other US trading partners (as is the case currently) or where other major trading partners (such as China) enact and sustain further retaliatory tariffs and trade barriers on the US. Coupled with the depreciation of the Australian dollar, which would act as a buffer, these flow-on effects may partly offset the impact of weaker global growth on the Victorian economy. Trading partner growth may also be buffeted by further stimulus spending in China or other major markets. Given these and other uncertainties, the scenario presented here should be viewed as illustrative.

Importantly, this scenario assumes that government consumption remains unchanged, with no further discretionary fiscal expenditure in response to the shock. In practice, governments and the RBA may intervene to mitigate the shock’s impacts.

Chart 6.2: The impact of weaker global growth and weak domestic confidence on select variables



Sources: Centre of Policy Studies; Department of Treasury and Finance

Table 6.1 details the effects of this scenario.

Table 6.1: Projected impact of weaker global growth and weak domestic confidence on major economic parameters ^(a) (per cent)

	2025-26 estimate	2026-27 estimate	2027-28 estimate	2028-29 estimate
Real GSP	(0.75)	(0.74)	0.10	0.07
Employment (levels)	(0.50)	(0.40)	0.20	0.13
Consumer price index	(0.20)	(0.16)	0.11	0.10
Wage price index	(0.13)	(0.37)	(0.28)	(0.15)

Note:

(a) Figures reported are the change in the level of each parameter relative to the baseline forecasts as presented in Chapter 2 Economic context.

Table 6.2 details the negative impact of the shock on the State’s finances. Lower domestic spending and investment lead to lower property-related taxation revenue, including land transfer duty and land taxes. Lower employment and wages growth lead to a decline in payroll tax revenue, and lower household consumption results in a smaller national GST pool and hence lower GST grant revenue for Victoria. As a result, government income from transactions is lower in 2025-26 and 2026-27.

Expenses from transactions are lower overall under this scenario, with lower wage growth relative to the base case putting downward pressure on public sector employment expenses. These estimated impacts on expenses reflect the assumed relationship between public and private sector wages in the model: namely that public sector wage growth corresponds to private sector wage growth in the medium to long term. Overall, revenue falls by significantly more than expenses in this scenario, resulting in a negative net result. Net debt is therefore higher over the forward estimates. The decrease in expenses is partly offset by higher interest expenses due to a higher level of debt.

Table 6.2: Projected impact of weaker global growth and weak domestic confidence on fiscal parameters ^(a) (\$ million)

	<i>2025-26 estimate</i>	<i>2026-27 estimate</i>	<i>2027-28 estimate</i>	<i>2028-29 estimate</i>
Income from transactions	(953.9)	(1 080.7)	65.3	45.3
Expenses from transactions	(49.3)	(95.5)	31.4	78.3
Net result from transactions	(904.5)	(985.2)	33.9	(33.0)
Other economic flows	(4.9)	(15.4)	4.4	4.0
Net result	(909.5)	(1 000.7)	38.3	(29.0)
Net debt (cumulative)	909.5	1 942.3	1 898.9	1 918.9
Net debt to GSP ratio (percentage point difference)	0.14	0.28	0.26	0.25

Note:

(a) *Figures may not add due to rounding.*

Scenario B: Stronger recovery in household consumption

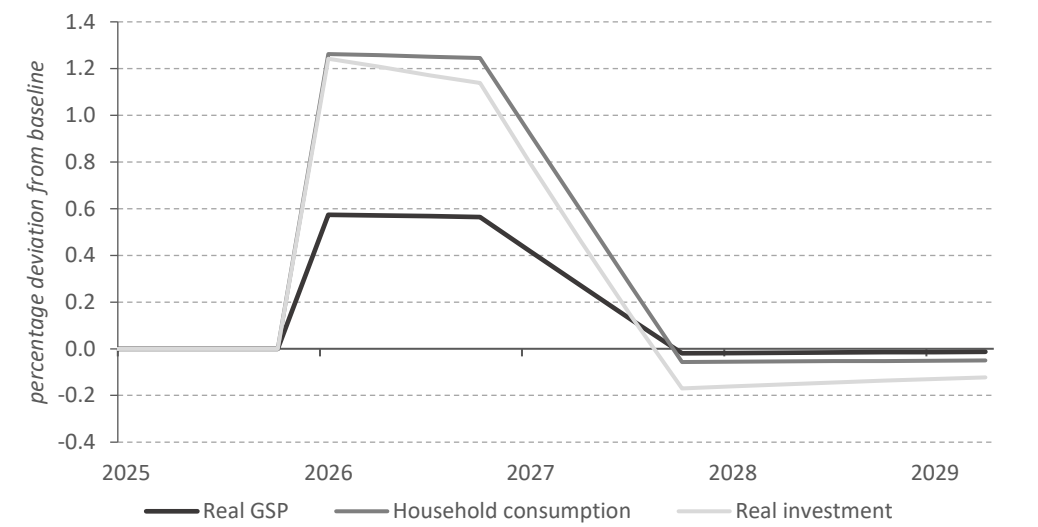
Household consumption is expected to rebound in 2025-26, supported by an increase in real household disposable income, and has begun to show signs of recovery over the last six months. However, as discussed in Chapter 2 *Economic context*, there is uncertainty around how quickly households will respond. Dwelling prices have started to rise and surveys of Victorians' confidence about the economy and about their own future family finances indicate significantly higher confidence than a year ago, particularly as the uncertainty around US trade policy announcements has eased since the global peak level of uncertainty around April. Should this improving confidence continue, households may draw down on currently high levels of accumulated savings or slow their rebuilding of savings buffers more than expected. Coupled with pent-up demand after subdued spending over the past two to three years, this could fuel a stronger-than-expected increase in discretionary spending. Higher consumer demand for goods and services would also stimulate business confidence and investment.

This scenario explores the implications for Victoria as a result of higher confidence and spending by households and businesses nationally. As real disposable incomes rise, unanticipated improvements in consumer confidence would lead to consumers feeling less of a need to accumulate precautionary savings. In the scenario, household consumption rises and is 0.84 per cent higher than the base case in 2025-26, and remains 1.00 per cent higher in 2026-27. Higher aggregate demand results in businesses utilising more of their existing capital, which is modelled as a rise in the productivity of the capital stock. This increases the incentive for firms to invest, leading to a 0.82 per cent rise in Victorian investment relative to the base case in 2025-26, with investment remaining 0.89 per cent higher in 2026-27.

The shock leads to a worsening of the trade balance, with a fall in exports and a rise in imports in 2026, due to higher domestic consumption. This partly offsets the positive impact on GSP of a rise in consumption and investment (see Chart 6.3).

Overall, this shock to household consumption increases the level of Victoria’s GSP, compared with the base case, by 0.38 per cent in 2025-26 and 0.45 per cent in 2026-27, before returning to the base case in 2027-28 and 2028-29. The peak economic impact occurs in 2026, when consumer confidence is assumed to have a significant role in raising household consumption above the base case. Consumption broadly returns to base-case levels later in the forecast period as these confidence effects dissipate.

Chart 6.3: The impact of a stronger recovery in household spending on select variables



Sources: Centre of Policy Studies; Department of Treasury and Finance

The rise in economic activity increases labour demand, resulting in the level of employment being higher by 0.11 per cent in 2025-26 and by 0.10 per cent in 2026-27 compared with the base case. The unemployment rate is 0.17 percentage points lower in 2025-26 and 0.15 percentage points lower in 2026-27, placing upward pressure on wages growth.

Table 6.3 summarises the economic effects of this shock.

Table 6.3: The effect of a stronger recovery in household spending on major economic parameters ^(a) (per cent)

	2025-26 estimate	2026-27 estimate	2027-28 estimate	2028-29 estimate
Real GSP	0.38	0.45	0.02	(0.01)
Employment (levels)	0.11	0.10	(0.04)	(0.04)
Consumer price index	0.29	0.33	(0.03)	(0.05)
Wage price index	0.17	0.27	0.10	0.05

Note:

(a) Figures reported are the change in the level of each parameter relative to the baseline forecasts as presented in Chapter 2
Economic context.

Table 6.4 details the positive impact of the shock on the State's finances. Higher domestic spending and investment lead to higher property-related taxation revenue, including land transfer duty and land taxes. Higher employment and wages growth lead to an increase in payroll tax revenue, and higher household consumption results in a larger national GST pool and hence higher GST grant revenue for Victoria. As a result, government income from transactions is higher over the forward estimates.

Expenses from transactions are also higher overall relative to the base case in the scenario for 2025-26 and 2026-27. As with the earlier scenario presented above, the model assumes that public-sector wage growth corresponds to private-sector wage growth in the medium to long term. The increase in expenses is partly offset by lower interest expenses due to a lower level of debt (resulting from revenue rising by more than expenses in this scenario).

Table 6.4: Projected impact of a stronger recovery in household spending on fiscal parameters ^(a) (\$ million)

	2025-26 estimate	2026-27 estimate	2027-28 estimate	2028-29 estimate
Income from transactions	755.1	1 014.9	130.2	62.9
Expenses from transactions	82.9	160.7	(54.0)	(101.1)
Net result from transactions	672.2	854.2	184.2	164.1
Other economic flows	4.6	17.5	(0.5)	(1.8)
Net result	676.8	871.7	183.7	162.3
Net debt (cumulative)	(676.8)	(1 602.4)	(1 786.5)	(1 942.7)
Net debt to GSP ratio (percentage point difference)	(0.10)	(0.23)	(0.24)	(0.25)

Note:

(a) Figures may not add due to rounding.

SENSITIVITY TO INDEPENDENT VARIATIONS IN MAJOR ECONOMIC PARAMETERS

Table 6.5 presents the sensitivity of financial aggregates where the levels of key economic parameters are 1 per cent (or, for interest rates, 1 percentage point) above the forecast for each year of the budget and forward estimates, holding all else constant.

The effects shown are broadly symmetric; that is, the estimated fiscal impacts would apply approximately equally in the opposite direction where there is a decrease in the parameter. Differences may arise to the extent that the impact on income tax equivalent income may not be symmetric because that line item is subject to a floor of zero, and the impact on dividends may be affected by some entities facing caps on the share of profits that can be returned to the general government sector.

Table 6.5: Sensitivity of key fiscal aggregates to selected indicators being 1 per cent higher than expected from 2025-26^{(a)(b)(c)(d)(e)} (\$ million)

	2025-26 estimate	2026-27 estimate	2027-28 estimate	2028-29 estimate
GSP				
Income from transactions	186	182	185	187
Expenses from transactions	..	(8)	(17)	(27)
Net result from transactions	185	190	202	214
Net debt	(185)	(375)	(577)	(791)
Employment ^(f)				
Income from transactions	119	125	131	138
Expenses from transactions	397	422	453	491
Net result from transactions	(278)	(297)	(322)	(353)
Net debt	278	575	897	1 250
Consumer prices ^(g)				
Income from transactions	418	419	427	438
Expenses from transactions	327	454	456	469
Net result from transactions	91	(35)	(29)	(31)
Net debt	(92)	(202)	(324)	(452)
Average weekly earnings ^(h)				
Income from transactions	149	155	162	169
Expenses from transactions	3	(4)	(11)	(20)
Net result from transactions	146	159	173	189
Net debt	(146)	(305)	(478)	(667)
Total employee expenses				
Income from transactions	..	49	169	184
Expenses from transactions	400	515	549	587
Net result from transactions	(400)	(466)	(381)	(404)
Net debt	400	815	1 144	1 496
Domestic share prices ⁽ⁱ⁾				
Income from transactions	..	1	2	2
Expenses from transactions	..	(2)	..	2
Net result from transactions	..	2	1	..
Net debt	(13)	(28)	(43)	(58)

Table 6.5: Sensitivity of key fiscal aggregates to selected indicators being 1 per cent higher than expected from 2025-26 (continued) (\$ million)

	2025-26 estimate	2026-27 estimate	2027-28 estimate	2028-29 estimate
Overseas share prices ⁽ⁱ⁾				
Income from transactions	..	2	4	6
Expenses from transactions	..	(2)	(1)	1
Net result from transactions	..	4	4	4
Net debt	(31)	(66)	(105)	(148)
Property prices				
Income from transactions	229	239	251	266
Expenses from transactions	(6)	(18)	(31)	(47)
Net result from transactions	234	257	282	313
Net debt	(237)	(504)	(795)	(1 117)
Property transaction volumes				
Income from transactions	101	106	111	117
Expenses from transactions	(2)	(7)	(12)	(17)
Net result from transactions	103	113	123	135
Net debt	(103)	(216)	(340)	(474)
Interest rates ⁽ⁱ⁾				
Income from transactions	138	128	116	106
Expenses from transactions	83	(22)	166	371
Net result from transactions	55	150	(50)	(266)
Net debt ^(k)	(55)	67	405	984

Notes:

- (a) Variations are applied to the economic variables effective from the first day in the budget year (1 July 2025). It is assumed that each variable's growth rate matches that under a no-variation scenario for the forward estimates period. This implies that the level of all economic variables (other than interest rates) is 1 per cent higher in level terms in each year of the budget and forward estimates. Interest rates are assumed to be 1 percentage point higher in each year of the budget and forward estimates.
- (b) A positive number for income from transactions denotes an increase in revenue. A positive number for expenses from transactions denotes an increase in expenses (and hence a reduction in the net result from transactions). A positive number for the net result from transactions denotes a higher surplus or smaller deficit. A positive number for net debt denotes a higher level of net debt in the relevant year compared with a no-variation scenario.
- (c) Only reasonably quantifiable impacts have been included in the analysis.
- (d) Figures may not add due to rounding.
- (e) Estimates of net debt are approximately equal to the cumulative impact of the net result from transactions. The difference between the cumulative net result from transactions and net debt is due to non-cash expenses, which affect net result from transactions but do not affect net debt.
- (f) A shock to employment is assumed to impact payroll tax revenue. Both public and private-sector employment levels are assumed to be 1 per cent higher across the four years, with the shares of full-time and part-time employment held constant; the rise in public-sector employment increases general government sector employee expenses.
- (g) Estimates assume that higher consumer prices flow through to government operating expenses, such as the purchase of supplies and consumables and the purchase of services. For simplicity, these estimates make no assumptions about agencies' administrative actions or government policy responses to mitigate the effects of higher inflation on aggregate spending. It is assumed an increase in consumer prices within the budget year does not affect employee entitlements.
- (h) A positive shock to average weekly earnings increases the expenses of public financial and non-financial corporations and reduces the general government sector's income from dividends and ITEs.
- (i) The smaller impact on the net result from transactions, compared with the impact on net debt, reflects that only the income component of the State's investment return (and not the capital gain) is recorded on the operating statement.
- (j) Interest rates are assumed to be 1 percentage point higher in each year of the budget and forward estimates. The fiscal impact is based on the portion of government debt that would change value due to being refinanced, as well as new debt issuance.
- (k) The larger impact on net debt, compared with the impact on the net result from transactions, reflects that higher interest rates reduce non-cash superannuation expenses, putting downward pressure on the total increase in operating expenses, but this reduction in non-cash superannuation expenses does not affect net debt.

CHAPTER 7 – CONTINGENT ASSETS AND CONTINGENT LIABILITIES

This chapter contains information on contingent assets and liabilities for the general government sector and should be read in conjunction with Chapter 4.

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.

Table 7.1 contains quantifiable contingent assets as at 13 November 2025 (arising from outside of government).

Table 7.1: Quantifiable contingent assets	(\$ million)	
	As at Nov 2025	Published budget estimate ^(a)
Guarantees, indemnities and warranties	62	47
Legal proceedings and disputes	22	27
Other	28	73
Total contingent assets	112	146

Note:

(a) As published in the 2025-26 Budget.

Non-quantifiable contingent assets

Peninsula Link compensable enhancement claim

The EastLink Concession Deed contains compensable enhancement provisions that enable the State to claim 50 per cent of any additional revenue derived by ConnectEast Pty Ltd (ConnectEast) as a result of certain events that particularly benefit EastLink, including changes to the adjoining road network.

On 2 January 2014, the State lodged a compensable enhancement claim as a result of opening Peninsula Link. The claim remains outstanding.

CONTINGENT LIABILITIES

Contingent liabilities are either:

- 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
- present obligations that arise from past events but are not recognised because of either of the following:
 - It is not probable that an outflow of resources embodying economic benefits will be required to settle the obligations
 - The amount of the obligations cannot be measured with sufficient reliability.

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

Table 7.2 contains quantifiable contingent liabilities as at 13 November 2025.

Table 7.2: Quantifiable contingent liabilities (\$ million)

	As at Nov 2025	Published budget estimate ^(a)
Guarantees, indemnities and warranties ^(b)	831	1 529
Legal proceedings and disputes	590	602
Other	454	490
Non-general government debt ^(c)	19 855	19 101
Total contingent liabilities	21 731	21 722

Notes:

(a) As published in the 2025-26 Budget.

(b) A number of guarantees have been classified as contractual guarantees and therefore recognised at their fair value on the balance sheet from 30 June 2025, rather than as quantifiable contingent liabilities, consistent with the requirements of AASB 9 Financial Instruments.

(c) Mainly represents the statutory guarantee of borrowings provided by the Treasurer for the public sector borrowings portfolio. Expected losses under any financial guarantees are recorded as financial liabilities in the balance sheet.

Non-quantifiable contingent liabilities

A number of potential obligations are non-quantifiable at this time arising from:

- indemnities relating to transactions, including financial arrangements and consultancy services, as well as for directors and administrators
- performance guarantees, warranties, letters of comfort and the like
- deeds in respect of certain obligations
- unclaimed monies, which may be subject to future claims by the public against the State.

An overview of the more significant non-quantifiable liabilities follows.

Compulsory property acquisitions

The State has compulsorily acquired a number of properties (residential and commercial) through the *Land Acquisition and Compensation Act 1986* to facilitate delivery of various projects. Possible future claims for compensation arising from the compulsory acquisition of these properties cannot be quantified at this stage.

COVID-19 class action – Victorian businesses

A class action has been filed in the Supreme Court of Victoria against the State of Victoria, the former Ministers for Health and Jobs, and the former Secretaries of the Department of Health and Human Services and the Department of Jobs, Precincts and Regions relating to economic losses suffered by Victorian businesses under Stage 3 and 4 public health restrictions. The Victorian Managed Insurance Authority (VMIA) has been notified of this proceeding and it is intended that VMIA's Combined Liability Policy will respond.

At this stage it is impractical to quantify the financial effects of this contingent liability.

Department of Education

The Department of Education 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 indemnity for personal injuries or death (and 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.
- Teaching service and public service employees: if a Department employee is named as a defendant in a civil proceeding (for example, personal injury, discrimination or employment claim), any costs and damages will generally be paid by the Department provided the employee 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 2006* 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 exercise of their powers or functions. The Department may decide to indemnify school councils (which are separate entities to the Department) in claims of common law negligence, employment disputes and other civil claims, for the cost of settlement and/or 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
 - the school council has insufficient funds to pay the claim.

Firefighters' Presumptive Rights Compensation and Fire Services Legislation Amendment (Reform) Act 2019

The *Firefighters' Presumptive Rights Compensation and Fire Services Legislation Amendment (Reform) Act 2019* (the Act) was assented on 2 July 2019.

Part 2 of the Act, which came into operation on 3 July 2019, provides for the establishment and operation of the Firefighters' Presumptive Rights Compensation scheme for both career and volunteer firefighters. At the time of the preparation of this report, it is impractical to quantify any possible contingent liabilities for the State arising from the scheme.

Fiskville independent investigation and closure of training college

On 26 March 2015, the Government announced the permanent closure of Fiskville Training College (Fiskville). Fiskville and Victorian Emergency Management Training Centre training grounds owned by the Country Fire Authority (CFA) at Penshurst, Bangholme, West Sale, Wangaratta, Huntly, and Longerenong have been the subject of notices issued by the Environment Protection Authority Victoria (EPA).

The CFA has a number of contingent liabilities arising from the closure of Fiskville and the notices issued by the EPA. These relate to any further notices that may be issued by the EPA, any regulatory infringements that may be imposed by the EPA, compensation that may be sought, and any legal claims that may be made.

At this stage it is impractical to quantify the financial effects of these contingent liabilities.

Foreign Purchaser Additional Duty and Absentee Owner Land Tax Surcharge class action

A class action has been filed in the Federal Court against the State of Victoria and the Commissioner for State Revenue which challenges the imposition of Foreign Purchaser Additional Duty under the *Duties Act 2000 (Vic)*, and Absentee Owner Surcharge under the *Land Tax Act 2005 (Vic)*. The representative proceeding was brought by two applicants on their own behalf and on behalf of an open class of group members. The applicants claim that the relevant statutory provisions are constitutionally invalid on the basis of their inconsistency with International Tax Agreements given effect to by the *International Tax Agreements Act 1953 (Cth)*. The constitutional issues raised by this proceeding were the subject of related High Court proceedings, in which judgment has recently been issued. The impact of that decision on the class action is still being considered.

At this stage it is not possible to quantify the financial effects of this contingent liability.

Historical child sexual abuse claims under the Financial Assistance Scheme

The historical nature of child sexual abuse (CSA) claims under the Financial Assistance Scheme (FAS) results in high uncertainty in the number of potential claimants, the timing of disclosures and the financial impact of individual claims.

Factors such as a lack of specific information about the number of eligible survivors, variability in claim amounts, and the potential for future claims arising from historical abuse prevent a reliable estimate of any future financial liability that may arise.

The provision included in the financial statements is estimated in accordance with AASB 137 *Provisions, Contingent Liabilities and Contingent Assets* based on available data and assumes no changes to the behaviour of the scheme (including legal or regulatory changes). The impact of potential future changes is not considered to be within scope of the provision under AASB 137 nor able to be estimated reliably with available information.

The State continues to monitor developments in claims and related legal or regulatory changes that may impact its financial position. Any future financial obligation will be assessed for recognition in the financial statements when it becomes probable and can be measured reliably.

This non-quantifiable contingent liability only relates to the CSA component under FAS and does not apply to any other components.

Land remediation – environmental concerns

In addition to properties for which remediation costs have been provided in the State's financial statements, certain other properties have been identified as potentially contaminated sites. The State does not admit any liability in respect of these sites. However, remedial expenditure may be incurred to restore the sites to an acceptable environmental standard in the event contamination is identified.

Native Title

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

Opal Australian Paper

On 22 September 2025, Opal Australian Paper lodged a Supreme Court action against the State for not fulfilling its obligations to supply native timber under the *Forests (Wood Pulp Agreement) Act 1996*. The State will defend against this claim but as this matter is still in the legal process it is impracticable to quantify the amount of any potential final liability claim at this time.

Per-fluoroalkyl and poly-fluoroalkyl substances (known as PFAS)

Fire Rescue Victoria and the Country Fire Authority (State Fire Services) has determined that there has been per-fluoroalkyl and poly-fluoroalkyl substances contamination at specific State Fire Service properties and adjoining surroundings. The State Fire Services continue to test for exposure and to decontaminate across all sites and locations. Due to the ongoing complexities of each site and adjoining surroundings together with the multiple stages of testing required to establish the level of exposure, the State Fire Services are unable to estimate an underlying value for this liability. This is likely to include any remediation works that may be required to meet environmental and people health and safety obligations across all of the sites while this testing continues and a complete program of works is undertaken to remediate related risks.

Planning scheme compensation

Under section 98 of the *Planning and Environment Act 1987*, the owner or occupier of any land may claim compensation from the planning authority for financial loss suffered as the natural, direct and reasonable consequence of the land being reserved, or declared as reserved for a public purpose under a planning scheme. The future liability depends on a number of factors and cannot be reliably quantified.

Public acquisition overlays for the future development of rail and road infrastructure

Public acquisition overlays are in place to reserve certain areas of land for future development of rail and road infrastructure. Under section 98 of the *Planning and Environment Act 1987*, the State has a legislative responsibility to compensate eligible land and property owners who face either:

- loss on sale – an eligible landowner is entitled to compensation for the incremental loss on sale when a property affected by a public acquisition overlay is sold for less than its market value
- financial loss – the entitlement to financial loss compensation is triggered when a development permit is refused because the property is required for a public purpose.

Compensation and purchase claims occur as a result of claims by landowners. The future liability depends on factors, including the number of claims received and the prevailing value of land at the time the claim is made. As a result, the liability cannot be reliably quantified.

Potential insurance claims

The State via the Victorian Managed Insurance Authority (VMIA) has a claims administration agreement to manage its insurance arrangements, including those related to self-insured historical abuse claims that are civil in nature.

The State has been served with self-insured historical abuse claims. The amount provided for historical abuse claims is based on assessed claims lodged on the basis that these represent present obligations in line with the requirements of AASB 137.

Possible future civil abuse claims may or may not be received by future claimants and these possible liabilities can be confirmed by claims being made and subsequent assessment. Given these circumstances, it is impractical to accurately quantify the full financial effects of these potential future claims.

Public transport rail partnership agreements

The Department of Transport and Planning (DTP) is party to contractual arrangements with franchisees to operate across the State:

- metropolitan tram services with Yarra Journey Makers from 1 December 2024 until 4 December 2033
- metropolitan train services with Metro Trains Melbourne from 30 November 2017 until 28 November 2027.

The major contingent liabilities arising in the event of early termination or expiry of the contracts are:

- partnership assets – to maintain continuity of services, at early termination or expiry of the franchise contract, assets will revert to DTP or a successor. In the case of some assets, a reversion back to DTP would entail those assets being purchased
- unfunded superannuation – at the early termination or expiry of the contract, DTP will assume any unfunded superannuation amounts (apart from contributions the operator is required to pay over the contract term) to the extent that the State becomes the successor operator.

Royal Commission into the Management of Police Informants

Since the conclusion of the Royal Commission into the Management of Police Informants (RCMPI), the State of Victoria (Victoria Police) has been served with a number of civil claims. These civil claims and a number of Court of Appeal criminal matters as well as ongoing disclosure work by Victoria Police will likely dictate whether further claims are received.

Given those circumstances, it is not possible to reliably quantify any contingent liabilities relating to potential matters arising from the conduct explored by the RCMPI.

Royal Melbourne Showgrounds redevelopment

The State has entered into an agreement with the Royal Agricultural Society of Victoria (RASV) pursuant to which the State agrees to support certain payment obligations of RASV that may arise under the Non-Core Development Agreement subject to the RASV complying with certain obligations as set out in that Deed. The possible liability depends on a number of future events and cannot be reliably and readily quantified.

Victorian Managed Insurance Authority – insurance cover

The VMIA was established in 1996 as an insurer for state government departments, participating bodies as defined under the *Victorian Managed Insurance Authority Act 1996* and other entities as declared by the Minister. VMIA insures its clients for property, public and products liability, professional indemnity, medical indemnity, contract works and a range of other liabilities. VMIA also provided domestic building insurance to Victorian residential builders from March 2010 to July 2025 when this function transferred to the Building and Plumbing Commission.

The VMIA reinsures in the private market based on the likelihood and impact of events as well as the cost and availability of such cover. The risk of losses above what the VMIA reinsures in the private market is borne by the State.

The State, under separate deeds of indemnity, has agreed to reimburse the VMIA:

- if the costs of public sector medical indemnity claims for a policy year exceed the initial estimate on which the risk premium was based by more than 20 per cent
- for losses above a certain limit that the VMIA may incur due to changes in the availability of reinsurance.

Yallourn Power Station safety net

The Government has reached an agreement with EnergyAustralia (EA) to ensure an orderly transition as EA implements the closure of the Yallourn Power Station in June 2028.

The agreement includes, should it be needed, a safety net to avoid an unplanned exit of Yallourn.

As part of this safety net, under certain scenarios, the State agrees to provide partial support to EA in the event of exceptional costs incurred in the operation of the Yallourn Power Station.

This support will help to ensure Yallourn's workers and Victoria's energy system have sufficient time to plan for the plant's closure. The possible liability depends on a number of future events and cannot be reliably and readily quantified.

APPENDIX A – SPECIFIC POLICY INITIATIVES AFFECTING THE BUDGET POSITION

Appendix A outlines specific policy initiatives that affect outputs and assets, including Treasurer’s Advances, agreed by the Government since the *2025-26 Budget*.

The following tables provide details of:

- revenue initiatives
- output and asset initiatives for departments.

Appendix A also includes a cross reference between initiatives and their relevant departmental outputs, which indicates the impact of policy decisions on relevant portfolios.

The figures included are generally the gross costs of decisions. Funding from reprioritisation and other sources has not been deducted from the total cost of new initiatives.

REVENUE INITIATIVES

Table A.1: Revenue initiatives (\$ million)

	2025-26	2026-27	2027-28	2028-29
Congestion levy	(18.4)	(19.8)	(20.4)	(20.9)
Delaying the Emergency Services and Volunteers Fund residential fixed charge changes for 12 months	..	(133.7)	..	..
Emergency Services and Volunteers Fund eligible volunteer rebate cap increase for farmland and single farm enterprises	..	(1.0)	(1.0)	(1.0)
Emergency Services and Volunteers Fund variable rate for primary production land ^(a)	(73.1)	(86.7)	(86.4)	(86.2)
Exclude Dinner Plain from the Vacant Residential Land Tax	..	..	..	..
Infrastructure contributions pilot extension	..	6.9	98.2	98.9
Land tax exemption for homeowners of low-value land with non-permanent shelters	..	..	..	..
Total revenue initiatives	(91.5)	(234.3)	(9.6)	(9.2)

Note:

(a) This estimate accounts for the reduced cost of eligible volunteer rebates. The 2025-26 change is smaller than for future years due to an offsetting 2025-26 valuation revision after the 2025-26 Budget.

Congestion levy

The Government is updating congestion levy settings from 1 January 2026, including:

- a 50 per cent concession for retail businesses in the category 2 area offering conditional free parking
- a rebate scheme for qualifying car park owners and operators that build social and affordable housing.

Delaying the Emergency Services and Volunteers Fund residential fixed charge changes for 12 months

The increase in the Emergency Services and Volunteers Fund (ESVF) fixed charge for residential properties will be delayed by 12 months, until 1 July 2027, to provide time to finalise and test information sharing arrangements.

Under current settings, from 1 July 2026 the ESVF residential fixed charge (\$136 in 2025-26) would increase to align with the non-residential fixed charge (\$275 in 2025-26), and a 50 per cent concession for principal places of residence would apply.

Delaying this change by 12 months will keep the 2026-27 fixed charge for all residential properties at the 2025-26 level, indexed by CPI.

Emergency Services and Volunteers Fund eligible volunteer rebate cap increase for farmland and single farm enterprises

From 2026-27, the cap for eligible volunteers claiming an ESVF rebate for their farm or single farm enterprise will increase from \$5 million of capital improved value to \$10 million of capital improved value, increasing the maximum rebate an eligible volunteer can receive.

Emergency Services and Volunteers Fund variable rate for primary production land

The ESVF variable rate for primary production properties will remain at 28.7c/\$1 000 of capital improved value to provide continued relief for farmers.

Exclude Dinner Plain from the Vacant Residential Land Tax

Residential land located in Dinner Plain will be excluded from the Vacant Residential Land Tax (VRLT). Dinner Plain has the same seasonal nature of demand for accommodation as other alpine resort areas already excluded from the VRLT.

The initiative will apply from the 2025 land tax year.

Infrastructure contributions pilot extension

Infrastructure Contributions pilot extension will be implemented from 1 January 2027 as a charge on property development in the 10 pilot Train and Tram Zone (TTZ) Activity Centres and expanded to 48 additional TTZ Activity Centres from 1 July 2027. The charge will be initially set at \$11 350 per dwelling or equivalent unit of non-residential building, and indexed annually to account for growth in input costs for infrastructure as outlined in the Ministerial Directions. All revenue raised will be provided for state and local government investments in infrastructure for Train and Tram Zone Activity Centres.

Land tax exemption for homeowners of low-value land with non-permanent shelters

A new land tax exemption will be introduced for non-permanent shelters used as a landowner's home, located on land with a site value less than \$300 000. An existing land tax exemption applies for principal places of residence, but that exemption requires the home to be affixed to the land and have an occupancy permit. This new exemption recognises that the small number of landowners without a fixed residential dwelling on the low-value land they occupy should also be eligible for a land tax exemption for their home.

WHOLE OF GOVERNMENT

Output initiatives

Table A.2: Output initiatives – Whole of Government (\$ million)

	2025-26	2026-27	2027-28	2028-29
Community Safety Package	155.7	210.3	155.7	148.5
Emergency Preparedness Package	85.5	..	..	..
Immediate uplift and overhaul of child safety and early childhood sector	54.9	28.5	22.4	20.9
Total output initiatives	296.1	238.8	178.1	169.3

Community Safety Package

Funding is provided for the implementation of new laws and policy settings designed to prioritise community safety. Funding will support increased capacity across the corrections, youth justice and courts systems, and for the Victorian Ombudsman and initiatives to reduce youth crime and keep the community safe, including establishing a dedicated Victorian Violence Reduction Unit, Victoria Police's 90-day targeted deployment of Protective Service Officers in shopping centres and new Early Intervention Officer positions across 20 targeted secondary schools to engage young people and prevent engagement with the criminal justice system.

This builds on funding announced in the *2025-26 Budget*.

This initiative contributes to the Department of Justice and Community Safety's:

- Advocacy, Human Rights and Victim Support output
- Policing and Community Safety output
- Public Prosecutions and Legal Assistance output
- Prisoner Supervision and Support output
- Youth Justice Custodial Services output
- Youth Justice Community Based Services output.

This initiative contributes to the Department of Premier and Cabinet's Social Policy Advice and Intergovernmental Relations output.

This initiative contributes to the Department of Education's Wellbeing Supports for Students output.

Emergency Preparedness Package

Funding is provided to boost Victoria's aerial firefighting capability and fire readiness, and for Victoria's Emergency Services Organisations ahead of the upcoming high-risk weather season. Funding also includes maintenance of firefighting fleet, upgrades to fire towers, airbases, fire access roads and bridges, and base camp equipment.

This initiative contributes to the Department of Energy, Environment and Climate Action's Fire and Emergency Management output.

This initiative contributes to the Department of Justice and Community Safety's Emergency Management Capability output.

Immediate uplift and overhaul of child safety and early childhood sector

Funding is provided to deliver immediate action to strengthen child safety as recommended by the Rapid Child Safety Review.

This initiative contributes to the Department of Education's Early Childhood Sector Supports and Regulation output.

This initiative contributes to the Department of Families, Fairness and Housing's Child Protection and Family Services output.

This initiative contributes to the Department of Government Services' Identity and Worker Screening Services output.

Asset initiatives

Table A.3: Asset initiatives – Whole of Government (\$ million)

	2025-26	2026-27	2027-28	2028-29	TEI
Community Safety Package	18.4	0.3	..	..	18.7
Emergency Preparedness Package	29.4	..	..	..	29.4
Immediate uplift and overhaul of child safety and early childhood sector	9.6	1.4	..	..	11.0
Total asset initiatives	57.3	1.7	..	..	59.0

Community Safety Package

Refer to the output initiative for a description of this initiative.

Emergency Preparedness Package

Refer to the output initiative for a description of this initiative.

Immediate uplift and overhaul of child safety and early childhood sector

Refer to the output initiative for a description of this initiative.

DEPARTMENT OF EDUCATION

Output initiatives

Table A.4: Output initiatives – Education (\$ million)

	2025-26	2026-27	2027-28	2028-29
Additional Supports for Students with Disabilities				
Disability Inclusion	92.9	266.8	..	..
Total output initiatives	92.9	266.8	..	..

Additional Supports for Students with Disabilities

Disability Inclusion

Additional funding is provided to meet demand for individualised disability funding in government schools. This supports adjustments and assistance for students with disability with high and complex needs.

This initiative contributes to the Department of Education’s Additional Supports for Students with Disabilities output.

DEPARTMENT OF ENERGY, ENVIRONMENT AND CLIMATE ACTION

Output initiatives

Table A.5: Output initiatives – Energy, Environment and Climate Action (\$ million)

	2025-26	2026-27	2027-28	2028-29
Agriculture				
Drought support package	96.5	..	..	..
Total output initiatives	96.5	..	..	..

Agriculture

Drought support package

The Government’s Drought support package provides more than \$146.5 million for a suite of programs and services to support Victorian farming communities affected by drought conditions. The above output initiative of \$96.5 million reflects the expenditure to date. This includes the Farm Drought Support Grants program and counselling and advice for farmers. The package also includes the Primary Producer Support Payments Program that provides cashflow relief in 2025-26 for eligible farmers in South West Victoria.

This initiative contributes to the Department of Energy, Environment and Climate Action’s Agriculture output.

DEPARTMENT OF GOVERNMENT SERVICES

Output initiatives

Table A.7: Output initiatives – Government Services (\$ million)

	2025-26	2026-27	2027-28	2028-29
Customer Services to the Community				
Children's Agenda priority workstreams – Children's digital roadmap	0.7	..	..	..
Total output initiatives	0.7	..	..	..

Customer Services to the Community

Children's Agenda priority workstream – Children's digital roadmap

Refer to the asset initiative for a description of this initiative.

Asset initiatives

Table A.8: Asset initiatives – Government Services (\$ million)

	2025-26	2026-27	2027-28	2028-29	TEI
Customer Services to the Community					
Children's Agenda priority workstreams – Children's digital roadmap	13.7	3.3	..	..	17.0
Total asset initiatives	13.7	3.3	..	..	17.0

Customer Services to the Community

Children's Agenda priority workstream – Children's digital roadmap

Funding is provided to deliver a children's digital roadmap to take pressure off Victorian parents and carers by simplifying key interactions with government services and providing easy access to trusted information. The free new online service is a one-stop shop for parents and carers seeking information and resources on maternal and child health services, early childhood education, playgroups, kindergarten, and critical information on emergency services.

This initiative contributes to the Department of Government Services' Customer Services to the Community output.

DEPARTMENT OF HEALTH

Output initiatives

Table A.9: Output initiatives – Health (\$ million)

	2025-26	2026-27	2027-28	2028-29
Public Health				
Mpox and RSV immunisation program	28.1	..	..	..
Total output initiatives	28.1	..	..	..

Public Health

Mpox and RSV immunisation program

Funding is provided to maintain the suppression of mpox in Victoria and continue to protect newborns and infants at risk of Respiratory Syncytial Virus (RSV).
This initiative contributes to the Department of Health’s Public Health output.

DEPARTMENT OF JOBS, SKILLS, INDUSTRY AND REGIONS

Output initiatives

Table A.10: Output initiatives – Jobs, Skills, Industry and Regions (\$ million)

	2025-26	2026-27	2027-28	2028-29
Industry, Small Business and Medical Research				
Porepunkah and Alpine Region business support package ^(a)	1.7	..	..	..
Tourism and Major Events				
Visit Victoria destination marketing	16.9	26.8	..	..
Total output initiatives	18.6	26.8	..	..

Note:

(a) Additional funding of \$0.8 million for the Ride High Country Marketing Phase 2 project, which will contribute to the delivery of the Government's commitment of a support package of up to \$2.5 million for Porepunkah, Bright and the surrounding region, will be disclosed in the 2026-27 budget papers.

Industry, Small Business and Medical Research

Porepunkah and Alpine Region business support package

Funding is provided to support businesses and the visitor economy in Porepunkah, Bright and the surrounding region following the security incident in August 2025, including through:

- \$5 000 grants for eligible businesses that experienced significant disruptions and revenue losses following the incident
- financial support for the Alpine Shire Council and the local business chamber to support community activities and events.

This initiative contributes to the Department of Jobs, Skills, Industry and Regions':

- Industry, Small Business and Medical Research output
- Regional Development output.

Tourism and Major Events

Visit Victoria destination marketing

Funding is provided to continue the delivery of destination marketing activities supporting Victoria's visitor economy and backing the tourism industry.

This initiative contributes to the Department of Jobs, Skills, Industry and Regions' Tourism and Major Events output.

DEPARTMENT OF JUSTICE AND COMMUNITY SAFETY

Output initiatives

Table A.11: Output initiatives – Justice and Community Safety (\$ million)

	2025-26	2026-27	2027-28	2028-29
Advocacy, Human Rights and Victim Support				
Anti-vilification reforms	0.9	1.6	..	..
Total output initiatives	0.9	1.6	..	..

Advocacy, Human Rights and Victim Support

Anti-vilification reforms

Funding is provided to the Victorian Equal Opportunity and Human Rights Commission (VEOHRC) and the Office of Public Prosecutions (OPP) to implement the *Justice Legislation Amendment (Anti-vilification and Social Cohesion) Act 2025* and protect more Victorians from vilification.

This initiative contributes to the Department of Justice and Community Safety’s Advocacy, Human Rights and Victim Support output.

DEPARTMENT OF PREMIER AND CABINET

Output initiatives

Table A.12: Output initiatives – Premier and Cabinet (\$ million)

	2025-26	2026-27	2027-28	2028-29
Multicultural Affairs Policy and Programs				
Multicultural Community Capacity Building Program	5.0	..	..	..
Self-Determination Policy, and Reform Advice and Programs				
First Statewide Treaty Agreement	3.0	23.8	71.0	72.2
Traditional Owner Engagement and Cultural Heritage Management				
Cultural heritage system review implementation	5.0	..	..	..
Total output initiatives	13.0	23.8	71.0	72.2

Multicultural Affairs Policy and Programs

Multicultural Community Capacity Building Program

Funding is provided to establish the Multicultural Community Capacity Building Program. This program will strengthen the capacity of multicultural organisations to deliver services for their communities and foster social cohesion across the state.

This initiative contributes to the Department of Premier and Cabinet’s Multicultural Affairs Policy and Programs output.

Self-Determination Policy, and Reform Advice and Programs

First Statewide Treaty Agreement

Funding is provided for the establishment and ongoing operation of a new entity, Gellung Warl (*Gullung-Warl* from Gunaikurnai language), under the first Statewide Treaty Agreement and Act.

The establishment of a permanent representative body for First Peoples supports the Government’s commitment to transfer decision-making and resources to First Peoples and creates a vehicle for self-determination. Funding will provide adequate and sustainable resourcing for Gellung Warl to achieve outcomes sought by the State and the First Peoples Assembly through the Statewide Treaty Agreement.

This initiative contributes to the Department of Premier and Cabinet’s Self-Determination Policy, and Reform Advice and Programs output.

Traditional Owner Engagement and Cultural Heritage Management

Cultural heritage system review implementation

Funding is provided to support the delivery and implementation of reform options to strengthen Victoria’s Aboriginal cultural heritage system and improve the efficiency of Cultural Heritage Management Plan (CHMP) processes. This reform will facilitate the development of new housing and renewable energy projects while continuing to promote protection of Aboriginal cultural heritage consistent with the *Aboriginal Heritage Act 2006* and Government’s commitment to self-determination.

This initiative contributes to the Department of Premier and Cabinet’s Traditional Owner Engagement and Cultural Heritage Management output.

Asset initiatives

Table A.13: Asset initiatives – Premier and Cabinet (\$ million)

	2025-26	2026-27	2027-28	2028-29	TEI
Self-Determination Policy, and Reform Advice and Programs					
First Statewide Treaty Agreement	..	21.0	15.5	0.4	36.8
Total asset initiatives	..	21.0	15.5	0.4	36.8

Self-Determination Policy, and Reform Advice and Programs

First Statewide Treaty Agreement

Refer to the output initiative for a description of this initiative.

DEPARTMENT OF TRANSPORT AND PLANNING

Output initiatives

Table A.14: Output initiatives – Transport and Planning (\$ million)

	2025-26	2026-27	2027-28	2028-29
Free weekend public transport this summer ^(a)	15.2	..	..	..
Bus Services				
Delivering a bus service for the Avalon Airport precinct	0.6	0.6	0.6	0.6
Planning and Heritage				
Infrastructure Contributions – Local government	..	4.6	65.5	65.9
Infrastructure Contributions – State government	..	1.4	6.8	6.9
Ports and Freight				
Victorian Freight Plan	7.5	7.5	..	..
Transport Infrastructure				
Active transport infrastructure	..	15.0	15.0	15.0
Total output initiatives	23.3	29.0	87.8	88.4

Note:

(a) The figures reflect the total cost of the initiative, including foregone revenue.

Free weekend public transport this summer

Funding is provided to celebrate the opening of the Metro Tunnel by making all public transport travel in Victoria free on weekends from 30 November 2025 to 1 February 2026.

This initiative contributes to the Department of Transport and Planning's:

- Bus Services – Statewide output
- Train Service – Statewide output
- Tram Services output.

Bus Services

Delivering a bus service for the Avalon Airport precinct

Funding is provided to deliver a bus service connecting Lara Station to Avalon Airport and the Greater Avalon Employment Precinct.

This initiative contributes to the Department of Transport and Planning's Bus Services – Regional output.

Planning and Heritage

Infrastructure Contributions – Local government

Funding is provided for local government investments in infrastructure for Train and Tram Zone Activity Centres from revenue collected through Infrastructure Contributions.

This initiative contributes to the Department of Transport and Planning's Planning and Heritage output.

Infrastructure Contributions – State government

Refer to the asset initiative for a description of this initiative.

This initiative contributes to the Department of Transport and Planning's Planning and Heritage output.

Ports and Freight

Victorian Freight Plan

Funding is provided to support the delivery of the *Victorian Freight Plan 2025-2030*, through a range of decarbonisation and air quality improvement initiatives. A Freight Sector Innovation Fund will assist small and heavy vehicle operators to trial and transition to low-emission equipment, including developing a freight charging strategy.

This initiative contributes to the Department of Transport and Planning's Ports and Freight output.

Transport Infrastructure

Active transport infrastructure

Funding is provided to improve travel options, amenity and safety for people travelling to and around the CBD and inner suburbs of Melbourne. Projects will include investment in bicycle infrastructure, improvements to footpaths and other street-space upgrades and will reduce congestion in inner city areas.

This initiative contributes to the Department of Transport and Planning's Transport Infrastructure and Road Operations outputs.

Asset initiatives

Table A.15: Asset initiatives – Transport and Planning (\$ million)

	2025-26	2026-27	2027-28	2028-29	TEI
Bus Services					
Delivering a bus service for the Avalon Airport precinct	0.3	..	..	..	0.3
Planning and Heritage					
Infrastructure Contributions – State government	..	0.9	25.9	26.1	53.0
Total asset initiatives	0.3	0.9	25.9	26.1	53.3

Bus Services

Delivering a bus service for the Avalon Airport precinct

Refer to the output initiative for a description of this initiative.

Planning and Heritage

Infrastructure Contributions – State government

Funding is provided for State government investment in infrastructure for Train and Tram Zone Activity Centres from revenue collected through Infrastructure Contributions.

DEPARTMENT OF TREASURY AND FINANCE

Output initiatives

Table A.16: Output initiatives – Treasury and Finance (\$ million)

	2025-26	2026-27	2027-28	2028-29
Commercial and Infrastructure Advice				
Independent Review of Employee Representatives	1.3	..	..	..
Total output initiatives	1.3	..	..	..

Commercial and Infrastructure Advice

Independent Review of Employee Representatives

Funding is provided to undertake and deliver an independent review into the powers and supports for employee representatives under the *Occupational Health and Safety Act 2004*, to consider their effectiveness and make any recommendations for improvements.

This initiative contributes to the Department of Treasury and Finance’s Commercial and Infrastructure Advice output.

PARLIAMENT AND INTEGRITY AGENCIES

Output initiatives

Table A.17: Output initiatives – Parliament and Integrity Agencies (\$ million)

	2025-26	2026-27	2027-28	2028-29
Parliamentary Services				
Member of Parliament Indemnity Insurance Scheme	0.4	0.5	..	..
Total output initiatives	0.4	0.5	..	..

Parliamentary Services

Member of Parliament Indemnity Insurance Scheme

Funding is provided to indemnify current and former Members of Parliament for reasonable legal costs incurred as a result of any investigation under the *Parliamentary Workplace Standards and Integrity Act 2024*, which commenced from 31 December 2024.

This initiative contributes to Parliament’s Parliamentary Services output.

SAVINGS INITIATIVES

Table A.18: Savings initiatives

(\$ million)

	2025-26	2026-27	2027-28	2028-29
Whole of Government savings and efficiencies	..	195.7	259.4	295.2
Total savings initiatives	..	195.7	259.4	295.2

Whole of Government savings and efficiencies

The Victorian Government is committed to continuing to ensure the public sector is appropriately focused on delivering critical services, ensuring that families receive the support they need.

To support this objective, the Independent Review of Victoria's Public Service, led by Helen Silver AO (the Review) was established to identify overlaps and inefficiencies, right-size program expenditure and return the public sector towards its pre-pandemic share of employment, ensuring spending is aligned with the Government's cost-of-living relief and key service priorities.

The *2025-26 Budget Update* includes additional saving and efficiency measures adopted as part of the Government response to the Review's Final Report. These savings and efficiencies are in addition to the \$3.3 billion included in the *2025-26 Budget*, which were consistent with the objectives of the Independent Review and informed by the Review's interim recommendations.

APPENDIX B – AMENDMENTS TO THE 2025-26 OUTPUT PERFORMANCE MEASURES

Output measures for all departments were published in the *2025-26 Department Performance Statement*. The Public Accounts and Estimates Committee has completed its review of the measures which were substantially changed or proposed to be discontinued, and tabled its report in Parliament on 28 October 2025. The Government will consider the Committee's report and respond to the recommendations within the legislated timeline. All agreed changes to output performance measures will be reflected in the next budget publication.

APPENDIX C – TAX EXPENDITURES AND CONCESSIONS

Tax expenditures and concessions represent forgone revenue to the State. They take different forms, including exemptions, benefits and incentives delivered through the tax system, and preferentially benefit certain taxpayers, activities or assets compared with normal treatment.

TAX EXPENDITURES

Tax expenditures are estimated by taking the difference between the tax paid by a person or entity receiving preferential treatment and the tax paid by taxpayers who do not receive that treatment. Benefits arising from marginal tax rates and tax-free thresholds are not considered to be tax expenditures, since they apply to all taxpayers.

Over the decade to 2024-25, the State has forgone \$109 billion in revenue from tax expenditures. In 2025-26, tax expenditures are forecast to be \$18.9 billion.

The tax expenditures outlined below include exemptions, reduced rates, deductions and rebates of tax for a certain type of taxpayer, activity or asset. Table C.1 aggregates tax expenditure estimates by the main tax categories for the period 2025-26 to 2028-29.

Tax expenditure estimates have been revised since the *2025-26 Budget* to reflect updated revenue collections and policy changes.

Consistent with previous years, land tax makes the largest contribution to total estimated tax expenditures in 2025-26, primarily due to the principal place of residence and primary production exemptions. Payroll tax expenditures form the highest non-property related tax expenditure.

The tax expenditure totals for the *2025-26 Budget Update* reflect the announcement that from 1 January 2026, a 50 per cent concession will apply to the congestion levy for retail businesses in the category 2 area offering conditional free parking.

Table C.1: Estimates of aggregate tax expenditures by type of tax ^(a) (\$ million)

Description	2025-26	2026-27	2027-28	2028-29
Land tax ^(b)	11 800	12 210	12 878	13 807
Payroll tax	2 018	2 116	2 220	2 333
Land transfer duty	1 865	1 951	2 032	2 120
Insurance duty	1 602	1 716	1 840	1 975
Congestion levy ^(c)	695	739	785	834
Motor vehicle taxes ^(d)	482	488	507	527
COVID Debt Levy – Payroll \$10m+	125	134	143	152
Mental Health and Wellbeing Levy	125	134	143	152
Gambling taxes ^(e)	91	94	97	97
Emergency Services and Volunteers Fund ^(f)	48	50	51	52
Total estimated tax expenditures	18 851	19 632	20 695	22 049

Notes:

- (a) All amounts have been rounded to the nearest \$1 million unless otherwise stated. Figures may not add due to rounding.
- (b) Land tax estimates include the COVID Debt Levy – Landholdings. The decrease in land tax expenditures since the 2025-26 Budget is due to a moderation in residential land values consistent with the Valuer-General Victoria's 2025 revaluation outcomes, impacting 2026 land tax assessments.
- (c) The increase in congestion levy tax expenditures since the 2025-26 Budget reflects a revised estimate for residential parking and the inclusion of a new estimate for on-street parking due to changes in data availability.
- (d) The decrease in motor vehicle taxes expenditures since the 2025-26 Budget reflects the net impacts from an improved calculation method for non-passenger vehicle concessions, an increase in luxury duty for motor vehicles due to a change in data availability and the Aligning vehicle registration fees for zero and low emission vehicles initiative which removes registration discounts for zero and low emission vehicles from 1 January 2026.
- (e) The changes to gambling taxes expenditures since the 2025-26 Budget reflect upgrades in revenue forecasts from stronger activity observed.
- (f) The Emergency Services and Volunteers Fund (ESVF) includes a rebate for eligible volunteers from the Country Fire Authority and Victoria State Emergency Service. The decrease in the ESVF tax expenditure since the 2025-26 Budget reflects the extension of the variable rate freeze on primary production properties.

CONCESSIONS

Concessions are direct budget outlays or reduced government charges that reduce the price of a good or service for particular groups. Over the decade to 2024-25, the State has provided approximately \$19.2 billion in concessions. In 2025-26, concessions are forecast to be around \$2.7 billion.

Certain characteristics of a consumer, such as possessing a Commonwealth Government Pensioner Concession Card or Health Care Card, are generally the basis for such entitlements. Concessions allow certain groups in the community to access or purchase important public services such as energy, education, health and transportation at a reduced cost. Table C.2 classifies the major concessions by category.

Health concessions include concessions for services such as ambulances, community health programs, dental and spectacles.

Eligible concession card holders receive reduced bills for energy, municipal rates, water and sewerage funded by the State via service providers.

Education concessions include concessions for preschool and for vocational education and training.

Private transport concessions consist of a discount on Transport Accident Commission premiums for pensioner and health care card holders and the TAC Premium component of the Trade Apprenticeship Registration Discount scheme. Private transport concessions also include funding of the Multi-Purpose Taxi Program and vehicle registration discounts through the Victorian Veterans Card initiative.

Public transport concessions include free public transport travel for children and other free travel passes and concessional fares provided to eligible customers to travel free or on discounted fares on the public transport network.

Hardship schemes include the Utility Relief Grant Scheme and payments to State Trustees through a Community Service Agreement. The Utility Relief Grant Scheme assists Victorians unable to pay utility bills due to temporary financial hardship. State Trustees provide trustee services, including managing the legal and financial affairs of Victorians unable to do so independently.

The social and community services category includes assistance to not-for-profit organisations such as Bereavement Assistance Limited, the Charity Freight Service and food relief organisations.

Table C.2: Concessions by category ^(a)**(\$ million)**

<i>Description</i>	<i>2025-26</i>
Ambulance	604
Dental services and spectacles ^(b)	170
Community health programs ^(c)	173
Total health	948
Water and sewerage	191
Electricity	156
Municipal rates	108
Mains gas	83
Total energy, municipal rates, water and sewerage	537
Education	441
Private transport	348
Public transport	271
Hardship schemes	121
Social and community services	7
Total for items estimated	2 673

*Notes:**(a) All amounts have been rounded to the nearest \$1 million unless otherwise stated. Figures may not add due to rounding.**(b) The increase in Dental services and spectacles concessions since the 2025-26 Budget reflects the Federation Funding Agreement: Public Dental Services for Adults 2025-26.**(c) The increase in Community health programs concessions since the 2025-26 Budget reflects the carryover in program funding for Medicare Urgent Clinics, Medicare Supporting Older Victorians, Community Pharmacist Prescribing and Primary Care Pilots.*

APPENDIX D – QUARTERLY FINANCIAL REPORT NO. 1 – SEPTEMBER 2025

OVERVIEW

The financial statements included in this appendix compare the revised budget outcomes for the 2025-26 financial year and the actual financial results for the general government sector for the three months to 30 September 2025, prepared in accordance with the *Financial Management Act 1994*.

FINANCIAL RESULTS FOR THE GENERAL GOVERNMENT SECTOR

For the three months to 30 September 2025, the net result from transactions for the general government sector recorded a deficit of \$28 million, a significant improvement compared with the \$1.7 billion deficit for the corresponding period in the prior year. This result compares with a full-year revised budget surplus of \$710 million.

Caution needs to be taken in interpreting and projecting the potential annual outcome for the full year from this quarterly result, due to the significant impact of the uneven recognition pattern of various major revenue items. These include land tax, the Emergency Services and Volunteers Fund, Commonwealth grants and dividends from public corporations.

Revenue and income from transactions

Total revenue for the three months to 30 September 2025 was \$26.5 billion. This is 24.2 per cent of the full-year revised budget estimate and an increase of \$3.3 billion compared with the same period last year.

Taxation revenue was \$10.2 billion, or 24.1 per cent of the full-year revised budget estimate. Taxation revenue increased by \$1.2 billion when compared with the same period last year. This was primarily due to the commencement of the Emergency Services and Volunteers Fund which replaced the Fire Services Property Levy from 1 July 2025, and an increase in land transfer duty revenue resulting from growth in both settlement volumes and transaction prices. Strong employment and wage growth have also led to payroll taxes (including Mental Health and Wellbeing Levy and COVID Debt Levy – Payroll \$10m+) contributing to the increase from the prior year.

Dividends and income tax equivalent income was \$874 million for the three months to 30 September 2025. This is 50.8 per cent of the full-year revised budget estimate and an increase of \$402 million compared with the same period last year. The increase was primarily due to increased distributions received from investments relating to the Victorian Future Fund and the Social Housing Growth Fund.

Grant revenue was \$12.3 billion, or 23.2 per cent of the full-year revised budget estimate. This is below the pro-rata budget, primarily due to the timing of capital grants from the Commonwealth, including for North East Link and Suburban Rail Loop East, as well as the no-worse-off guarantee payment which is expected to be paid in December. Grant revenue was \$1.4 billion higher when compared with the same period last year. This was primarily driven by higher goods and services tax (GST) grants due to an increase in the Victorian GST relativity following the outcome of the Commonwealth Grants Commission's 2025 Methodology Review, as well as growth in the national GST pool. Higher grants from the Commonwealth relating to the National Health Reform Agreement have also contributed to the increase from the same period last year.

Revenue from the sale of goods and services was \$1.9 billion, or 23.8 per cent of the full-year revised budget estimate. The sale of goods and services was \$278 million higher when compared with the same period last year, including the increased share of farebox revenue under the new metropolitan tram franchise agreement, and insurance premiums revenue as a result of the commencement of the Building and Plumbing Commission (BPC) with responsibility for the Domestic Building Insurance function being transferred from the Victorian Managed Insurance Authority in the Public Financial Corporations (PFC) sector to BPC in the general government sector from 1 July 2025. The increase was also due to additional land title fees resulting from increased activity, as well as higher regulatory fees received compared with the corresponding period last year.

The other sources of general government revenue represent a relatively small component of total revenue.

Expenses from transactions

Total expenses for the three months to 30 September 2025 were \$26.6 billion, an increase of \$1.7 billion compared with the same time last year. This increase mainly reflects an increase in other operating expenses of \$650 million, including the increased energy bill relief concession payments as well as increased subsidy payments to the operator as a result of the State electing to retain a higher share of farebox revenue under the new metropolitan tram franchise agreement. Also contributing to the increase in total expenses are increased spending on service delivery in the health sector and an increase in remuneration and associated costs in line with enterprise agreement outcomes. There was also an increase in interest expense associated with additional borrowings and an increase in interest rates on new and refinanced borrowings.

Total expenses were \$706 million below pro-rata at 24.4 per cent of the revised budget estimate. The variance to the pro-rata revised budget is primarily due to the timing of grant and other expenditure programs across departments.

Other economic flows – Other comprehensive income

Other economic flows that are not included in the net result reflected a gain of \$1.4 billion for the three months to 30 September 2025. This was primarily due to the remeasurement gain on the State's defined benefit superannuation liability that arose due to an increase in the bond yield that underlies the key superannuation valuation assumptions, and remeasurement gains on superannuation assets.

Balance sheet

Total assets increased by \$8.4 billion in the three months to 30 September 2025, mainly due to the continuous investments in the Government's infrastructure program and increased cash holdings, primarily reflecting upfront payments to the health sector to meet service delivery requirements.

Total liabilities increased by \$7.6 billion to \$258.6 billion as at 30 September 2025. This increase was primarily due to additional borrowings to finance the Government's infrastructure program.

Net debt increased by \$5.6 billion to \$156.5 billion as at 30 September 2025. This was mainly driven by an increase in borrowings, partially offset by an increase in cash holdings for the reasons outlined above.

Cash flow statement

The net cash flows from operating activities was a deficit of \$222 million for the three months to 30 September 2025. The net cash flows from operating activities improved by \$1.7 billion from the equivalent period in the prior year, primarily relating to the improvement in net result from transactions as explained above.

Government infrastructure investment

The State continues to deliver its infrastructure program to support economic activity and jobs, growing community needs and ongoing productivity improvement. Government infrastructure investment, which includes general government net infrastructure investment (net of asset sales) and estimated construction-related cash outflows for Partnerships Victoria projects, totalled \$5.2 billion for the three months to 30 September 2025 (\$5.4 billion for the corresponding period in 2024).

CONSOLIDATED COMPREHENSIVE OPERATING STATEMENT

For the period ended 30 September

(\$ million)

2024-25 actual 30 Sep			2025-26 actual 30 Sep revised budget	
		Notes		
	Revenue and income from transactions			
8 923	Taxation	D.2.1	10 161	42 095
398	Interest income		410	1 363
472	Dividends and income tax equivalent income	D.2.2	874	1 721
1 615	Sales of goods and services	D.2.3	1 893	7 942
10 906	Grants	D.2.4	12 263	52 880
907	Other revenue and income	D.2.5	938	3 804
23 223	Total revenue and income from transactions		26 539	109 805
	Expenses from transactions			
9 477	Employee expenses		9 895	39 036
	Superannuation:			
195	Net superannuation interest expense	D.3.2	199	784
1 140	Other superannuation	D.3.2	1 213	4 536
1 328	Depreciation	D.4.2	1 468	6 331
1 553	Interest expense	D.5.2	1 810	7 723
4 272	Grant expense	D.3.3	4 393	18 425
6 940	Other operating expenses	D.3.4	7 589	32 260
24 904	Total expenses from transactions		26 567	109 095
(1 682)	Net result from transactions – Net operating balance		(28)	710
	Other economic flows included in net result			
20	Net gain/(loss) on disposal of non-financial assets		..	20
(46)	Net gain/(loss) on financial assets or liabilities at fair value		(406)	216
..	Share of net profit/(loss) from associates/joint venture entities		..	(45)
(148)	Other gains/(losses) from other economic flows	D.6.1	(136)	(548)
(174)	Total other economic flows included in net result		(542)	(357)
(1 856)	Net result		(570)	353
	Other economic flows – Other comprehensive income			
	Items that will not be reclassified to net result			
586	Changes in non-financial assets revaluation surplus		207	3 397
(978)	Remeasurement of superannuation defined benefits plans	D.3.2	1 184	1 611
104	Other movements in equity		1	(91)
	Items that may be reclassified subsequently to net result			
(16)	Net gain/(loss) on financial assets at fair value		8	3
..	Net gain/(loss) on equity investments in other sector entities at proportional share of the carrying amount of net assets ^(a)		..	(24 113)
(305)	Total other economic flows – Other comprehensive income		1 400	(19 193)
(2 161)	Comprehensive result – Total change in net worth		830	(18 840)

CONSOLIDATED COMPREHENSIVE OPERATING STATEMENT **(CONTINUED)**

For the period ended 30 September (\$ million)

2024-25		Notes	2025-26	
actual			actual	revised
30 Sep			30 Sep	budget
KEY FISCAL AGGREGATES				
(1 682)	Net operating balance		(28)	710
3 443	Less: Net acquisition of non-financial assets from transactions ^(b)	D.3.8	2 704	(14 776)
(5 124)	Net lending/(borrowing)		(2 732)	15 486

Notes:

(a) The value in 2025-26 includes the derecognition of completed Metro Tunnel assets transferred to VicTrack, as required under AASB 16 Leases.

(b) The value against 2025-26 revised budget includes the transfer of the Metro Tunnel assets from the Department of Transport and Planning in the general government sector to VicTrack in the public non-financial corporations sector upon its completion.

CONSOLIDATED BALANCE SHEET

As at 30 September

(\$ million)

2024-25		Notes	2025-26		
actual			opening	actual	revised
30 Sep			1 Jul	30 Sep	budget
Assets					
Financial assets					
14 332	Cash and deposits	D.5.3	12 800	15 277	14 191
6 377	Advances paid		6 407	6 228	6 229
9 428	Receivables and contract assets	D.2.6	10 203	10 468	10 567
15 625	Investments, loans and placements		17 781	18 140	18 616
1 161	Investments accounted for using the equity method		1 141	1 199	1 322
98 974	Investments in PNFC and PFC sector entities		96 401	97 792	101 863
145 897	Total financial assets		144 732	149 104	152 787
Non-financial assets					
330	Inventories		277	294	295
242	Non-financial assets held for sale		145	126	145
273 295	Land, buildings, infrastructure, plant and equipment	D.4.1	288 244	291 125	276 829
7 442	Other non-financial assets	D.4.3	6 906	8 040	7 033
281 310	Total non-financial assets		295 573	299 585	284 303
427 207	Total assets		440 305	448 690	437 090
Liabilities					
1 577	Deposits held and advances received		1 595	1 649	1 546
5 930	Payables	D.3.5	6 558	5 871	6 369
175 439	Borrowings	D.5.1	186 259	194 511	203 253
11 574	Employee benefits	D.3.1	12 070	12 382	11 885
19 368	Superannuation		18 284	17 169	17 300
3 138	Other provisions		3 762	4 125	3 973
22 524	Other liabilities	D.2.7	22 470	22 847	22 298
239 550	Total liabilities		250 999	258 553	266 623
187 657	Net assets		189 307	190 136	170 467
Equity					
40 614	Accumulated surplus/(deficit)		41 982	42 605	44 204
147 043	Reserves		147 325	147 531	126 262
187 657	Net worth		189 307	190 136	170 467
FISCAL AGGREGATES					
(93 653)	Net financial worth		(106 266)	(109 449)	(113 837)
192 627	Net financial liabilities		202 667	207 241	215 699
140 682	Net debt		150 867	156 515	165 764

CONSOLIDATED CASH FLOW STATEMENT

For the period ended 30 September

(\$ million)

2024-25		2025-26		
actual			actual	revised
30 Sep		Notes	30 Sep	budget
Cash flows from operating activities				
Receipts				
9 623	Taxes received		10 090	41 409
10 983	Grants		12 367	53 008
1 638	Sales of goods and services ^(a)		1 996	8 891
379	Interest received		403	1 201
474	Dividends and income tax equivalent receipts		903	1 748
806	Other receipts		604	2 674
23 903	Total receipts		26 362	108 931
Payments				
(9 083)	Payments for employees		(9 560)	(39 235)
(1 172)	Superannuation		(1 343)	(4 693)
(1 480)	Interest paid		(1 722)	(7 486)
(5 089)	Grants and subsidies		(4 601)	(18 360)
(8 598)	Goods and services ^(a)		(8 813)	(32 101)
(390)	Other payments		(545)	(1 484)
(25 811)	Total payments		(26 584)	(103 359)
(1 908)	Net cash flows from operating activities		(222)	5 572
Cash flows from investing activities				
Cash flows from investments in non-financial assets				
(4 085)	Purchases of non-financial assets	D.3.7	(3 432)	(15 610)
48	Sales of non-financial assets		41	355
(4 037)	Net cash flows from investments in non-financial assets		(3 391)	(15 255)
(820)	Net cash flows from investments in financial assets for policy purposes		(1 416)	(4 308)
(4 857)	Sub-total		(4 807)	(19 564)
(731)	Net cash flows from investments in financial assets for liquidity management purposes		(1 166)	(1 052)
(5 588)	Net cash flows from investing activities		(5 973)	(20 616)
Cash flows from financing activities				
(7)	Advances received (net)		(7)	(60)
7 465	Net borrowings		7 923	15 788
..	Other financing (net)		695	695
59	Deposits received (net)		61	11
7 518	Net cash flows from financing activities		8 673	16 435
22	Net increase/(decrease) in cash and cash equivalents		2 477	1 390
14 310	Cash and cash equivalents at beginning of reporting period		12 800	12 800
14 332	Cash and cash equivalents at end of the reporting period	D.5.3	15 277	14 190
FISCAL AGGREGATES				
(1 908)	Net cash flows from operating activities		(222)	5 572
(4 037)	Net cash flows from investments in non-financial assets		(3 391)	(15 255)
(5 945)	Cash surplus/(deficit)		(3 614)	(9 684)

Note:

(a) These items include goods and services tax.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the period ended 30 September

(\$ million)

	<i>Accumulated surplus/(deficit)</i>	<i>Non-financial assets revaluation surplus</i>	<i>Investment in other sector entities revaluation surplus</i>	<i>Other reserves</i>	<i>Total</i>
2025-26					
Balance at 1 July 2025	41 982	107 890	37 805	1 630	189 307
Net result for the year	(570)	..	..	..	(570)
Other comprehensive income for the year	1 193	207	..	..	1 400
Total equity as at 30 September 2025	42 605	108 096	37 805	1 631	190 136
Budget equity as at 30 June 2026	44 204	110 938	13 691	1 633	170 467
2024-25					
Balance at 1 July 2024	43 354	98 544	46 391	1 528	189 818
Net result for the year	(1 856)	..	..	..	(1 856)
Other comprehensive income for the year	(884)	586	..	(7)	(305)
Total equity as at 30 September 2024	40 614	99 130	46 391	1 522	187 657

D.1 ABOUT THIS REPORT

Basis of preparation

This September Quarterly Financial Report presents the unaudited financial report for the general government sector for the three months to 30 September 2025.

The detailed accounting policies applied in preparing the quarterly financial report are consistent with those applied for the financial statements published in the *2024-25 Financial Report* for the State of Victoria.

This quarterly financial report does not include all the notes normally included with the annual financial report, and therefore should be read in conjunction with the *2024-25 Financial Report*.

Statement of compliance

These financial statements have been prepared in accordance with section 26 of the *Financial Management Act 1994*, having regard to the recognition and measurement principles of the applicable Australian Accounting Standards (AAS) and Interpretations issued by the Australian Accounting Standards Board (AASB).

The financial statements are also presented in a manner consistent with the requirements of AASB 1049 *Whole of Government and General Government Sector Financial Reporting*.

Where applicable, those paragraphs of AAS applicable to not-for-profit entities have been applied.

Basis of accounting and measurement

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

Reporting entity

The general government sector includes all government departments, offices and other bodies engaged in providing services free of charge or at prices significantly below their cost of production. The primary function of entities in the general government sector is to provide public services (outputs), which are mainly non-market in nature, for the collective consumption of the community, and involve the transfer or redistribution of revenue, which is financed mainly through taxes and other compulsory levies.

The general government sector is not a separate entity but represents a sector within the State of Victoria reporting entity. Unless otherwise noted, accounting policies applied by the State of Victoria apply equally to the general government sector.

Basis of consolidation

The September Quarterly Financial Report includes all reporting entities in the general government sector that are controlled by the State. Information on entities consolidated for the general government sector is included in Note 4.6.4 of Chapter 4. In the process of reporting the general government sector as a single economic entity, all material transactions and balances in the sector are eliminated.

D.2 HOW FUNDS ARE RAISED

Introduction

This section presents the sources and amounts of revenue and income and the related receivables and other liabilities for the general government sector.

Revenue and income recognition are determined by the State based on the substance of the relevant arrangement in accordance with the requirements of AASB 15 *Revenue from Contracts with Customers*, AASB 16 *Leases*, AASB 1058 *Income of Not-for-Profit Entities* and AASB 1059 *Service Concession Arrangements: Grantors*.

D.2.1 Taxation

(\$ million)

2024-25 actual 30 Sep		2025-26 actual 30 Sep		revised budget	
TAXES ON EMPLOYERS' PAYROLL AND LABOUR FORCE					
2 526	Payroll tax	2 595		9 585	
233	COVID Debt Levy – Payroll \$10m+	255		1 147	
233	Mental Health and Wellbeing Levy	255		1 147	
2 992	Total taxes on employers' payroll and labour force	3 106		11 879	
TAXES ON IMMOVABLE PROPERTY					
160	Land tax	211		6 354	
(2)	COVID Debt Levy – Landholdings	(1)		1 177	
913	Emergency Services and Volunteers Fund ^(a)	1 341		1 550	
3	Congestion levy	1		209	
41	Metropolitan improvement levy	55		228	
14	Windfall gains tax	53		84	
1 128	Total taxes on immovable property	1 659		9 602	
TAXES ON THE PROVISION OF GOODS AND SERVICES					
Gambling taxes ^(b)					
149	Public lotteries	150		672	
366	Electronic gaming machines	390		1 499	
57	Casino	58		193	
83	Racing and other sports betting	124		416	
5	Other	5		18	
Financial and capital transactions					
2 306	Land transfer duty	2 715		10 098	
5	Metropolitan planning levy	6		26	
47	Financial accommodation levy	51		220	
32	Growth areas infrastructure contribution	54		223	
39	Levies on statutory corporations	39		176	
634	Taxes on insurance	649		2 280	
3 722	Total taxes on the provision of goods and services	4 241		15 822	
TAXES ON THE USE OF GOODS AND PERFORMANCE OF ACTIVITIES					
Motor vehicle taxes					
560	Vehicle registration fees	570		2 390	
331	Duty on vehicle registrations and transfers	338		1 412	
1	Liquor licence fees	1		34	
189	Other	245		956	
1 081	Total taxes on the use of goods and performance of activities	1 155		4 792	
8 923	Total taxation	10 161		42 095	

Notes:

(a) This line item was previously listed as the Fire Services Property Levy. From 1 July 2025 this line item was replaced by the Emergency Services and Volunteers Fund, and includes emergency and disaster response services, including Fire Rescue Victoria, Country Fire Agency, Victorian State Emergency Service, Triple Zero Victoria, the State Control Centre, and Emergency Recovery Victoria.

(b) The public lotteries, electronic gaming machines, casino, racing and other sports betting and other gambling taxes balances include gambling licence revenue to 30 September 2025 of \$76.5 million (30 September 2024: \$42.3 million) recognised under AASB 15. The balance of these items is recognised under AASB 1058.

D.2.2 Dividends and income tax equivalent income (\$ million)

2024-25		2025-26	
actual		actual	revised
30 Sep		30 Sep	budget
..	Dividends from PFC sector	2	494
..	Dividends from PNFC sector	2	133
422	Dividends from non-public sector	847	944
422	Dividends	850	1 571
..	Income tax equivalent income from PFC sector	1	4
50	Income tax equivalent income from PNFC sector	23	140
50	Income tax equivalent income	24	144
..	Local government rate equivalent income	..	6
472	Total dividends and income tax equivalent income	874	1 721

D.2.3 Sales of goods and services (\$ million)

2024-25		2025-26	
actual		actual	revised
30 Sep		30 Sep	budget
Amounts recognised as revenue from contracts with customers (AASB 15)			
25	Sale of goods	33	102
1 313	Provision of services	1 555	6 694
Amounts recognised as income of not-for-profit entities (AASB 1058)			
72	Motor vehicle regulatory fees	68	257
175	Other regulatory fees	206	757
1	Refunds and reimbursements	1	58
Amounts recognised as lease income (AASB 16)			
29	Rental	30	75
1 615	Total sales of goods and services	1 893	7 942

D.2.4 Grants ^(a)

(\$ million)

2024-25		2025-26	
actual		actual	revised
30 Sep		30 Sep	budget
	Grants from the Commonwealth		
5 494	General purpose grants	6 537	27 833
1 275	Specific purpose grants for on-passing	1 341	6 011
4 060	Specific purpose grants	4 315	18 640
10 829	Total grants from the Commonwealth	12 193	52 485
78	Other contributions and grants	69	396
10 906	Total grants	12 263	52 880

Note:

(a) Grants predominantly relate to grants from the Commonwealth Government, which are recognised under AASB 1058. The State has not recognised any material grant revenue under AASB 15 in the current or previous year.

D.2.5 Other revenue and income

(\$ million)

2024-25		2025-26	
actual		actual	revised
30 Sep		30 Sep	budget
	Amounts recognised as revenue from contracts with customers (AASB 15)		
39	Royalties	34	151
89	Other revenue – health	100	261
297	Other miscellaneous revenue	222	1 196
	Amounts recognised as income of not-for-profit entities (AASB 1058)		
44	Fair value of assets received free of charge or for nominal consideration ^(a)	76	164
186	Fines	182	741
60	Donations and gifts ^(b)	54	210
64	Other income – education	146	392
	Amounts recognised as lease income (AASB 16)		
11	Other non-property rental	10	31
	Revenue items accounted for under AASB 1059		
116	Revenue related to economic service concession arrangements	116	657
907	Total other revenue and income	938	3 804

Notes:

(a) The 2025-26 figure includes \$75.2 million (2024-25: \$43.4 million) relating to the progressive recognition of the contribution made by Cross Yarra Partnerships consortium (assets free of charge) to the Metro Tunnel settlement.

(b) Primarily relates to donations to health services from non-government sources.

D.2.6 Receivables and contract assets

(\$ million)

<i>2024-25 actual 30 Sep</i>		<i>opening 1 Jul</i>	<i>2025-26 actual 30 Sep</i>	<i>revised budget</i>
	Contractual			
963	Sales of goods and services	580	807	615
52	Accrued investment income	102	57	72
2 153	Other receivables	2 719	2 779	2 769
(159)	Allowance for impairment losses of contractual receivables	(143)	(152)	(142)
	Statutory			
..	Sales of goods and services	1	2	1
5 793	Taxes receivable	6 098	6 133	6 523
2 612	Fines and regulatory fees	2 528	2 588	2 547
440	GST input tax credits recoverable	541	481	541
..	Other receivables	121	121	..
(2 427)	Allowance for impairment losses of statutory receivables	(2 345)	(2 350)	(2 360)
	Other			
..	Contract assets	3	..	2
9 428	Total receivables and contract assets	10 203	10 468	10 567
	Represented by:			
8 655	Current receivables and contract assets	9 156	9 394	9 523
773	Non-current receivables and contract assets	1 048	1 075	1 044

D.2.7 Other liabilities

(\$ million)

<i>2024-25 actual 30 Sep</i>		<i>opening 1 Jul</i>	<i>2025-26 actual 30 Sep</i>	<i>revised budget</i>
482	Contract liabilities	435	509	438
20 100	Grant of a right to the operator liability	20 125	20 098	19 733
1 943	Unearned income	1 910	2 240	2 127
22 524	Total other liabilities	22 470	22 847	22 298
	Represented by:			
1 809	Current other liabilities	1 736	2 182	2 393
20 714	Non-current other liabilities	20 734	20 665	19 905

D.3 HOW FUNDS ARE SPENT

Introduction

This section represents the major components of expenditure incurred by the general government sector towards the delivery of services and on capital or infrastructure projects during the period, as well as any related obligations outstanding as at 30 September 2025.

D.3.1 Employee expenses and provision for employee benefits

Employee expenses (Operating statement)

Employee expenses in the operating statement are a major component of operating costs and include all costs related to employment, including wages and salaries, fringe benefits tax, leave entitlements and redundancy payments. More than 94 per cent of employee expenses in the operating statement are wages and salaries. Employee expenses are recognised in the period in which the employee provides the services.

Provision for employee benefits (Balance sheet)

As part of annual operations, the State provides for benefits accruing to employees but payable in future periods in respect of wages and salaries, annual leave and long service leave, and related on-costs for services rendered to the reporting date. In measuring employee benefits, significant judgement is applied in determining expected future wage and salary levels, experience of employee departures and periods of service. Future payments expected to be made after 12 months are discounted to reflect the estimated timing and amount of benefit payment. The table below shows the key components of this provision as at 30 September 2025.

Provision for employee benefits (Balance sheet) (\$ million)

2024-25		2025-26		
actual		opening	actual	revised
30 Sep		1 Jul	30 Sep	budget
Current				
1 167	Accrued salaries and wages	967	1 260	440
128	Other employee benefits	146	135	146
2 983	Annual leave	3 337	3 385	3 370
6 184	Long service leave	6 504	6 505	6 655
10 462	Total current employee benefits and on-costs	10 954	11 284	10 611
Non-current				
1 112	Long service leave	1 116	1 098	1 274
1 112	Total non-current employee benefits and on-costs	1 116	1 098	1 274
11 574	Total employee benefits and on-costs	12 070	12 382	11 885

D.3.2 Superannuation expense recognised in the operating statement (\$ million)

2024-25		2025-26	
<i>actual</i>		<i>actual</i>	<i>revised</i>
<i>30 Sep</i>		<i>30 Sep</i>	<i>budget</i>
	Defined benefit plans		
195	Net superannuation interest expense	199	784
261	Current service cost	253	1 027
	Remeasurements:		
(183)	Expected return on superannuation assets excluding interest income	(122)	(549)
(361)	Other actuarial (gain)/loss on superannuation assets	(407)	(407)
1 522	Actuarial and other adjustments to unfunded superannuation liability	(656)	(656)
1 434	Total expense recognised in respect of defined benefit plans	(732)	199
	Defined contribution plans		
852	Employer contributions to defined contribution plans	931	3 404
27	Other (including pensions)	28	105
879	Total expense recognised in respect of defined contribution plans	959	3 509
2 313	Total superannuation (gain)/expense recognised in operating statement	227	3 709
	Represented by:		
195	Net superannuation interest expense	199	784
1 140	Other superannuation	1 213	4 536
1 335	Superannuation expense from transactions	1 412	5 320
978	Remeasurement recognised in other comprehensive income	(1 184)	(1 611)
2 313	Total superannuation costs recognised in operating statement	227	3 709

D.3.3 Grant expense

(\$ million)

2024-25		2025-26	
<i>actual</i>		<i>actual</i>	<i>revised</i>
<i>30 Sep</i>		<i>30 Sep</i>	<i>budget</i>
	Current grant expense		
831	Commonwealth Government	862	3 442
137	Local government (including grants for on-passing)	221	1 216
1 286	Private sector and not-for-profit on-passing	1 365	5 621
1 266	Other private sector and not-for-profit	1 235	4 900
610	Grants within the Victorian Government	579	2 511
17	Grants to other state governments	23	125
4 145	Total current grant expense	4 286	17 815
	Capital grant expense		
..	Commonwealth Government	..	18
47	Local government (including grants for on-passing)	46	250
62	Private sector and not-for-profit on-passing	58	297
2	Other private sector and not-for-profit	2	41
16	Grants within the Victorian Government	..	5
..	Other grants	1	..
127	Total capital grant expense	107	610
4 272	Total grant expense	4 393	18 425

D.3.4 Other operating expenses

(\$ million)

2024-25		2025-26	
<i>actual</i>		<i>actual</i>	<i>revised</i>
<i>30 Sep</i>		<i>30 Sep</i>	<i>budget</i>
1 243	Purchase of supplies and consumables	1 336	7 466
7	Cost of goods sold	5	253
18	Finance expenses and fees	21	91
4 716	Purchase of services	5 007	20 261
199	Insurance claims expense	238	909
317	Maintenance	373	1 688
31	Short-term and low value lease expense	30	104
408	Other	578	1 488
6 940	Total other operating expenses	7 589	32 260

D.3.5 Payables		(\$ million)		
2024-25			2025-26	
<i>actual</i>		<i>opening</i>	<i>actual</i>	<i>revised</i>
<i>30 Sep</i>		<i>1 Jul</i>	<i>30 Sep</i>	<i>budget</i>
Contractual				
1 008	Accounts payable	1 350	1 116	1 338
4 842	Accrued expenses	5 139	4 684	4 960
Statutory				
80	Accrued taxes payable	70	71	70
5 930	Total payables	6 558	5 871	6 369
Represented by:				
5 776	Current payables	6 387	5 690	6 199
153	Non-current payables	171	180	170

D.3.6 Total expenses by classification of the functions of government and by portfolio department

Total expenses from transactions by classification of the functions of government (\$ million)

2024-25		2025-26	
<i>actual</i>		<i>actual</i>	<i>revised</i>
<i>30 Sep</i>		<i>30 Sep</i>	<i>budget</i>
2 429	General public services	2 493	11 101
2 969	Public order and safety	2 964	12 309
634	Economic affairs	625	4 184
252	Environmental protection	281	1 350
472	Housing and community amenities	607	2 596
7 968	Health	8 351	33 437
306	Recreation, culture and religion	355	1 397
5 817	Education	6 411	25 815
2 214	Social protection	2 435	9 188
2 025	Transport	2 205	9 976
(182)	Not allocated by function ^(a)	(158)	(2 257)
24 904	Total Expenses by COFOG	26 567	109 095

Notes:

(a) Mainly comprises departmental underspending and eliminated purchases of supplies and consumables between government entities.

Total expenses by portfolio department (\$ million)

2024-25		2025-26	
<i>actual</i>		<i>actual</i>	<i>revised</i>
<i>30 Sep</i>		<i>30 Sep</i>	<i>budget</i>
Expenses from transactions			
5 516	Education	6 013	23 699
716	Energy, Environment and Climate Action	862	3 902
2 253	Families, Fairness and Housing	2 435	8 866
423	Government Services	446	1 997
8 064	Health	8 476	33 821
982	Jobs, Skills, Industry and Regions	1 023	4 588
2 842	Justice and Community Safety	2 904	10 649
171	Premier and Cabinet	138	500
2 326	Transport and Planning	2 537	10 578
3 366	Treasury and Finance	3 526	15 417
91	Parliament	94	405
240	Courts	217	898
947	Regulatory bodies and other part funded agencies ^(a)	1 065	4 772
27 937	Total expenses by department	29 737	120 092
(3 033)	Less eliminations and adjustments ^(b)	(3 170)	(10 997)
24 904	Total expenses	26 567	109 095

Notes:

(a) Other general government sector agencies not allocated to departments.

(b) Mainly comprising payroll tax (including the COVID Debt Levy – Payroll \$10m+), the Mental Health and Wellbeing Levy and interdepartmental transfers. The budget includes contingencies not allocated to departments and estimated departmental underspend.

D.3.7 Purchases of non-financial assets by portfolio department (\$ million)

2024-25		2025-26	
		actual	revised
		30 Sep	budget
2024-25			
actual			
30 Sep			
517	Education	570	2 871
57	Energy, Environment and Climate Action	29	270
3	Families, Fairness and Housing	1	57
21	Government Services	15	148
335	Health	213	2 160
88	Jobs, Skills, Industry and Regions	33	104
114	Justice and Community Safety	95	421
1	Premier and Cabinet	1	19
2 830	Transport and Planning	2 450	11 083
3	Treasury and Finance	2	18
2	Parliament	5	16
48	Courts	45	171
63	Regulatory bodies and other part funded agencies ^(a)	66	324
4 082	Total purchases of non-financial assets by department	3 526	17 663
3	Eliminations and adjustments ^(b)	(94)	(2 053)
4 085	Total purchases of non-financial assets	3 432	15 610

Notes:

(a) Other general government sector agencies not allocated to departments.

(b) The revised budget includes contingencies not allocated to departments and estimated departmental underspend.

D.3.8 Net acquisition of non-financial assets from transactions (\$ million)

2024-25		2025-26	
		actual	revised
		30 Sep	budget
2024-25			
actual			
30 Sep			
4 085	Purchases of non-financial assets (including change in inventories)	3 435	15 603
(48)	Less: Sales of non-financial assets	(41)	(355)
(1 328)	Less: Depreciation and amortisation	(1 468)	(6 331)
734	Plus/(less): Other movements in non-financial assets ^(a)	778	(23 692)
3 443	Total net acquisition of non-financial assets from transactions	2 704	(14 776)

Note:

(a) The value against 2025-26 revised budget includes the transfer of the Metro Tunnel assets from the Department of Transport and Planning in the general government sector to VicTrack in the public non-financial corporations sector upon its completion.

D.4 MAJOR ASSETS AND INVESTMENTS

Introduction

This section outlines those assets the general government sector controls, reflecting investing activities in the current period and prior years.

D.4.1 Total land, buildings, infrastructure, plant and equipment (\$ million)

2024-25		2025-26		
actual		opening	actual	revised
30 Sep		1 Jul	30 Sep	budget
60 569	Buildings	61 686	61 353	62 836
96 201	Land and national parks	91 359	91 443	93 037
1 307	Infrastructure	1 761	1 745	1 715
4 248	Plant, equipment and vehicles	4 497	4 381	4 441
32 380	Roads and road infrastructure	43 663	43 271	52 625
12 370	Earthworks	14 403	14 403	14 415
6 821	Cultural assets	7 445	7 561	7 791
59 399	Construction in progress ^(a)	63 431	66 969	39 969
273 295	Total land, buildings, infrastructure, plant and equipment	288 244	291 125	276 829

Note:

(a) The estimated decrease in the 2025-26 revised budget includes the transfer of the Metro Tunnel assets from the Department of Transport and Planning in the general government sector to VicTrack in the public non-financial corporations sector upon its completion.

The following two tables are subsets of total land, buildings, infrastructure, plant and equipment by right-of-use (leased) assets and service concession assets.

Total right-of-use (leased) assets: buildings, infrastructure, plant and equipment (\$ million)

<i>2024-25</i>		<i>2025-26</i>		
<i>actual</i>		<i>opening</i>	<i>actual</i>	<i>revised</i>
<i>30 Sep</i>		<i>1 Jul</i>	<i>30 Sep</i>	<i>budget</i>
9 558	Buildings	8 997	8 914	8 330
2	Infrastructure	2	2	2
622	Plant, equipment and vehicles	565	555	808
10 182	Total right-of-use assets: Buildings, infrastructure, plant and equipment	9 564	9 471	9 140

Total service concession assets: land, buildings, infrastructure, plant and equipment (\$ million)

<i>2024-25</i>		<i>2025-26</i>		
<i>actual</i>		<i>opening</i>	<i>actual</i>	<i>revised</i>
<i>30 Sep</i>		<i>1 Jul</i>	<i>30 Sep</i>	<i>budget</i>
2 400	Buildings	2 358	2 336	2 378
3 381	Land and national parks	2 859	2 990	2 979
..	Infrastructure	7	7	6
311	Plant, equipment and vehicles	357	356	317
7 475	Roads and road infrastructure	8 546	8 457	18 551
1 056	Earthworks	913	913	913
21 578	Construction in progress	23 775	24 157	1 425
36 201	Total service concession assets: Land, buildings, infrastructure, plant and equipment	38 815	39 216	26 568

D.4.2 Depreciation (\$ million)

2024-25		2025-26	
<i>actual</i>		<i>actual</i>	<i>revised</i>
<i>30 Sep</i>		<i>30 Sep</i>	<i>budget</i>
767	Buildings	796	3 520
11	Infrastructure	16	69
215	Plant, equipment and vehicles	218	864
283	Roads and road infrastructure	392	1 650
3	Cultural assets	4	10
48	Intangible produced assets	43	218
1 328	Total depreciation	1 468	6 331

The following two tables are subsets of total depreciation expense.

Depreciation of right-of-use (leased) assets (\$ million)

2024-25		2025-26	
<i>actual</i>		<i>actual</i>	<i>revised</i>
<i>30 Sep</i>		<i>30 Sep</i>	<i>budget</i>
177	Buildings	166	826
30	Plant, equipment and vehicles	30	107
207	Total depreciation of right-of-use assets	196	933

Depreciation of service concession assets (\$ million)

2024-25		2025-26	
<i>actual</i>		<i>actual</i>	<i>revised</i>
<i>30 Sep</i>		<i>30 Sep</i>	<i>budget</i>
19	Buildings	22	76
8	Plant, equipment and vehicles	9	43
58	Roads and road infrastructure	89	449
1	Intangible produced assets	1	1
85	Total depreciation of service concession assets	121	570

D.4.3 Other non-financial assets

(\$ million)

<i>2024-25</i>		<i>2025-26</i>		
<i>actual</i>		<i>opening</i>	<i>actual</i>	<i>revised</i>
<i>30 Sep</i>		<i>1 Jul</i>	<i>30 Sep</i>	<i>budget</i>
3 093	Intangible produced assets	3 252	3 252	3 422
(1 773)	Accumulated depreciation	(1 877)	(1 889)	(2 080)
3 585	Service concession assets – Intangible produced	3 877	3 889	4 030
(9)	Accumulated depreciation	..	(1)	(1)
76	Intangible non-produced assets	75	75	76
(64)	Accumulated amortisation	(68)	(69)	(67)
4 908	Total intangibles	5 259	5 258	5 381
318	Investment properties	286	287	269
2 217	Other assets	1 361	2 495	1 383
7 442	Total other non-financial assets	6 906	8 040	7 033

D.5 FINANCING STATE OPERATIONS

Introduction

The general government sector's operations are financed through a variety of means including a combination of surplus cash flows from operating activities, asset sales, advances and borrowings.

This section presents the financing of the general government sector operations.

D.5.1 Borrowings (\$ million)

2024-25 actual 30 Sep		opening 1 Jul	2025-26 actual 30 Sep	revised budget
Current borrowings				
19 857	Domestic borrowings	20 115	21 310	15 215
678	Lease liabilities	717	686	638
571	Service concession arrangement liabilities	552	510	340
1	Derivative financial instruments	1	1	1
21 107	Total current borrowings	21 385	22 507	16 194
Non-current borrowings				
141 570	Domestic borrowings	152 611	159 639	175 213
7 234	Lease liabilities	6 816	6 740	6 562
5 295	Service concession arrangement liabilities	5 224	5 407	5 100
233	Derivative financial instruments	222	218	184
154 332	Total non-current borrowings	164 874	172 004	187 059
175 439	Total borrowings	186 259	194 511	203 253

D.5.2 Interest expense (\$ million)

2024-25 actual 30 Sep		2025-26 actual 30 Sep	revised budget
1 365	Interest on interest-bearing liabilities and deposits	1 642	6 909
99	Interest on lease liabilities	74	397
90	Interest on service concession liabilities	96	391
(1)	Discount interest on payables	(2)	27
1 553	Total interest expense	1 810	7 723

D.5.3 Reconciliation of cash and cash equivalents (\$ million)

2024-25 actual 30 Sep		2025-26 actual 30 Sep
3 400	Cash	3 912
10 932	Deposits at call	11 365
14 332	Cash and cash equivalents	15 277
..	Bank overdraft	..
14 332	Balances as per cash flow statement	15 277

D.6 OTHER DISCLOSURES

Introduction

This section includes several additional disclosures that assist the understanding of this financial report.

D.6.1 Other gains/(losses) from other economic flows (\$ million)

2024-25		2025-26	
<i>actual</i>		<i>actual</i>	<i>revised</i>
30 Sep		30 Sep	budget
(11)	Net (increase)/decrease in allowances for credit losses	(16)	(50)
(1)	Amortisation of intangible non-produced assets	(1)	(1)
(5)	Bad debts written off	(168)	(449)
(130)	Other gains/(losses)	49	(48)
(148)	Total other gains/(losses) from other economic flows	(136)	(548)

D.6.2 Controlled entities

Note 8.8 in Chapter 4 of the *2024-25 Financial Report* for the State of Victoria lists significant controlled entities that were consolidated in that financial report.

Reference should be made to Note 4.6.4 of Chapter 4 for changes to general government sector entities since 1 July 2025.

D.6.3 Glossary of technical terms

The *2024-25 Financial Report* for the State of Victoria (Note 8.9) summarises the major technical terms used in this report.

D.7 RESULTS QUARTER BY QUARTER – VICTORIAN GENERAL GOVERNMENT SECTOR

Introduction

This section includes the comprehensive operating statement, balance sheet and cash flow statement for the past five quarters in accordance with the requirements of the *Financial Management Act 1994*.

Consolidated comprehensive operating statement for the past five quarters (\$ million)

	2024-25			2025-26	
	Sep	Dec	Mar	Jun	Sep
Revenue and income from transactions					
Taxation	8 923	7 956	13 638	8 425	10 161
Interest income	398	382	400	365	410
Dividends and income tax equivalent income	472	208	111	1 493	874
Sales of goods and services	1 615	1 762	1 723	1 794	1 893
Grants	10 906	12 682	12 349	11 366	12 263
Other revenue and income	907	892	1 093	1 520	938
Total revenue and income from transactions	23 223	23 881	29 313	24 963	26 539
Expenses from transactions					
Employee expenses	9 477	9 735	9 318	9 985	9 895
Superannuation:					
Net superannuation interest expense	195	200	193	195	199
Other superannuation	1 140	1 153	1 094	1 136	1 213
Depreciation	1 328	1 373	1 368	1 393	1 468
Interest expense	1 553	1 706	1 726	1 789	1 810
Grant expense	4 272	4 248	5 356	3 345	4 393
Other operating expenses	6 940	7 705	7 203	8 878	7 589
Total expenses from transactions	24 904	26 120	26 260	26 722	26 567
Net result from transactions –	(1 682)	(2 239)	3 053	(1 758)	(28)
Net operating balance					
Other economic flows included in net result					
Net gain/(loss) on disposal of non-financial assets	20	5	14	(47)	..
Net gain/(loss) on financial assets or liabilities at fair value	(46)	413	(100)	946	(406)
Share of net profit/(loss) from associates/joint venture entities	..	(18)	(14)	(34)	..
Other gains/(losses) from other economic flows	(148)	(41)	(69)	(285)	(136)
Total other economic flows included in net result	(174)	359	(169)	579	(542)
Net result	(1 856)	(1 880)	2 885	(1 179)	(570)
Other economic flows –					
Other comprehensive income					
Items that will not be reclassified to net result					
Changes in non-financial assets revaluation surplus	586	192	182	8 385	207
Remeasurement of superannuation defined benefits plans	(978)	2 181	61	(478)	1 184
Other movements in equity	104	(10)	(102)	(2)	1

Consolidated comprehensive operating statement for the past five quarters (continued)

(\$ million)

	2024-25			2025-26	
	Sep	Dec	Mar	Jun	Sep
Items that may be reclassified subsequently to net result					
Net gain/(loss) on financial assets at fair value	(16)	13	(1)	(11)	8
Net gain/(loss) on equity investments in other sector entities at proportional share of the carrying amount of net assets	..	(524)	..	(8 063)	..
Total other economic flows – Other comprehensive income	(305)	1 853	140	(169)	1 400
Comprehensive result – Total change in net worth	(2 161)	(26)	3 024	(1 348)	830
KEY FISCAL AGGREGATES					
Net operating balance	(1 682)	(2 239)	3 053	(1 758)	(28)
Less: Net acquisition of non-financial assets from transactions	3 443	4 312	1 953	746	2 704
Net lending/(borrowing)	(5 124)	(6 551)	1 100	(2 504)	(2 732)

Consolidated balance sheet at the end of the past five quarters

(\$ million)

	2024-25		2025-26		
	Sep	Dec	Mar	Jun	Sep
Assets					
Financial assets					
Cash and deposits	14 332	14 847	13 297	12 800	15 277
Advances paid	6 377	6 335	6 326	6 407	6 228
Receivables and contract assets	9 428	8 556	13 766	10 203	10 468
Investments, loans and placements	15 625	16 491	16 514	17 781	18 140
Investments accounted for using the equity method	1 161	1 136	1 131	1 141	1 199
Investments in PNFC and PFC sector entities	98 974	99 641	100 727	96 401	97 792
Total financial assets	145 897	147 006	151 760	144 732	149 104
Non-financial assets					
Inventories	330	322	304	277	294
Non-financial assets held for sale	242	243	80	145	126
Land, buildings, infrastructure, plant and equipment	273 295	277 316	279 644	288 244	291 125
Other non-financial assets	7 442	7 030	6 683	6 906	8 040
Total non-financial assets	281 310	284 910	286 711	295 573	299 585
Total assets	427 207	431 917	438 471	440 305	448 690
Liabilities					
Deposits held and advances received	1 577	1 435	1 494	1 595	1 649
Payables	5 930	5 350	5 539	6 558	5 871
Borrowings	175 439	183 005	185 715	186 259	194 511
Employee benefits	11 574	11 312	11 820	12 070	12 382
Superannuation	19 368	17 369	17 486	18 284	17 169
Other provisions	3 138	3 265	3 360	3 762	4 125
Other liabilities	22 524	22 550	22 401	22 470	22 847
Total liabilities	239 550	244 286	247 816	250 999	258 553
Net assets	187 657	187 630	190 655	189 307	190 136
Equity					
Accumulated surplus/(deficit)	40 614	40 902	43 783	41 982	42 605
Reserves	147 043	146 728	146 872	147 325	147 531
Net worth	187 657	187 630	190 655	189 307	190 136
FISCAL AGGREGATES					
Net financial worth	(93 653)	(97 280)	(96 056)	(106 266)	(109 449)
Net financial liabilities	192 627	196 921	196 783	202 667	207 241
Net debt	140 682	146 767	151 072	150 867	156 515

Consolidated cash flow statement for the past five quarters

(\$ million)

	2024-25			2025-26	
	Sep	Dec	Mar	Jun	Sep
Cash flows from operating activities					
Receipts					
Taxes received	9 623	9 101	8 611	12 080	10 090
Grants	10 983	12 479	12 344	11 223	12 367
Sales of goods and services ^(a)	1 638	1 758	2 098	1 985	1 996
Interest received	379	352	386	332	403
Dividends and income tax equivalent receipts	474	189	194	1 489	903
Other receipts	806	556	213	1 414	604
Total receipts	23 903	24 435	23 846	28 523	26 362
Payments					
Payments for employees	(9 083)	(9 906)	(8 798)	(9 808)	(9 560)
Superannuation	(1 172)	(1 171)	(1 109)	(1 012)	(1 343)
Interest paid	(1 480)	(1 582)	(1 685)	(1 675)	(1 722)
Grants and subsidies	(5 089)	(4 365)	(5 345)	(3 188)	(4 601)
Goods and services ^(a)	(8 598)	(6 772)	(6 443)	(7 255)	(8 813)
Other payments	(390)	(599)	(407)	(544)	(545)
Total payments	(25 811)	(24 394)	(23 787)	(23 482)	(26 584)
Net cash flows from operating activities	(1 908)	41	59	5 041	(222)
Cash flows from investing activities					
Cash flows from investments in non-financial assets					
Purchases of non-financial assets	(4 085)	(4 758)	(3 290)	(4 087)	(3 432)
Sales of non-financial assets	48	53	55	76	41
Net cash flows from investments in non-financial assets	(4 037)	(4 705)	(3 235)	(4 011)	(3 391)
Net cash flows from investments in financial assets for policy purposes	(820)	(1 161)	(569)	(1 081)	(1 416)
Sub-total	(4 857)	(5 866)	(3 804)	(5 092)	(4 807)
Net cash flows from investments in financial assets for liquidity management purposes	(731)	(400)	(126)	(460)	(1 166)
Net cash flows from investing activities	(5 588)	(6 266)	(3 931)	(5 552)	(5 973)
Cash flows from financing activities					
Advances received (net)	(7)	(1)	(11)	50	(7)
Net borrowings	7 465	6 882	2 263	(87)	7 923
Deposits received (net)	59	(141)	71	50	61
Other financing (net)	..	..	..	..	695
Net cash flows from financing activities	7 518	6 740	2 322	14	8 673
Net increase/(decrease) in cash and cash equivalents	22	515	(1 550)	(497)	2 477
Cash and cash equivalents at beginning of reporting period	14 310	14 332	14 847	13 297	12 800
Cash and cash equivalents at end of the reporting period	14 332	14 847	13 297	12 800	15 277
FISCAL AGGREGATES					
Net cash flows from operating activities	(1 908)	41	59	5 041	(222)
Net cash flows from investments in non-financial assets	(4 037)	(4 705)	(3 235)	(4 011)	(3 391)
Cash surplus/(deficit)	(5 945)	(4 664)	(3 176)	1 030	(3 614)

Note:

(a) These items are inclusive of goods and services tax.

APPENDIX E – REQUIREMENTS OF THE *FINANCIAL MANAGEMENT ACT 1994*

The *Financial Management Act 1994* (the Act) requires the Minister to prepare a budget update for tabling in Parliament each financial year. As a result of recent *legislative* amendments, the Act also allows budget update to also support tabling of the quarterly financial report for the quarter ending on 30 September. The provisions of the Act have been complied with in the *2025-26 Budget Update*.

Table E.1 details the statements required to be included in this document under the provisions of the Act together with appropriate chapter references.

Table E.1: Statements required by the *Financial Management Act 1994* and their location in the *2025-26 Budget Update*

<i>Relevant section of the Act and corresponding requirement</i>	<i>Location</i>
Sections 23 E-G	
Statement of financial policy objectives and strategies for the year including the short- and long-term financial objectives, key financial measures, the relationship to the principles of sound financial management and any temporary financial policy actions	Chapter 1 <i>Economic and fiscal overview</i>
Sections 23 H-N	
Estimated general government sector financial statements for the year comprising: <ul style="list-style-type: none">• an estimated statement of financial performance• an estimated statement of financial position at the end of the year• an estimated statement of cash flows for the year• a statement of the accounting policies on which these statements are based and explanatory notes	Chapter 4 <i>Estimated financial statements and notes</i> (including estimated consolidated general government sector comprehensive operating statement, estimated consolidated general government sector balance sheet, estimated consolidated general government sector cash flow statement, and estimated consolidated general government sector statement of changes in equity provided as per AASB 1049)

Table E.1: Statements required by the *Financial Management Act 1994* and their location in the 2025-26 Budget Update (continued)

<i>Relevant section of the Act and corresponding requirement</i>	<i>Location</i>
<p>The estimated financial statements take into account Government decisions and other circumstances that may have a material effect on the estimated financial statements and are prepared on a basis consistent with the current financial policy objectives, strategies statement and have regard to appropriate financial reporting frameworks</p> <p>Section 23K</p> <p>Accompanying statements which take into account Government decisions and other circumstances that may have a material effect on each set of estimated financial statements comprising:</p> <ul style="list-style-type: none"> • a statement of the material economic and other assumptions that have been used in preparing the estimated financial statements • a discussion of the sensitivity of the estimated financial statements to changes in those economic and other assumptions • an overview of the estimated tax expenditures for the financial years covered by the estimated financial statements • a statement of risks that may have a material effect on the estimated financial statements including contingent liabilities and publicly announced Government commitments that are not yet included in the estimated financial statements <p>Section 26 (2)</p> <p>Quarterly financial report comprises statements of:</p> <ul style="list-style-type: none"> • financial performance of the Victorian general government sector for the quarter • financial position of the Victorian general government sector at the end of the quarter • of cash flows of the Victorian general government sector for the quarter • the accounting policies on which the statements are based 	<p>Appendix A <i>Specific policy initiatives affecting the budget position</i></p> <p>Chapter 2 <i>Economic context</i> Chapter 4 <i>Estimated financial statements and notes</i> Chapter 6 <i>Sensitivity analysis</i> Appendix C <i>Tax expenditures and concessions</i> Chapter 2 <i>Economic context</i> Chapter 3 <i>Budget position and outlook</i> Chapter 7 <i>Contingent assets and contingent liabilities</i> Appendix D – <i>Quarterly Financial Report No. 1 – September 2025</i></p>

STYLE CONVENTIONS

The source of data for tables and charts is the Department of Treasury and Finance unless specified otherwise.

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:

n.a.	not available or not applicable
1 billion	1 000 million
1 basis point	0.01 per cent
..	zero, or rounded to zero
tbc	to be confirmed
(x xxx.x)	negative amount
x xxx.0	rounded amount

Please refer to the **Treasury and Finance glossary for budget and financial reports** at dtf.vic.gov.au for additional terms and references.

