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## Comprehensive operating statement for the financial year ended 30 June 2020

|  | Notes | 2020  $’000 | 2019  $’000 |
| --- | --- | --- | --- |
| Continuing operations | | | |
| Income from transactions | | | |
| Output appropriations | 2.1 | 688,451 | 624,532 |
| Special appropriations | 2.1 | 38,469 | 95,587 |
| Grants | 2.1 | 86,495 | 28,279 |
| Other income | 2.1 | 4,647 | 11,920 |
| Total income from transactions |  | 818,062 | 760,318 |
| Expenses from transactions | | | |
| Grant expenses | 3.1 | 344,325 | 353,108 |
| Employee expenses | 3.1 | 253,441 | 223,288 |
| Capital asset charge | 3.1 | 11,015 | 8,863 |
| Depreciation and amortisation | 5.3 | 21,542 | 13,158 |
| Interest expense |  | 672 | 70 |
| Other operating expenses | 3.1 | 194,281 | 151,836 |
| Total expenses from transactions |  | 825,276 | 750,323 |
| Net result from transactions (net operating balance) |  | (7,214) | 9,995 |
| Other economic flows included in net result | | | |
| Net gain on non-financial assets | 8.1 | 191 | 127 |
| Other gains/(losses) on other economic flows | 8.1 | (643) | (1,539) |
| Total other economic flows included in net result |  | (452) | (1,412) |
| Comprehensive result |  | (7,666) | 8,583 |

The accompanying notes form part of these financial statements.

## Balance sheet as at 30 June 2020

|  | Notes | 2020  $’000 | 2019  $’000 |
| --- | --- | --- | --- |
| Assets | | | |
| Financial assets | | | |
| Cash and deposits | 7.2.1 | 48,674 | 64,311 |
| Receivables | 6.1 | 115,048 | 122,676 |
| Total financial assets |  | 163,722 | 186,987 |
| Non-financial assets | | | |
| Property, plant and equipment | 5.1 | 649,711 | 639,511 |
| Intangible assets | 5.2 | 39,058 | 37,600 |
| Other non-financial assets | 6.3 | 13,531 | 12,715 |
| Total non-financial assets |  | 702,300 | 689,826 |
| Total assets |  | 866,022 | 876,813 |
| Liabilities | | | |
| Payables | 6.2 | 57,086 | 68,962 |
| Borrowings | 7.1 | 4,567 | 3,700 |
| Employee benefits | 6.4 | 52,341 | 43,658 |
| Other provisions |  | 2,520 | 391 |
| Total liabilities |  | 116,514 | 116,711 |
| Net assets |  | 749,508 | 760,102 |
| Equity | | | |
| Accumulated surplus |  | 135,967 | 144,626 |
| Physical asset revaluation surplus |  | 361,723 | 361,723 |
| Contributed capital |  | 251,818 | 253,753 |
| Total equity |  | 749,508 | 760,102 |
| Net worth |  | 749,508 | 760,102 |

The accompanying notes form part of these financial statements.

## Cash flow statement for the financial year ended 30 June 2020

|  | Notes | 2020  $’000 | 2019  $’000 |
| --- | --- | --- | --- |
| Cash flows from/(used in) operating activities | | | |
| Receipts from government |  | 806,373 | 751,394 |
| Receipts from other entities |  | 4,304 | 5,807 |
| Goods and services tax recovered from the Australian Taxation Office |  | 25,283 | 23,512 |
| Interest received |  | 45 | 171 |
| Total receipts |  | 836,005 | 780,885 |
| Payments to suppliers and employees |  | (463,665) | (383,718) |
| Payments of grants expenses |  | (342,770) | (353,100) |
| Capital asset charge payments |  | (11,015) | (8,863) |
| Interest and other costs of finance paid |  | (672) | (70) |
| Total payments |  | (818,122) | (745,751) |
| Net cash flows from/(used in) operating activities | 7.2.2 | 17,883 | 35,134 |
| Cash flows from/(used in) investing activities | | | |
| Purchase of non-financial assets |  | (25,952) | (28,833) |
| Total payments |  | (25,952) | (28,833) |
| Net cash flows used in investing activities |  | (25,952) | (28,833) |
| Cash flows from/(used in) financing activities | | | |
| Appropriation for capital expenditure purposes |  | – | 1,620 |
| Special appropriations | 2.2.2 | 6,479 | 5,036 |
| Cash transferred in — machinery of government changes |  | – | 4,752 |
| Proceeds from disposal of motor vehicles |  | 1,109 | 1,209 |
| Total receipts |  | 7,588 | 12,617 |
| Cash transferred out — machinery of government changes | 8.6 | (230) | (7,075) |
| Cash transferred out — derecognise section 53(1)(b) entity |  | (1,001) | – |
| Capital grants to portfolio agencies |  | (7,163) | (5,379) |
| Repayment of leases |  | (6,762) | (2,096) |
| Total payments |  | (15,156) | (14,550) |
| Net cash flows from/(used in) financing activities |  | (7,568) | (1,933) |
| Net increase in cash and cash equivalents |  | (15,637) | 4,368 |
| Cash and cash equivalents at beginning of financial year |  | 64,311 | 59,943 |
| Cash and equivalents at end of financial year | 7.2.1 | 48,674 | 64,311 |

The accompanying notes form part of these financial statements.

## Statement of changes in equity for the financial year ended 30 June 2020

|  | Notes | Physical asset revaluation surplus  $’000 | Contributed capital  $’000 | Accumulated surplus  $’000 | Total  $’000 |
| --- | --- | --- | --- | --- | --- |
| Balance at 1 July 2018 |  | 361,723 | 259,197 | 136,043 | 756,963 |
| Net result for the year |  | – | – | 8,583 | 8,583 |
| Annual appropriations — capital | 2.2.1 | – | 1,620 | – | 1,620 |
| Special appropriations — capital | 2.2.2 | – | 5,036 | – | 5,036 |
| Machinery of government transfers |  | – | (6,721) | – | (6,721) |
| Derecognise section 53(1)(b) entity |  | – | – | – | – |
| Capital distributions to portfolio agencies |  | – | (5,379) | – | (5,379) |
| Balance at 30 June 2019 |  | 361,723 | 253,753 | 144,626 | 760,102 |
| Net result for the year |  | – | – | (7,666) | (7,666) |
| Annual appropriations — capital | 2.2.1 | – | – | – | – |
| Special appropriations — capital | 2.2.2 | – | 6,479 | – | 6,479 |
| Machinery of government transfers | 8.6 | – | (1,296) | – | (1,296) |
| Derecognise section 53(1)(b) entity |  | – | 45 | (993) | (948) |
| Capital distributions to portfolio agencies |  | – | (7,163) | – | (7,163) |
| Balance at 30 June 2020 |  | 361,723 | 251,818 | 135,967 | 749,508 |

The accompanying notes form part of these financial statements.

## Notes to the financial statements for the financial year ended 30 June 2020

### Note 1. About this report

The Department of Premier and Cabinet (the ‘department’) is a government department of the State of Victoria established pursuant to an order made by the Premier under the Administrative Arrangements Act 1983. It is an administrative agency acting on behalf of the Crown.

The principal address of the department is:

Department of Premier and Cabinet  
1 Treasury Place  
Melbourne VIC 3002

A description of the department’s operations and its principal activities is included in the **Report of operations**, which does not form part of these financial statements.

#### Basis of preparation

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

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

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

Revisions to accounting estimates are recognised in the period in which those estimates are revised and also in future periods that are affected by the revision. Judgements and assumptions made by management in applying Australian Accounting Standards (AASs) that have significant effects on the financial statements and estimates are disclosed in the notes to which they relate.

These financial statements cover the department as an individual reporting entity and include all the controlled activities of the department, including the grants provided to the department’s portfolio entities. The results of the portfolio entities are not consolidated in the department’s financial statements because they prepare their own financial reports. The department’s portfolio results (including the portfolio entities) are included in Appendix 1, Budget portfolio outcomes of this annual report, which does not form part of the financial statements and is not subject to audit by the Victorian Auditor-General’s Office.

The following entities have been consolidated into the department’s financial statements pursuant to a determination made by the Assistant Treasurer under section 53(1)(b) of the Financial Management Act 1994. These entities are not controlled by the department.

Where control of an entity is obtained during the financial period, its results are included in the comprehensive operating statement from the date on which control commenced. Where control ceases during a financial period, the entity’s results are included for that part of the period in which control existed.

**The Office of the Victorian Information Commissioner** was established under the Freedom of Information Amendment (Freedom of Information Commissioner) Act 2017, included until 1 May 2020.

**The Victorian Multicultural Commission** was established under the Multicultural Victoria Act 2011.

**The Victorian Veterans Council** is an independent statutory body established under the Veterans Act 2005.

**The Victorian Independent Remuneration Tribunal** was established on 20 March 2019 under the Victorian Independent Remuneration Tribunal and Improving Parliamentary Standards Act 2020.

**Respect Victoria** was established on  
5 September 2018 under the Prevention of Family Violence Bill 2018.

The comparatives for 2019 include the Labour Hire Authority, which was a section 53(1)(b) inclusion only in 2019, and do not include Respect Victoria which was transferred into the department as a result of an administrative restructure effective from 1 July 2019.

The 2020 derecognition of the opening balance impact of the Labour Hire Authority in ‘Statement of changes in equity’, ‘Cash flow statement’ and ‘Reconciliation of movements in carrying amount of property, plant and equipment’ note (Note 5.1.1) are separately reported as a line item in those notes.

The administered activities of the department and for the above controlled entities are separately disclosed in Note 8.8 Administered items. The department remains accountable for administered items but does not recognise these in its financial statements.

All amounts in the financial statements have been rounded to the nearest $1,000 unless otherwise stated.

#### Compliance information

These general-purpose financial statements have been prepared on a going concern basis in accordance with the Financial Management Act and applicable AASs including interpretations issued by the Australian Accounting Standards Board (AASB). They are presented in a manner consistent with the requirements of AASB 1049Whole of Government and General Government Sector Financial Reporting*.*

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

#### Other accounting policies

Significant and other accounting policies that summarise the recognition and measurement basis used, and are relevant to an understanding of the financial statements, are provided throughout the notes to the financial statements.

### Note 2. Funding of our services

### 

#### Introduction

The role of the department is to work for the people of Victoria by leading the public service and supporting the government of the day to achieve its strategic objectives.

To deliver on these strategic objectives, the department receives income predominantly in the form of accrual-based parliamentary appropriations.

#### Structure of this section

2.1 Income that funds the delivery of services

2.2 Summary of compliance with annual parliamentary and special appropriations

Key accounting recognition and measurement criteria

Income is recognised to the extent that it is probable the economic benefits will flow to the department and the income can be reliably measured at fair value. Where applicable, amounts disclosed as income are net of returns, allowances, duties and taxes. Amounts of income where the department does not have control are separately disclosed as administered income (see Note 8.8 Administered items).

2.1 Income that funds the delivery of services

|  | Notes | 2020  $’000 | 2019  $’000 |
| --- | --- | --- | --- |
| Output appropriations | 2.2.1 | 688,451 | 624,532 |
| Special appropriations | 2.2.2 | 38,469 | 95,587 |
| Total appropriations |  | 726,920 | 720,119 |
| General purpose grants |  | 4,735 | 6,388 |
| Specific purpose grants for on-passing |  | 81,215 | 21,532 |
| Other specific purpose grants |  | 545 | 359 |
| Total grants |  | 86,495 | 28,279 |
| Other income |  | 4,647 | 11,920 |
| Total income from transactions |  | 818,062 | 760,318 |

##### Appropriations

Once annual parliamentary appropriations are approved by the Treasurer, they become controlled by the department and are recognised as income when applied for the purposes defined under the relevant legislation governing the use of the appropriation.

The department receives the following forms of appropriation:

* **Output appropriations:** Income from the outputs (i.e. services) the department provides to the government is recognised when those outputs have been delivered and the relevant minister has certified delivery of those outputs in accordance with specified performance criteria.
* **Special appropriations:** Income related to special appropriation is recognised when the expenditure relating to the amounts appropriated are paid by the department.

##### Grants

The department has determined that all grant income is recognised as income of not-for-profit entities in accordance with AASB 1058, except for grants that are reciprocal in nature (i.e. equal value is given back by the recipient of the grant to the provider) and are enforceable with sufficiently specific performance obligations. These are accounted for as revenue from contracts with customers in accordance with AASB 15.

The impact of initially applying AASB 1058 on the department’s grant revenue is described in Note 8.10. Due to the modified retrospective transition method chosen in applying AASB 1058, 2019 comparative information has not been restated to reflect the new requirements. The adoption of AASB 1058 did not have an impact on the Comprehensive operating statement or the Cash flow statement for the financial year.

Income from grants for the development and construction of the Service Victoria systems are recognised progressively as the asset is constructed. This aligns with the department’s obligation to construct the asset. The progressive percentage costs incurred is used to recognise income because this closely reflects the revenue earned by the department in constructing the asset. As the asset remains within the department this revenue is recognised under AASB 1058 rules.

Income from grants without any sufficiently specific performance obligations, or that are not enforceable, is recognised when the department has an unconditional right to receive cash that usually coincides with the department raising invoices.

Income received for specific purpose grants for on-passing is recognised simultaneously because the funds are immediately on passed to the relevant recipient entities on behalf of the Commonwealth Government.

##### Other income

**Other income** arises from the following transactions and other miscellaneous income and recovery of administration costs.

* **Trust fund income:** Trust fund income mostly includes fees collected from the Aboriginal Cultural Heritage Register and income from other external parties. In 2019–20, the department has also obtained substantial grants through Emergency Management Victoria for bushfire recovery efforts.
* **Sponsorship income:** Sponsorship income includes receipts from external parties for the Australia Day Fund and Cultural Diversity Week.
* **Resources received free of charge:** Contributions of resources received free of charge or for nominal consideration are recognised at fair value when control is obtained over them, irrespective of whether these contributions are subject to restrictions or conditions over their use.

Resources received free of charge includes the net increases in the value of public records due to records transferred to and from the Public Record Office Victoria.

##### Previous accounting policy for the period ending 30 June 2019 relating to grant income

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

* **General purpose grants** are mainly not subject to conditions regarding their use.
* **Specific purpose grants** for on-passing are grants received by the department to be passed on to another institution (e.g. local government or a private non-profit institution).

Other specific purpose grantsduring the current financial year include funds received from the Commonwealth for the Multicultural Affairs and Social Cohesion programs.

2.2 Summary of compliance with annual parliamentary and special appropriations

##### 2.2.1 Summary of annual appropriations

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

In accordance with accrual output-based management procedures, ‘provision of outputs’ and ‘additions to net assets’ are disclosed as ‘controlled’ activities of the department. Administered transactions are those that are undertaken on behalf of the State over which the department has no control or discretion. These transactions are separately disclosed in Note 8.8 Administered items.

|  | Appropriations Act | | | Financial Management Act | | | Total Parliamentary authority | Total appropriations applied | Variance(iv) |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Annual appropriation | Net transfers between departments – administrative restructure | Advance from Treasurer | Section 29(i) | Section 30(ii) | Section 32(iii) |
| 2020 controlled | | | | | | | | | |
| Output appropriations | 609,049 | (17,130) | 118,164 | 1,557 | (7,011) | 5,000 | 709,629 | 688,451 | 21,178 |
| Additions to net assets | 1,389 | – | – | – | 7,011 | – | 8,400 | – | 8,400 |
| 2020 total | 610,438 | (17,130) | 118,164 | 1,557 | – | 5,000 | 718,029 | 688,451 | 29,578 |
| 2019 controlled | | | | | | | | | |
| Output appropriations | 608,252 | (39,228) | 105,857 | 1,342 | 550 | 1,792 | 678,565 | 624,532 | 54,033 |
| Additions to net assets | 7,596 | – | 2,015 | – | (550) | – | 9,061 | 1,620 | 7,441 |
| 2019 total | 615,848 | (39,228) | 107,872 | 1,342 | – | 1,792 | 687,626 | 626,152 | 61,474 |

Notes:

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

(ii) Under section 30, the department may transfer an amount from one appropriation item to another in the current year. All expenses and obligations to which any section 30 transfer is applied must be reported in the financial year in which the transfer was made.

(iii) Section 32 constitutes the approved carryover of unapplied appropriations from the prior year to be applied against outputs in the current year.

(iv) Variances in output appropriations primarily related to transfer of appropriations by the department to other departments as part of machinery of government changes and no additional capital drawdown since the department’s capital spend is sourced from existing depreciation equivalent funding.

##### 2.2.2 Summary of special appropriations

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

| Authority | Purpose | Appropriations applied | |
| --- | --- | --- | --- |
| 2020  $’000 | 2019  $’000 |
| Controlled | | | |
| Constitution Act, No. 8750 of 1975  — Executive Council | Salary for Clerk of the Executive Council | 50 | – |
| Constitution Act, No. 8750 of 1975  — Governor’s salary | Salary payments to the Governor of Victoria | 483 | 408 |
| Ombudsman Act, No. 8414 of 1973 | Salary and allowances payable to the Ombudsman | 401 | 523 |
| Electoral Act, No. 23 of 2002(i) | Operating costs incurred by the Victorian Electoral Commission | 37,535 | 89,620 |
| Total controlled |  | 38,469 | 90,551 |
| Administered | | | |
| Electoral Act, No. 23 of 2002 | Electoral entitlements | 12,135 | 29,052 |
| Total Administered |  | 12,135 | 29,052 |
| Capital | | | |
| Electoral Act, No. 23 of 2002(i) | Capital costs incurred by the Victorian Electoral Commission | 6,479 | 5,036 |
| Total capital |  | 6,479 | 5,036 |

Note:

(i) In the 2019 published financial statements, capital appropriations of $5.04 million was classified as part of the Victorian Electoral Commission’s normal operational funding. This capital portion has been separately disclosed in this note for 2019 comparatives.

### Note 3. Cost of delivering our services

#### Introduction

This section provides an account of the expenses incurred by the department in delivering its services.

The funds that enable the provision of services are disclosed in Note 2 and in this section.

#### Structure of this section

3.1 Expenses incurred in the delivery of services

Key accounting recognition and measurement criteria

Expenses are ordinarily recognised in the comprehensive income statement in the reporting period in which they are incurred, and the expense is paid or is payable.

Certain expense items such as employee expenses, grant expenses and the capital asset charge that have specific recognition criteria are further described in Note 3.1.

3.1 Expenses incurred in the delivery of services

|  | 2020  $’000 | 2019  $’000 |
| --- | --- | --- |
| Specific purpose grants for on-passing | 224,185 | 230,760 |
| Grant payments for other specific purposes | 120,140 | 122,348 |
| Grant expenses | 344,325 | 353,108 |
| Salaries and wages, annual leave and long service leave | 234,498 | 206,144 |
| Defined contribution superannuation expenses | 18,578 | 16,706 |
| Defined benefit superannuation expense | 365 | 438 |
| Employee expenses | 253,441 | 223,288 |
| Capital asset charge | 11,015 | 8,863 |
| Purchases of services and supplies | 138,997 | 92,966 |
| Information technology expenses | 18,385 | 25,458 |
| Marketing and promotion | 27,930 | 10,832 |
| Operating lease payments | – | 13,857 |
| Short-term lease expenses | 425 | – |
| Low-value assets | 181 | – |
| Lease outgoings | 8,363 | 8,723 |
| Other operating expenses | 194,281 | 151,836 |

##### Employee expenses

Employee expenses comprise all costs related to employment including wages and salaries, superannuation, fringe benefits tax, leave entitlements, redundancy payments, WorkCover premiums and other on-costs.

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

##### Grant expenses

Grant expenses are contributions of the department’s resources to another party for specific or general purposes where there is no expectation that the amount will be repaid in equal value (either by goods or services). Grant expenses also include grants paid to entities within the department’s portfolio. These grants are reported in specific purpose grants for on-passing in Note 3.1.

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

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

Details of the department’s grants payments in 2019–20 can be viewed at [www.dpc.vic.gov.au](https://www.dpc.vic.gov.au/). This grants payments information on the department’s intranet page is not subject to audit by the Victorian Auditor-General’s Office.

##### Capital asset charge

A capital asset charge is a charge levied by the Department of Treasury and Finance (DTF) on the budgeted written down value of controlled non-current physical assets of the department. It aims to attribute to the department outputs, a cost of capital used in service delivery. Imposing this charge provides incentives for the department to identify and dispose of under-utilised or surplus non‑current physical assets.

##### Other operating expenses

Other operating expenses generally represent the day-to-day running costs incurred in normal operations and are recognised as an expense in the reporting period in which they are incurred.

Operating lease payments up until 30 June 2019 (including contingent rentals) are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern of the benefits derived from the use of the leased asset.

From 1 July 2019, the following lease payments are recognised as an expense on a paid or payable basis:

* short-term leases — leases with a term less than 12 months
* low-value leases — leases where the underlying asset’s fair value (when new, regardless of the age of the asset being leased) is no more than $10,000.

### Note 4. Output information

#### Introduction

The department is predominantly funded by accrual-based parliamentary appropriations for providing outputs. This section provides a description of the departmental outputs delivered during the financial year and the costs incurred in delivering those outputs.

#### Structure of this section

4.1 Departmental outputs

4.2 Changes in departmental outputs

4.3 Departmental outputs — controlled income and controlled expenses

4.1 Departmental outputs

A description of the departmental outputs during the financial year ended 30 June 2020 and the objectives of these outputs is summarised below.

##### Strong policy outcomes

These outputs relate to providing advice and support to the Premier and Cabinet on all aspects of government policy. This includes advice on issues as they arise, policy coordination, research and analysis, consultation with stakeholders and leadership in long-term policy development. These outputs also relate to advice on investment relating to Victorian infrastructure, architecture and digital government. This involves driving the economy for Victoria and developing the effective use of technology to support productivity and competitiveness.

##### Engaged citizens

These outputs relate to coordinating and providing services and support to culturally, linguistically and religiously diverse communities such as Aboriginal Victorians, veterans and the equality portfolio. They promote social cohesion, enhanced engagement and greater opportunities for participation and contribution to the social, cultural and economic life of Victoria.

##### Professional public administration

These outputs relate to providing independent services and aim to ensure effective management, governance and support in the public sector.

4.2 Changes in departmental outputs

The following changes were made to the department’s outputs in 2019–20:

Transfer of public sector integrity entities to the Department of Justice and Community Safety (DJCS), and Infrastructure Victoria to DTF from 1 May 2020. These transactions are reflected in professional public administration and strong policy outcomes outputs respectively up to 30 April 2020.

4.3 Departmental outputs — controlled income and controlled expenses

|  | Strong policy outcomes | | Engaged citizens | | Professional public administration | | Total | |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 2020  $’000 | 2019  $’000 | 2020  $’000 | 2019  $’000 | 2020  $’000 | 2019  $’000 | 2020  $’000 | 2019  $’000 |
| Income from transactions | | | | | | | | |
| Output appropriations | 461,099 | 324,800 | 193,476 | 180,617 | 33,876 | 119,115 | 688,451 | 624,532 |
| Special appropriations | 567 | – | – | – | 37,902 | 95,587 | 38,469 | 95,587 |
| Grants income | 81,572 | 26,004 | 4,655 | 1,864 | 268 | 411 | 86,495 | 28,279 |
| Other income | 732 | 2,813 | 2,579 | 2,270 | 1,336 | 6,837 | 4,647 | 11,920 |
| Total income from transactions | 543,970 | 353,617 | 200,710 | 184,751 | 73,382 | 221,950 | 818,062 | 760,318 |
| Expenses from transactions | | | | | | | | |
| Grants expenses | 181,372 | 76,390 | 141,271 | 105,484 | 21,682 | 171,234 | 344,325 | 353,108 |
| Employee benefits | 184,604 | 162,185 | 43,012 | 34,938 | 25,825 | 26,165 | 253,441 | 223,288 |
| Capital asset charge | 2,076 | 457 | 433 | 434 | 8,506 | 7,972 | 11,015 | 8,863 |
| Depreciation and amortisation | 15,721 | 7,295 | 453 | 566 | 5,368 | 5,297 | 21,542 | 13,158 |
| Interest expense | 594 | 60 | 18 | – | 60 | 10 | 672 | 70 |
| Other operating expenses | 157,324 | 105,418 | 26,265 | 32,797 | 10,692 | 13,621 | 194,281 | 151,836 |
| Total expenses from transactions | 541,691 | 351,805 | 211,452 | 174,219 | 72,133 | 224,299 | 825,276 | 750,323 |
| Net result from transactions (net operating balance) | 2,279 | 1,812 | (10,742) | 10,532 | 1,249 | (2,349) | (7,214) | 9,995 |
| Other economic flows included in net result | | | | | | | | |
| Net gain/(loss) on non-financial assets | 134 | 53 | 2 | 156 | 55 | (82) | 191 | 127 |
| Other gains/(losses) from other economic flows | (405) | (1,060) | (81) | (241) | (157) | (238) | (643) | (1,539) |
| Total other economic flows included in net result | (271) | (1,007) | (79) | (85) | (102) | (320) | (452) | (1,412) |
| Comprehensive result | 2,008 | 805 | (10,821) | 10,447 | 1,147 | (2,669) | (7,666) | 8,583 |

### Note 5. Key assets to support output delivery

#### Introduction

The department uses land, buildings, property, plant and equipment in fulfilling its objectives and conducting its output activities. These assets represent the key resources that the department uses for the delivery of output activities discussed in section 4 of this report.

#### Structure of this section

5.1 Property, plant and equipment

5.2 Intangible assets

5.3 Depreciation and amortisation

5.4 Fair value determination

Key accounting recognition and measurement criteria

Items of property, plant and equipment are measured initially at cost. Where an asset is acquired for nominal cost, the cost is its fair value at the date of acquisition. Assets transferred from/to other departments as part of a machinery of government change are transferred at their carrying amount.

The cost of leasehold improvements is capitalised and depreciated over their estimated useful lives.

The initial cost of motor vehicles under finance leases is measured at amounts equal to the fair value of the leased asset or, if lower, the present value of the minimum lease payments determined at the inception of the lease.

Leases recognised as right-of-use assets are initially measures at cost. This represents the present value of expected future payments resulting from the lease contract.

In reporting periods subsequent to initial recognition, property, plant and equipment are measured at fair value less accumulated depreciation and impairment. Fair value is determined based on the asset’s highest and best use (considering legal or physical restrictions imposed on the asset, public announcements or commitments made in relation to the intended use of the asset) and is summarised by asset category in the table at 5.1.

5.1 Property, plant and equipment

|  | Gross carrying amount | | Accumulated depreciation | | Net carrying  amount | |
| --- | --- | --- | --- | --- | --- | --- |
| 2020  $’000 | 2019  $’000 | 2020  $’000 | 2019  $’000 | 2020  $’000 | 2019  $’000 |
| Land(i) | 193,900 | 193,900 | – | – | 193,900 | 193,900 |
| Buildings (including heritage buildings)(i) | 108,464 | 104,802 | (13,653) | (8,986) | 94,811 | 95,816 |
| Leasehold improvements | 10,295 | 9,766 | (4,199) | (7,376) | 6,096 | 2,390 |
| Building construction in progress | 30,126 | 22,651 | – | – | 30,126 | 22,651 |
| Office equipment and computer equipment | 16,188 | 15,985 | (14,919) | (14,744) | 1,269 | 1,241 |
| Plant and equipment works in progress | 1,590 | 1,529 | – | – | 1,590 | 1,529 |
| Motor vehicles | – | 100 | – | (100) | – | – |
| Motor vehicles under finance lease | 5,013 | 4,669 | (1,539) | (1,199) | 3,474 | 3,470 |
| Public records(ii) | 311,591 | 311,591 | – | – | 311,591 | 311,591 |
| Other heritage assets(ii) | 7,069 | 7,066 | (215) | (143) | 6,854 | 6,923 |
| Net carrying amount | 684,236 | 672,059 | (34,525) | (32,548) | 649,711 | 639,511 |

Notes:

(i) Land and buildings at both Government House and the Public Record Office Victoria were valued at 30 June 2017 by the   
Valuer-General of Victoria. The department does not hold any other land and buildings.

(ii) Public records held by the Public Record Office Victoria and other heritage assets were valued at 30 June 2017 by the   
Valuer-General of Victoria.

##### Land and buildings (including heritage buildings)

Land and buildings are classified as specialised land and specialised buildings due to restrictions on the use of these assets. They are reported at fair value. For valuation purposes, the market approach is used for specialised land, although this is adjusted for any community service obligations to reflect the specialised nature of the land being valued. Buildings are valued using the current replacement cost method. For more details refer to Note 5.4.

##### Leasehold improvements

Leasehold improvements are valued using the historical cost method. Historical cost is used as a close proxy to the current replacement cost due to its short useful life.

##### Office equipment and computer equipment

Office equipment and computer equipment are both valued using the historical cost method. Historical cost is used as a close proxy to the current replacement cost due to its short useful life.

##### Motor vehicles (including motor vehicles under finance lease)

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

##### Public records and other heritage assets

These assets are reported at fair value. The valuation of these assets are based on a market approach. This involves using market prices and other relevant information generated by market transactions from comparable or similar assets (refer to Note 5.4 for details on valuation techniques).

##### Right-of-use assets acquired by lessees (under AASB 16 Leases from 1 July 2019)

The department recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for:

* any lease payments made at or before the commencement date less any lease incentive received
* any initial direct costs incurred
* an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located.

The department subsequently depreciates the right-of-use assets on a straight-line basis from the lease commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The right-of-use assets are also subject to revaluation.

In addition, the right-of-use assets are periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liabilities.

The following table is a subset of buildings and vehicles included in Note 5.1 by right-of-use assets.

##### 5.1(a) Reconciliation of movement in carrying amount of right-of-use assets: buildings and vehicles

|  | Buildings  2020  $’000 | Motor vehicles  under finance  lease  2020  $’000 |
| --- | --- | --- |
| Opening balance — 1 July 2019(i) | 64,124 | 3,470 |
| Additions | 1,437 | 1,787 |
| Disposals | – | (427) |
| Other administrative arrangements(ii) | (59,950) | (91) |
| Derecognise section 53(1)(b) entity | – | (205) |
| Depreciation | (4,552) | (1,060) |
| Closing balance — 30 June 2020 | 1,059 | 3,474 |

Notes:

(i) This balance represents the initial recognition of right-of-use assets recorded on the balance sheet on 1 July 2019 along with the transfer from finance lease assets (recognised under AASB 117 at 30 June 2019) to right-of-use assets (recognised under AASB 16 at 1 July 2019).

(ii) On 1 November 2019, the department transferred the right-of-use assets to the DTF Shared Service Provider. Details of the transfer are included in Note 8.6 Restructuring of administrative arrangements.

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

|  | Land at fair value  $’000 | Buildings (including heritage buildings)  $’000 | Leasehold improve-ments  $’000 | Construc-tion in progress  $’000 | Office equipment and computer equipment  $’000 | Plant and equipment works in progress  $’000 | Leased motor vehicles  $’000 | Public records  $’000 | Other heritage assets  $’000 | Total  $’000 |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 2020 |  |  |  |  |  |  |  |  |  |  |
| Carrying amount as at start of the year | 193,900 | 95,816 | 2,390 | 22,651 | 1,241 | 1,529 | 3,470 | 311,591 | 6,923 | 639,511 |
| Recognition of right-of-use assets on initial application of AASB 16 | – | 64,124 | – | – | – | – | – | – | – | 64,124 |
| **Adjusted balance as at start of the year** | **193,900** | **159,940** | **2,390** | **22,651** | **1,241** | **1,529** | **3,470** | **311,591** | **6,923** | **703,635** |
| Additions | – | 1,499 | 835 | 15,162 | 464 | 61 | 1,787 | – | 2 | 19,810 |
| Disposals | – | – | – | – | (7) | – | (427) | – | – | (434) |
| Derecognise section 53(1)(b) entity | – | – | – | – | – | – | (205) | – | – | (205) |
| Transfers between classes | – | 2,360 | 5,327 | (7,687) | – | – | – | – | – | – |
| Net transfers free of charge | – | – | – | – | – | – | – | – | – | – |
| Other administrative arrangements | – | (59,950) | (1,521) | – | (5) | – | (91) | – | – | (61,567) |
| Depreciation/amortisation expense | – | (9,038) | (935) | – | (424) | – | (1,060) | – | (71) | (11,528) |
| Carrying amount at end of 2020 | 193,900 | 94,811 | 6,096 | 30,126 | 1,269 | 1,590 | 3,474 | 311,591 | 6,854 | 649,711 |
| 2019 |  |  |  |  |  |  |  |  |  |  |
| Carrying amount as at start of the year | 193,900 | 98,645 | 1,708 | 5,712 | 1,199 | 1,529 | 3,163 | 304,757 | 6,993 | 617,606 |
| Additions | – | 1,648 | 1,461 | 15,877 | 453 | – | 2,771 | – | – | 22,210 |
| Disposals | – | – | (194) | – | – | – | (1,423) | – | – | (1,617) |
| Transfers between classes | – | – | – | – |  | – | – | – | – | – |
| Net transfers free of charge | – | – | – | – |  | – | – | 6,834 | – | 6,834 |
| Other administrative arrangements | – | – | – | 1,062 | (12) | – | (8) | – | – | 1,042 |
| Depreciation/amortisation expense | – | (4,477) | (585) | – | (399) | – | (1,033) | – | (70) | (6,564) |
| Carrying amount at end of 2019 | 193,900 | 95,816 | 2,390 | 22,651 | 1,241 | 1,529 | 3,470 | 311,591 | 6,923 | 639,511 |

5.2 Intangible assets

Key accounting recognition and measurement criteria

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

An **internally generated intangible asset** arising from development (or from the development phase of an internal project) is recognised if, and only if, all of the following are demonstrated:

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

Intangible produced assets with finite useful lives are amortised on a straight-line basis over their useful lives.

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

Intangible assets with finite useful lives are tested for impairment whenever an indication of impairment is identified.

|  | 2020  $’000 | 2019  $’000 |
| --- | --- | --- |
| Opening balance of gross carrying amount | 50,307 | 17,866 |
| Additions | 12,382 | 32,441 |
| Closing balance of gross carrying amount | 62,689 | 50,307 |
| Opening balance of accumulated amortisation | (22,923) | (16,329) |
| Amortisation of intangible assets charged | (10,014) | (6,594) |
| Closing balance of accumulated amortisation | (32,937) | (22,923) |
| Intangibles under development | 9,306 | 10,216 |
| Net book value at end of financial year | 39,058 | 37,600 |

5.3 Depreciation and amortisation

|  | 2020  $’000 | 2019  $’000 |
| --- | --- | --- |
| Buildings (including heritage buildings) | 9,038 | 4,477 |
| Leasehold improvements | 935 | 585 |
| Office equipment and computer equipment | 424 | 399 |
| Motor vehicles under finance lease | 1,060 | 1,033 |
| Other heritage assets | 71 | 70 |
| Intangible assets | 10,014 | 6,594 |
| Total depreciation and amortisation | 21,542 | 13,158 |

The increase in intangible assets amortisation is due to the amortisation of Service Victoria’s digital services platform.

All buildings, office and computer equipment and other non-financial physical assets that have finite useful lives are depreciated and intangible assets are amortised over their useful life.

Depreciation and amortisation are generally calculated on a straight-line basis, at rates that allocate the asset’s value, less any estimated residual value, to its useful life. Depreciation and amortisation begin when the asset is first available for use in the location and condition necessary for it to be capable of operating in the manner intended by the department.

##### Useful life of assets

Typical estimated useful lives for the different asset classes are included in the table below.

|  | Useful life (years) |
| --- | --- |
| Buildings | 5–200 |
| Leasehold improvements | 5–40 |
| Office equipment and computer equipment | 3–20 |
| Motor vehicles | 5 |
| Motor vehicles under finance lease | 2–3 |
| Public records(i) | Indefinite |
| Other heritage assets | 99–100 |
| Intangible assets | 3–10 |

Note:

(i) Public records are assessed to have an indefinite useful life since the records are preserved in near-perfect conditions to ensure they last for an indefinite period.

Right-of-use assets are generally depreciated over the shorter of the asset’s useful life and the lease term. Where the department obtains ownership of the underlying leased asset or if the cost of the right-of-use asset reflects that the entity will exercise a purchase option, the entity depreciates the right-of-use asset over its useful life.

##### Impairment

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

The assets concerned are tested as to whether their carrying value exceeds their recoverable amount. Where an asset’s carrying value exceeds its recoverable amount, the difference is considered to be an impairment and is written off as an ‘other economic flow’, except to the extent that it can be offset to an asset revaluation surplus amount applicable to that class of asset.

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

##### Assets subject to restriction on use

Heritage assets held by the department generally cannot be modified or disposed of unless ministerial approval is obtained.

5.4 Fair value determination

The department determines the policies and procedures for fair value measurements such as property, plant and equipment in accordance with the requirements of AASB 13 Fair Value Measurement and the relevant Financial Reporting Directions issued by DTF.

In determining fair values, a number of inputs are used. To increase consistency and comparability in the financial statements, these inputs are categorised into three levels, also known as the fair value hierarchy:

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

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

There have been no transfers between levels during the period.

The Valuer‑General Victoria (VGV) is the department’s independent valuation agency. The department, in conjunction with VGV, monitors changes in the fair value of each asset through relevant data sources to determine whether a revaluation is required. If a valuation is required, then the department will engage with VGV to value those asset classes. However, every five years the department’s assets will be valued by professional valuers engaged through VGV. The last such valuation was conducted in June 2017.

The carrying amounts of all non-financial physical assets approximate to Level 3 fair value.

The reconciliation of all movements of Level 3 fair value assets is shown in Table 5.1.

The disclosures in connection with fair value determination for non-financial physical assets is as follows:

##### Land and buildings (including heritage buildings)

The department’s land and buildings are classified as specialised land and buildings for valuation purposes. The market approach is used to value specialised land, although this is adjusted for any community service obligations to reflect the use of the land being valued.

The community service obligations adjustment reflects the valuer’s assessment of the impact of restrictions associated with an asset to the extent that it is equally applicable to market participants.   
This approach is in light of the highest and best use consideration required for fair value measurement. Relevant valuation factors include what is physically possible, legally permissible and financially feasible. As cost and such adjustments of community service obligations are considered significant unobservable inputs, valuation of specialised land is classified as a Level 3 fair value measurement.

For the department’s specialised buildings, the current replacement cost method is used, adjusting for associated depreciation. Such adjustments are considered significant unobservable inputs and specialised buildings are classified as Level 3 fair value measurements.

The VGV performed an independent valuation of the department’s specialised land and specialised buildings. The effective date of the valuation was 30 June 2017.

##### Office equipment and computer equipment

Office equipment and computer equipment is valued using the historical cost method, which is considered a close proxy to the current replacement cost due to the short useful lives of these assets. Depreciation rates used in arriving at the current replacement costs are an unobservable input; as such, these assets are classified under Level 3 in the fair value measurement hierarchy.

There were no changes in valuation techniques during the current financial year.

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

##### Public records and other heritage assets

The valuation of public records and other heritage assets involves the use of market prices and other relevant information generated by market transactions involving comparable or similar assets. The assessment of similar assets in existence is performed by identifying comparable sales and undertaking research using subscription databases as well as referring to auction catalogues and other specialised libraries. Such a valuation technique will involve unobservable inputs to the fair value measurement, therefore public records and other heritage assets are classified under Level 3 in the fair value measurements hierarchy.

The VGV performed an independent valuation of the department’s public records and other heritage assets. The effective date of the valuation was 30 June 2017.

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

### Note 6. Other assets and liabilities

#### Introduction

This section sets out the other assets and liabilities that arose from the department’s operations and help to contribute to the successful delivery of output operations.

#### Structure of this section

6.1 Receivables

6.2 Payables

6.3 Other non-financial assets

6.4 Employee benefits

Key accounting recognition and measurement criteria

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

The department currently holds financial instruments that are recorded in the financial statements where the carrying amounts approximate to fair value, due to their short-term nature or with the expectation that they will be paid in full by the end of the 2020–21 reporting period.

**Statutory receivables** do not arise from contracts and are recognised and measured similarly to contractual receivables (except for impairment) but are not classified as financial instruments. Amounts recognised from the Victorian Government represent funding for all commitments incurred and are drawn from the Consolidated Fund when the commitments fall due.

**Contractual payables** are classified as financial instruments and measured at amortised cost. Accounts payable represent liabilities for goods and services provided to the department prior to the end of the financial year that are unpaid.

**Statutory payables** are recognised and measured similarly to contractual payables but are not classified as financial instruments and not included in the category of financial liabilities at amortised cost, because they do not arise from contracts.

**Deferred capital grant revenue** is recognised progressively when the underlying asset is constructed because this is when the department satisfies its obligations under the asset construction contract. The progressive percentage costs incurred in constructing the asset is used to recognise income because this closely reflects the progress completion of the asset. The department will defer the recognition of a portion of the grant received as a liability for the outstanding obligations. There were no deferrals in 2019–20 or the comparative year.

6.1 Receivables

|  | 2020  $’000 | 2019  $’000 |
| --- | --- | --- |
| Contractual | | |
| Receivables | 90,872 | 32,966 |
| Statutory | | |
| Amounts owing from the Victorian Government(i) | 17,257 | 84,967 |
| GST recoverable | 6,919 | 4,743 |
| Total receivables | 115,048 | 122,676 |
| Represented by: | | |
| Current receivables | 105,844 | 115,351 |
| Non-current receivables | 9,204 | 7,325 |

Note:

(i) Represents the balance of available appropriations relating to providing outputs as well as funds available for capital purchases,   
for which payments had not been disbursed at the balance date, and accordingly had not been drawn from the Consolidated Fund. This includes the timing impact of a grant received from Emergency Management Victoria that relates to Bushfire Recovery Victoria. The receivable was still outstanding as of 30 June 2020 and reflected in the contractual receivables amount above. As such, the payments for expenditure that had occurred up to 30 June 2020 were paid from the Consolidated Fund. This has reduced the statutory receivable from the Victorian Government. To manage this, the department has organised a section 37 advance from the public account to manage the temporary reduction in the Consolidated Fund.

The decrease from 30 June 2019 is also as a result of machinery of government transfers of agencies — Infrastructure Victoria to DTF and the Victorian Inspectorate, Independent Broad-based Anti-corruption Commission and Victorian Ombudsman to DJCS, which no longer forms part of department’s statutory receivable at 30 June 2020 (see Note 6.2).

##### 6.1.1 Ageing analysis of contractual receivables

The average credit period for sales of goods/services and for other receivables is 30 days. There are no material financial assets that are individually determined to be impaired. Currently the department does not hold any collateral as security nor credit enhancements relating to any of its financial assets.

6.2 Payables

|  | 2020  $’000 | 2019  $’000 |
| --- | --- | --- |
| Contractual | | |
| Supplies and services | 52,614 | 45,055 |
| Statutory | | |
| Amounts payable to other government agencies | 4,472 | 23,907 |
| Total payables | 57,086 | 68,962 |
| Represented by: | | |
| Current payables | 57,086 | 68,962 |

6.3 Other non-financial assets

|  | 2020  $’000 | 2019  $’000 |
| --- | --- | --- |
| Prepayments | 13,403 | 12,424 |
| Other | 128 | 291 |
| Total other non-financial assets | 13,531 | 12,715 |

Prepayments represent payments in advance of receipt of goods or services made in one accounting period covering a term extending beyond that period. Prepayments at the end of the financial year include accommodation, WorkCover insurance, software and information technology payments paid in advance.

6.4 Employee benefits

Key accounting recognition and measurement criteria

Provision is made for benefits payable to employees in respect of annual leave and long service leave for services rendered up to the reporting date.

The **annual leave liability** is classified as a current liability and measured at the undiscounted amount expected to be paid, because the department does not have an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

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

**Unconditional long service leave** is disclosed as a current liability, even where the department does not expect to settle the liability within 12 months because it will not have the unconditional right to defer the settlement of the entitlement should an employee take leave within 12 months.

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

* undiscounted value — if the department expects to wholly settle within 12 months, or
* present value — if the department does not expect to wholly settle within 12 months.

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

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

**Employment on-costs** such as payroll tax, workers compensation and superannuation are not employee benefits. They are disclosed separately as a component of the provision for employee benefits.

|  | 2020  $’000 | 2019  $’000 |
| --- | --- | --- |
| Current provisions | | |
| Annual leave | 19,469 | 14,993 |
| Long service leave | 18,567 | 17,106 |
| Provision for on-costs | 5,101 | 4,238 |
| Total current provisions for employee benefits | 43,137 | 36,337 |
| Non-current provisions | | |
| Long service leave | 8,281 | 6,587 |
| Provision for on-costs | 923 | 734 |
| Total non-current provisions for employee benefits | 9,204 | 7,321 |
| Total provisions for employee benefits | 52,341 | 43,658 |

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

### Note 7. Our financing activities

#### Introduction

This section provides information on the sources of financing activities of the department during the financial year.

This section also includes disclosures of balances that are classified as financial instruments (including cash balances) and additional information on the management of exposures to financial risks.

#### Structure of this section

7.1 Borrowings

7.2 Cash balances and cash flow information

7.3 Financial instruments and financial risk management

7.4 Commitments for expenditure

7.5 Trust account balances

7.1 Borrowings

Key accounting recognition and measurement criteria

**Borrowings** are classified as financial instruments.

All interest-bearing borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs. The measurement basis subsequent to initial recognition is at amortised cost. The classification depends on the nature and purpose of the interest-bearing liabilities. The department determines the classification of its interest-bearing liabilities at initial recognition.

Leases recognised under the AASB16 lease accounting standard are initially measured at the present value of the lease payments unpaid at the commencement date, discounted using an interest rate implicit in the lease if that rate is readily determinable or at the department’s incremental borrowing rate.

**Interest expenses** include costs incurred in connection with the borrowing of funds or the notional interest cost in leases recognised under the AASB16 lease accounting standard. Interest expenses are recognised in the period in which they are incurred.

|  | 2020  $’000 | 2019  $’000 |
| --- | --- | --- |
| Current borrowings | | |
| Lease liabilities | 2,334 | 1,946 |
| Total current borrowings | 2,334 | 1,946 |
| Non-current borrowings | | |
| Lease liabilities | 2,233 | 1,754 |
| Total non-current borrowings | 2,233 | 1,754 |
| Total borrowings | 4,567 | 3,700 |

The department leases various properties, equipment and motor vehicles. The lease contracts are typically made for fixed periods of 1–10 years, with an option to renew the lease after that date.

##### 7.1(a) Right-of-use assets resulting from leases

In October 2019, the department agreed to centralised accommodation management services with the DTF Shared Service Provider. The effect of this transfer is disclosed in Note 8.6. From November 2019, accommodation costs have been recognised as an expense (Note 3.1 Other operating expenses) and the commitment recognised in Note 7.4. Right-of-use assets are presented in Note 5.1(a).

##### 7.1(b) Amounts recognised in the Comprehensive operating statement relating to leases

The following amounts are recognised in the Comprehensive operating statement relating to leases:

|  | 2020  $’000 |
| --- | --- |
| Interest expense on lease liabilities | 670 |
| Expenses relating to short-term leases | 425 |
| Expenses relating to leases of low-value assets | 181 |
| Total amount recognised in the Comprehensive operating statement | 1,276 |

##### 7.1(c) Amounts recognised in the Cash flow statement relating to leases

The following amounts are recognised in the ‘Cash flow statement for the financial year ending 30 June 2020’ relating to leases.

|  | 2020  $’000 |
| --- | --- |
| Total cash outflow for leases | (8,038) |

##### Leases

From 1 July 2019, the department considers whether contracts contain leases. A lease is defined as a contract that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration. To apply this definition the department assesses whether the contract meets the following three key evaluations:

* whether the contract contains an identified asset that is either explicitly identified in the contract or implicitly specified by being identified at the time the asset is made available to the department and for which the supplier does not have substantive substitution rights
* whether the department has the right to obtain substantially all of the economic benefits from using the identified asset throughout the period of use, considering its rights within the defined scope of the contract, and the department has the right to direct the use of the identified asset throughout the period of use
* whether the department has the right to make decisions in respect of ‘how and for what purpose’ the asset is used throughout the period of use.

This policy is applied to all contracts from 1 July 2019.

##### Separation of lease and non-lease components

At inception or on reassessment of a contract that contains a lease component, the lessee is required to separate out and account separately for non-lease components within a lease contract and exclude these amounts when determining the lease liability and right-of-use asset amount.

##### Recognition and measurement of leases (under AASB 16 from 1 July 2019)

The lease liability is initially measured at the present value of the lease payments unpaid at the commencement date, discounted using the interest rate implicit in the lease if that rate is readily determinable or at the department’s incremental borrowing rate.

Lease payments included in the measurement of the lease liability comprise:

* fixed payments (including in-substance fixed payments) less any lease incentive receivable
* variable payments based on an index or rate, initially measured using the index or rate on the commencement date
* amounts expected to be payable under a residual value guarantee
* payments arising from purchase and termination options reasonably certain to be exercised.

Subsequent to initial measurement, the liability will be reduced for payments made and increased for interest. It is remeasured to reflect any reassessment or modification, or if there are changes in-substance fixed payments.

When the lease liability is remeasured, the corresponding adjustment is reflected in the right-of-use asset, or profit and loss if the right-of-use asset is already reduced to zero.

###### Short-term leases and leases of low-value assets

The department has elected to account for short-term leases and leases of low-value assets using the practical expedients. Instead of recognising a right-of-use asset and lease liability, the payments in relation to these are recognised as an expense in profit or loss when the expenditure is incurred.

###### Presentation of right-of-use assets and lease liabilities

The department presents right-of-use assets as ‘Property plant and equipment’ unless they meet the definition of investment property, in which case they are disclosed as ‘Investment property’ in the balance sheet. Lease liabilities are presented as ‘Borrowings’ in the balance sheet.

###### Recognition and measurement of leases (under AASB 117 until 30 June 2019)

In the comparative period, leases of property, plant and equipment were classified as either finance leases or operating leases.

The department determined whether an arrangement was or contained a lease based on the substance of the arrangement and required an assessment of whether fulfilment of the arrangement is dependent on the use of the specific asset(s) and the arrangement conveyed a right to use the asset(s).

Leases of property, plant and equipment where the department as a lessee had substantially all of the risks and rewards of ownership were classified as finance leases.

Finance leases were initially recognised as assets and liabilities at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payment, each determined at the inception of the lease.

The leased asset is accounted for as a non-financial physical asset and depreciated over the shorter of the estimated useful life of the asset or the term of the lease.

Minimum finance lease payments were apportioned between the reduction of the outstanding lease liability and the periodic finance expense, which is calculated using the interest rate implicit in the lease and charged directly to the consolidated comprehensive operating statement.

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

Assets held under other leases were classified as operating leases and were not recognised in the department’s balance sheet. Operating lease payments were recognised as an operating expense in the Statement of comprehensive income on a straight-line basis over the lease term.

7.2 Cash balances and cash flow information

##### 7.2.1 Cash balances

|  | 2020  $’000 | 2019  $’000 |
| --- | --- | --- |
| Cash on hand | 1 | 1 |
| Cash at bank | 48,673 | 64,310 |
| Balance as per cash flow statement | 48,674 | 64,311 |

Cash at bank includes deposits at call held at the bank and trust balances held in the State of Victoria’s bank account (‘public account’). Cash received by the department is paid into the public account. Similarly, expenditure for payments to suppliers and creditors are made via the public account. The public account remits to the department the cash required based on payments to suppliers or creditors.

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

|  | 2020  $’000 | 2019  $’000 |
| --- | --- | --- |
| Net result for the period | (7,666) | 8,583 |
| Non-cash movements | | |
| Depreciation and amortisation | 21,542 | 13,158 |
| (Gain) on disposal of non-financial assets | (191) | (127) |
| Net transfers free of charge | – | (6,836) |
| Total non-cash movements | 21,351 | 6,195 |
| Movements in assets and liabilities (net of restructuring) | | |
| (Increase)/decrease in receivables | 7,174 | 2,414 |
| (Increase)/decrease in other non-financial assets | (307) | (5,141) |
| Increase/(decrease) in payables | (11,587) | 16,637 |
| Increase/(decrease) in employee benefits | 8,918 | 6,446 |
| Total movements in assets and liabilities | 4,198 | 20,356 |
| Net cash flows from/(used in) operating activities | 17,883 | 35,134 |

7.3 Financial instruments and financial risk management

Key accounting recognition and measurement criteria

###### Introduction

Financial instruments arise out of contractual agreements between entities that give rise to a financial asset of one entity and a financial liability or equity instrument of another entity. Due to the nature of the department’s activities, certain financial assets and financial liabilities arise under statute rather than a contract. Such financial assets and financial liabilities do not meet the definition of financial instruments in AASB 132 Financial Instruments: Presentation*.* For example, statutory receivables do not meet the definition of financial instruments because they do not arise under contract. The department’s statutory receivables are disclosed in Note 6.1.

From 1 July 2018, the department applies AASB 9 and classifies all its financial assets based on the business model for managing the assets and the assets’ contractual terms.

###### Categories of financial assets

Financial assets at amortised cost

Financial assets are measured at amortised costs. These assets are initially recognised at fair value plus any directly attributable transaction costs and subsequently measured at amortised cost using the effective interest method less any impairment.

Financial assets at amortised cost include the department’s trade receivables but not statutory receivables.

###### Categories of financial liabilities

Financial liabilities at amortised cost

Financial liabilities are initially recognised on the date they are originated. They are initially measured at fair value plus any directly attributable transaction costs. Subsequent to initial measurement, these financial instruments are measured at amortised cost using the effective interest method.

Financial liabilities measured at amortised cost include all the department’s contractual payables and finance lease liabilities (borrowings).

###### Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when the rights to receive cash flows from the asset have expired.

###### Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires.

###### Offsetting financial instruments

Financial instrument assets and liabilities are offset and the net amount presented in the balance sheet when, and only when, there is a legal right to offset the amounts and the department intends to settle on a net basis or to realise the asset and settle the liability simultaneously.

##### Categories of financial assets and liabilities

The following table shows the department’s categorisation of financial assets and financial liabilities.

| 2020 | Financial assets at amortised cost  $’000 | Financial liabilities at amortised cost  $’000 | Total  $’000 |
| --- | --- | --- | --- |
| Contractual financial assets | | | |
| Cash and deposits | 48,674 | – | 48,674 |
| Receivables | 90,872 | – | 90,872 |
| Total contractual financial assets in 2020 | 139,546 | – | 139,546 |
| Financial liabilities | | | |
| Payables | – | 52,614 | 52,614 |
| Lease liabilities | – | 4,567 | 4,567 |
| Total contractual financial liabilities in 2020 | – | 57,181 | 57,181 |

| 2019 | Receivables and cash  $’000 | Liabilities at  amortised cost  $’000 | Total  $’000 |
| --- | --- | --- | --- |
| Contractual financial assets | | | |
| Cash and deposits | 64,311 | – | 64,311 |
| Receivables | 32,966 | – | 32,966 |
| Total contractual financial assets in 2019 | 97,277 | – | 97,277 |
| Financial liabilities | | | |
| Payables | – | 45,055 | 45,055 |
| Lease liabilities | – | 3,700 | 3,700 |
| Total contractual financial liabilities in 2019 | – | 48,755 | 48,755 |

The department’s main financial risks include credit risk, liquidity risk and market risk. The department manages these financial risks in accordance with its financial risk management policy.

##### Credit risk

Credit risk refers to the possibility that a debtor will default on its financial obligations as and when they fall due. Credit risk associated with the department’s contractual financial assets is minimal because the main debtors are other Victorian Government entities. Credit risk is measured at fair value and is monitored on   
a regular basis.

Considering minimal credit risk, there is no expected credit loss for contractual receivables as per AASB 9’s Expected Credit Loss approach.

##### Liquidity risk

Liquidity risk arises when the department is unable to meet its financial obligations as they fall due. The department’s exposure to liquidity risk is deemed insignificant based on a current assessment  
of risk, the nature and the size of the department, and a review of data from previous financial periods.

The department is exposed to liquidity risk mainly through the financial liabilities as disclosed in the balance sheet. The department manages its liquidity risk by:

* maintaining an adequate level of uncommitted funds that can be drawn at short notice to meet its short-term obligations
* careful maturity planning of its financial obligations based on forecasts of future cash flows.

##### Market risk

The department’s exposure to market risk is primarily through interest rate risk. The department has no material exposure to foreign currency and other price risks.

###### **Interest rate risk**

The department’s exposure to interest rate risk is insignificant and arises primarily through the department’s interest-bearing liabilities. The only interest-bearing liabilities are the motor vehicles under finance lease liabilities entered under fixed-rate contracts.

7.4 Commitments for expenditure

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

| Nominal amounts | Less than 1 year  $’000 | 1–5 years  $’000 | 5+ years  $’000 | Total  $’000 |
| --- | --- | --- | --- | --- |
| 2020 | | | | |
| Capital commitments(i) | 12,111 | – | – | 12,111 |
| Outsourcing commitments | 1,938 | 66 | – | 2,004 |
| Short-term occupancy agreement commitments  (no GST)(ii) | 17,129 | 5,803 | – | 22,932 |
| Other commitments | 38,751 | 23,440 | 1,188 | 63,379 |
| Total commitments (inclusive of GST) | 69,929 | 29,309 | 1,188 | 100,426 |
| Less GST recoverable | (6,357) | (2,665) | (108) | (9,130) |
| Total commitments (exclusive of GST) in 2020 | 63,572 | 26,644 | 1,080 | 91,296 |
| 2019 | | | | |
| Capital commitments | 7,498 | – | – | 7,498 |
| Outsourcing commitments | 1,714 | – | – | 1,714 |
| Operating lease commitments | 12,514 | 11,403 | 7,221 | 31,138 |
| Other commitments | 21,620 | 15,468 | – | 37,088 |
| Total commitments (inclusive of GST) | 43,346 | 26,871 | 7,221 | 77,438 |
| Less GST recoverable | (3,940) | (2,443) | (656) | (7,040) |
| Total commitments (exclusive of GST) in 2019 | 39,406 | 24,428 | 6,565 | 70,398 |

The department also has grant payment commitments. These commitments are unquantifiable since the final grant payment is based on the achievement of performance milestones that may or may not be met and will affect the payment of those grants.

Notes:

(i) The capital commitments include obligations relating to Bushfire Recovery Victoria. Subsequent to the balance date Bushfire Recovery Victoria was transferred to DJCS with effect from 1 July 2020.

(ii) The department has an occupancy agreement, ending on 31 October 2021, with the DTF Shared Service Provider for office accommodation and other related services, including management fee, maintenance, electricity and other. A significant judgement was made that the occupancy agreement is a service contract (rather than a ‘lease’ as defined in AASB 16 Leases). The cost for the accommodation and other related services are expensed (Note 3.1 ― see ‘Other operating expenses’) based on agreed payments in the occupancy agreement.

7.5 Trust account balances

| Cash and cash equivalents and investments | 2020 | | | 2019 | | |
| --- | --- | --- | --- | --- | --- | --- |
| Opening balance as at 1 July 2019  $’000 | Increase/ (decrease) in funds  $’000 | Closing balance as at 30 June 2020  $’000 | Opening balance as at 1 July 2018  $’000 | Increase/ (decrease) in funds  $’000 | Closing balance as at 30 June 2019  $’000 |
| Controlled trusts | | | | | | |
| Australia Day Committee Victoria Trust | 101 | (98) | 3 | 57 | 43 | 101 |
| Victorian Veterans Fund | 528 | 229 | 757 | 256 | 272 | 528 |
| Departmental Trust Account | 9,345 | (4,059) | 5,286 | 12,992 | (3,647) | 9,345 |
| Treasury Trust | 41,020 | (10,380) | 30,640 | 42,866 | (1,846) | 41,020 |
| Victorian Pride Centre(i) | 6,776 | (6,776) | – | – | 6,776 | 6,776 |
| Vehicle Lease Trust | 882 | 175 | 1,057 | 539 | 343 | 882 |
| Information Victoria Working Account | 915 | (99) | 816 | 1,002 | (86) | 915 |
| ANZAC Day Trust | 18 | (1) | 17 | 17 | 1 | 18 |
| Aboriginal Cultural Heritage Fund | 2,396 | (515) | 1,881 | 874 | 1,522 | 2,396 |
| Intergovernmental Trust(ii) | 2,329 | 5,887 | 8,216 | 1,339 | 990 | 2,329 |
| Total controlled trusts | 64,310 | (15,637) | 48,673 | 59,942 | 4,368 | 64,310 |

Trust accounts controlled by the department are shown above. These trust balances are reported as cash at bank in Note 7.2.1.

Notes:

(i) This relates to funds belonging to the Victorian Pride Centre Consortium. Upon completion of project milestones these funds were released to the consortium.

(ii) The Intergovernmental Trust was established during 2017–18 under section 19 of the Financial Management Act to record projects managed through inter-departmental fund transfers.

### Note 8. Other disclosures

#### Introduction

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

It also provides information on administered items.

#### Structure of this section

8.1 Other economic flows

8.2 Responsible persons

8.3 Executive remuneration

8.4 Related parties

8.5 Remuneration of auditors

8.6 Restructuring of administrative arrangements

8.7 Contingent assets and contingent liabilities

8.8 Administered items

8.9 Third-party funds under management

8.10 Changes in accounting policies, other accounting policies and Australian Accounting Standards issued but not yet effective

8.11 Subsequent events

8.1 Other economic flows

Other economic flows are changes in the value of an asset or liability that do not result from transactions. Gains/(losses) from other economic flows include the gains or losses from:

* the disposal of leased motor vehicles
* the revaluation of the present value of the long service and recreational leave liability due to changes in the bond interest rate.

| Other economic flows | 2020  $’000 | 2019  $’000 |
| --- | --- | --- |
| Net gain on non-financial assets | | |
| Gain on disposal of leased motor vehicles | 191 | 127 |
| Total net gain on non-financial assets | 191 | 127 |
| Other gains/(losses) on other economic flows | | |
| Gain/(loss) on revaluation of recreational leave liability | (32) | (69) |
| Gain/(loss) on revaluation of long service leave liability | (611) | (1,470) |
| Total other gains/(losses) on other economic flows | (643) | (1,539) |

8.2 Responsible persons

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

##### Names

The persons who held the positions of Minister and of Accountable Officer in the department (from 1 July 2019 to 30 June 2020 unless otherwise stated) were:

| Name of Minister or Accountable Officer | Relevant title |
| --- | --- |
| The Hon Daniel Andrews MP | Premier |
| The Hon James Merlino MP | Deputy Premier |
| Gavin Jennings MLC | Special Minister of State (until 23 March 2020)  Minister for Aboriginal Affairs (until 23 March 2020) |
| Martin Foley MP | Minister for Equality |
| The Hon Richard Wynne MP | Minister for Multicultural Affairs (until 23 March 2020) |
| Robin Scott MP | Minister for Veterans (until 15 June 2020) |
| Tim Pallas MP | Minister for Industrial Relations |
| Gabrielle Williams MP | Minister for Youth (until 23 March 2020)  Minister for Women  Minister for Aboriginal Affairs (from 23 March 2020) |
| The Hon Shaun Leane MP | Minister for Veterans (from 22 June 2020) |
| The Hon Ros Spence MP | Minister for Multicultural Affairs (from 23 March 2020)  Minister for Youth (from 23 March 2020) |
| The Hon Danny Pearson MP | Minister for Government Services (from 22 June 2020) |
| Chris Eccles AO | Secretary |

The persons who acted in the positions of Minister and of Accountable Officer in the department (from 1 July 2019 to 30 June 2020) were:

| Name of Minister or Accountable Officer | Relevant office | Persons who acted  in the positions |
| --- | --- | --- |
| The Hon Daniel Andrews MP | Office of the Premier | The Hon Lisa Neville MP  The Hon James Merlino MP  The Hon Jacinta Allan MP |
| Gavin Jennings MLC | Office of the Special Minister of State | Tim Pallas MP  The Hon James Merlino MP |
| Gavin Jennings MLC | Office of the Minister for Aboriginal Affairs | Tim Pallas MP  The Hon James Merlino MP |
| Martin Foley MP | Office of the Minister for Equality | The Hon Luke Donnellan MP  Gavin Jennings MLC |
| The Hon Richard Wynne MP | Office of the Minister for Multicultural Affairs | The Hon Lily D’Ambrosio MP  Martin Foley MP  The Hon Lisa Neville MP |
| Robin Scott MP | Office of the Minister for Veterans | Tim Pallas MP  The Hon Daniel Andrews MP |
| Tim Pallas MP | Office of the Minister for Industrial Relations | Robin Scott MP  The Hon Daniel Andrews MP |
| Gabrielle Williams MP | Office of the Minister for Youth | The Hon Luke Donnellan MP  Martin Foley MP  The Hon Jenny Mikakos MP |
| Gabrielle Williams MP | Office of the Minister for Women | The Hon Jenny Mikakos MP  The Hon Lily D’Ambrosio MP |
| Chris Eccles AO | Office of the Secretary | Jeremi Moule  Kate Houghton  Tim Ada |

##### Remuneration

Remuneration received or receivable by the Accountable Officer in connection with managing the department during the reporting period was in the range of $690,000–$699,999   
(2019: $660,000–$669,999).

8.3 Executive remuneration

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

Remuneration comprises employee benefits in all forms of consideration paid, payable or provided by the entity or on behalf of the entity, in exchange for services rendered, and is disclosed in the following categories:

* Short-term employee benefits include amounts such as wages, salaries, annual leave or sick leave that are usually paid or payable on a regular basis, as well as non-monetary benefits such as allowances and free or subsidised goods or services.
* Post-employment benefits include pensions and other retirement benefits paid or payable on a discrete basis when employment has ceased.
* Other long-term benefits include long service leave, other long-service benefit or deferred compensation.

| Remuneration of executive officers | 2020  $’000 | 2019  $’000 |
| --- | --- | --- |
| Short-term employee benefits | 27,477 | 24,093 |
| Post-employment benefits | 3,794 | 2,254 |
| Other long-term benefits | 1,592 | 2,484 |
| Termination benefits | 155 | 147 |
| Total remuneration | 33,018 | 28,979 |
| Total number of executives(i) | 170 | 154 |
| Total annualised employee equivalents(ii) | 125.1 | 119.7 |

Notes:

(i) The total number of executive officers includes persons who meet the definition of key management personnel of the entity under AASB 124 Related Party Disclosures and are also reported within the related parties note disclosure (Note 8.4).

(ii) Annualised employee equivalent is based on the time fraction worked over the reporting period.

8.4 Related parties

The department is a wholly owned and controlled entity of the State of Victoria.

Related parties of the department, Office of the Victorian Information Commissioner, Victorian Multicultural Commission, Victorian Independent Remuneration Tribunal, Victorian Veterans Council and Respect Victoria include:

* all key management personnel and their close family members and personal business interests (controlled entities, joint ventures and entities they have significant influence over)
* all Cabinet ministers and their close family members
* all departments and public sector entities that are controlled and included in the whole of state consolidated financial statements.

##### Significant transactions with government-related entities

The department received funding from the Consolidated Fund totalling $726.9 million   
(2019: $720.1 million).

##### Key management personnel

The department’s key management personnel from 1 July 2019 to 30 June 2020 include:

###### The Premier

The Hon Daniel Andrews MP

###### Portfolio ministers

The Hon James Merlino MP

Gavin Jennings MLC

Martin Foley MP

The Hon Richard Wynne MP

Robin Scott MP

Tim Pallas MP

Gabrielle Williams MP

The Hon Shaun Leane MP

The Hon Ros Spence MP

The Hon Danny Pearson MP

###### Secretary

Chris Eccles AO

###### Deputy Secretaries

Timothy Ada

Jeremi Moule

Kate Houghton

Brigid Monagle

Matthew O’Connor

Lill Healy

Elizabeth Langdon

###### Other members of the executive team

Toby Hemming — General Counsel

Andrew Campbell — Executive Director, Corporate Services

###### Administrative offices

Key management personnel of the administrative offices included in the department’s financial statements and other statutory appointees that are material in terms of the department’s financial results include:

* Justine Heazlewood — The Keeper of Public Records of Public Record Office Victoria
* Joanne de Morton — Chief Executive Officer of Service Victoria
* Lee Miezis — Chief Executive Officer of Bushfire Recovery Victoria (from 20 January 2020).

The compensation detailed below excludes the salaries and benefits of portfolio ministers. Minister’s remuneration and allowances are set by the Parliamentary Salaries and Superannuation Act 1968 and is reported by the Department of Parliamentary Services.

| Compensation of key management personnel | Department,  administration  offices and  section 53 entities | |
| --- | --- | --- |
| 2020  $’000 | 2019  $’000 |
| Short-term employee benefits | 4,437 | 3,711 |
| Post-employment benefits | 475 | 243 |
| Other long-term benefits | 674 | 433 |
| Total | 5,586 | 4,387 |

##### Transactions with key management personnel and other related parties

Given the breadth and depth of state government activities, related parties transact with the Victorian public sector on terms and conditions equivalent to those that prevail in arm’s length transactions under the State’s procurement process. Further employment of processes within the Victorian public sector occur on terms and conditions consistent with the Public Administration Act codes of conduct, and standards issued by the Victorian Public Sector Commission. Procurement processes occur on terms and conditions consistent with the Victorian Government Procurement Board requirements.

During the financial year, the Secretary, Mr Chris Eccles AO, was a member of the board of directors of the Australian New Zealand School of Government (ANZSOG). Since 2002, the department has transactions that occurred with ANZSOG that prevail at arm’s length under the State’s procurement processes.

Outside of normal citizen-type transactions with the department, there were no other related party transactions that involved key management personnel or their close family members. No provision has been required, nor any expense recognised, for impairment of receivables from related parties.

8.5 Remuneration of auditors

|  | 2020  $’000 | 2019  $’000 |
| --- | --- | --- |
| Victorian Auditor-General’s Office | | |
| Audit of the annual financial statements | 141 | 137 |
| Total remuneration of auditors | 141 | 137 |

8.6 Restructuring of administrative arrangements

##### Transfers out of the department

In March 2020, the government issued an administrative order restructuring some of its activities via machinery of government changes. As part of the machinery of government restructure, the department (the transferor) relinquished the following areas, taking effect on 1 May 2020:

* Office of the Public Interest Monitor to DJCS (the transferee)
* Office of the Victorian Information Commissioner to DJCS (the transferee)

An order made under section 11 of the Public Administration Act, designated by the Premier, relinquished the Local Government Inspectorate to DJCS (the transferee), taking effect on 1 May 2020.

The following transfers from the department (the transferor) were based on the declaration pursuant to section 28(1) of the Public Administration Act, designated by the Secretary of the department, taking effect on 1 May 2020:

* Office of the General Counsel staff for provision and advice on integrity matters to DJCS (the transferee)
* policy and coordination functions for Infrastructure Victoria and the Parliamentary Budget Officer (PBO) and coordination functions for the Victorian Auditor General’s Office to DTF (the transferee).

In addition, following the department’s agreement to centralise accommodation management services with DTF, the right-of-use asset and lease liability recognised for the accommodation leases were transferred to DTF effective from 1 November as a transfer through equity, in accordance with the requirements of Financial Reporting Direction 119A Transfers through contributed capital.

Due to machinery of government changes, the portfolio department for the Victorian Inspectorate, Independent Broad-based Anti-corruption Commission and Victorian Ombudsman was transferred to DJCS and Infrastructure Victoria to DTF, taking effect on 1 May 2020.

##### Transfers into the department

The department (as transferee) also assumed responsibility for Respect Victoria from the Department of Health and Human Services (the transferor), taking effect on 1 July 2019.

Restructuring of administrative arrangements during the year are as follows.

| 2020 | Transfer out | | | | | | Transfer in | Total net transfer  $’000 |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Office of the Public Interest Monitor  $’000 | Local Government Inspectorate  $’000 | Office of the Victorian Information Commissioner  $’000 | OGC staff for provision and advice on integrity matters  $’000 | Victorian Auditor-General’s Office relationship (Cabinet Office)  $’000 | Centralised Accommodation Management  $’000 | Respect  Victoria  $’000 |
| Assets | | | | | | | | |
| Cash and deposits | (38) | (17) | (175) | – | – | – | – | (230) |
| Receivables | (129) | (222) | (1,673) | (111) | (58) | – | 63 | (2,130) |
| Property, plant and equipment | (67) | (185) | (1,365) | – | – | (59,950) | – | (61,567) |
| Prepayments | – | – | – | – | – | – | 750 | 750 |
| Total assets | (234) | (424) | (3,213) | (111) | (58) | (59,950) | 813 | (63,177) |
| Liabilities | | | | | | | | |
| Borrowings | 62 | – | 29 | – | – | 59,660 | – | 59,751 |
| Provisions | 129 | 222 | 1,673 | 111 | 58 | – | (63) | 2,130 |
| Total liabilities | 191 | 222 | 1,702 | 111 | 58 | 59,660 | (63) | 61,881 |
| Net assets transferred(i) | (43) | (202) | (1,511) | – | – | (290) | 750 | (1,296) |

Note:

(i) The net asset transfers were treated as a transfer of contributed capital provided by the State of Victoria.

8.7 Contingent assets and contingent liabilities

Key accounting recognition and measurement criteria

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

Contingent assets and liabilities are presented inclusive of GST.

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.

Contingent liabilities are:

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

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

##### Contingent liabilities

###### Non-quantifiable contingent liabilities — Victorian bushfires

During the period December 2019 to February 2020, Victoria experienced significant loss and damage to homes, farms, properties, community assets, roads and other infrastructure as a result of several large bushfires across parts of Victoria, including East Gippsland and North East Victoria.

To minimise the environmental, social and economic impact of the Victorian bushfires, a State-coordinated clean-up program was activated in January 2020 with a single contractor, Grocon Constructors Pty Ltd. The Victorian Government has agreed to demolish, remove and safely dispose of all applicable buildings destroyed or damaged beyond repair, regardless of insurance arrangements and is contributing towards the cost of the clean-up.

The costs of the clean-up will be jointly shared with the Commonwealth Government under the Commonwealth-State Disaster Recovery Funding Arrangements.

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

These bushfire recovery activities were conducted by Bushfire Recovery Victoria, which was an administrative office of the department until 30 June 2020. On 1 July 2020, Bushfire Recovery Victoria was transferred to DJCS as part of a machinery of government decision.

##### Contingent assets

There were no contingent assets during the reporting period (2019: nil).

8.8 Administered items

Key accounting recognition and measurement criteria

Administered transactions relating to income, assets and liabilities are determined on an accrual basis.

The below transactions and balances relate to administered items and are not included elsewhere in these financial statements because the department does not control these activities. However, the department remains accountable to the State for the transactions involving these administered resources even though it does not have the discretion to deploy these resources for its own benefit or for the achievement of its objectives. Some of the activities include disposal of vehicles under finance leases, the Public Service Commuter Club and other Treasury and departmental trusts.

| Administered (non-controlled) items | 2020  $’000 | 2019  $’000 |
| --- | --- | --- |
| Administered income from transactions | | |
| Appropriations(i) | 12,135 | 29,052 |
| Grants | 11,618 | – |
| Provision of services | 45 | 74 |
| Other income | 731 | 562 |
| Total administered income from transactions | 24,529 | 29,688 |
| Administered expenses from transactions | | |
| Supplies and services | – | 12 |
| Grants and other transfers(i) | 12,135 | 29,052 |
| Payments into the Consolidated Fund | 12,385 | 759 |
| Total administered expenses from transactions | 24,520 | 29,823 |
| Total administered comprehensive result | 9 | (135) |
| Administered financial assets | | |
| Cash(ii) | 24,839 | 16,490 |
| Other receivables | 261 | 432 |
| Total administered financial assets | 25,100 | 16,922 |
| Total assets | 25,100 | 16,922 |
| Administered liabilities | | |
| Amounts payable to other government agencies(ii) | 25,220 | 17,051 |
| Payables | – | – |
| Total liabilities | 25,220 | 17,051 |
| Administered net assets | (120) | (129) |

Notes:

(i) This includes pass-through of administered special appropriation provided for the Victorian Electoral Commission.

(ii) This includes funds in trust for the portfolio agencies held in the department’s public account.

##### Administered trust account balances

The table below provides additional information on individual administered trust account balances.

| Cash and cash equivalents and investments | 2020 | | | 2019 | | |
| --- | --- | --- | --- | --- | --- | --- |
| Opening balance as at 1 July 2019(i)  $’000 | Increase/ (decrease) in funds  $’000 | Closing balance as at 30 June 2020  $’000 | Opening balance as at 1 July 2018  $’000 | Increase/ (decrease) in funds  $’000 | Closing balance as at 30 June 2019  $’000 |
| Administered trusts | | | | | | |
| Vehicle Lease Trust | 11 | (15) | (4) | 10 | 1 | 11 |
| Public Service Commuter Club | (560) | 203 | (357) | (510) | (50) | (560) |
| Departmental and Treasury trust accounts(ii) | 17,039 | (10,384) | 6,655 | 18,164 | (1,125) | 17,039 |
| Labour Hire Authority Trust(iii) | – | 16,125 | 16,125 | – | – | – |
| Intergovernmental Trust | – | 2,420 | 2,420 | – | – | – |
| Total administered trusts | 16,490 | 8,349 | 24,839 | 17,664 | (1,174) | 16,490 |

Notes:

(i) Opening balances have been realigned into relevant trust funds for better presentation.

(ii) The decrease is mainly due to transfer out of the Victorian Ombudsman and the Independent Broad-based Anti-corruption Commission to DJCS as a result of the machinery of government transfers.

(iii) This is a specific purpose trust account established under section 19 of the Financial Management Act.

8.9 Third-party funds under management

The department is responsible for transactions and balances relating to trust funds held on behalf of third parties external to the department.

Any earnings on the funds held pending distribution are also applied to the trust funds under management as appropriate.

The Victorian Veterans Council is the trustee for the following patriotic funds which are administered in accordance with Part 4 of the Veterans Act.

##### The Australian Legion of Ex Servicemen and Women Scholarship Fund No 1 ― Australian Nurses Memorial Centre

|  | 2020  $’000 | 2019  $’000 |
| --- | --- | --- |
| Cash at bank | 1,038 | 1,052 |
| Total funds under management | 1,038 | 1,052 |
| Balance brought forward | 1,052 | 1,058 |
| Interest earned | 16 | 25 |
| Total receipts | 16 | 25 |
| Scholarships/prizes paid | (30) | (31) |
| Total payments | (30) | (31) |
| Balance carried forward | 1,038 | 1,052 |

The fund was established in August 2006 to provide scholarships to students undertaking postgraduate studies in care of either older persons or palliative care at a recognised Victorian university. The funds are provided to the Australian Nurses Memorial Centre as the facilitator of the scholarships.

##### Australian Legion of Ex Servicemen and Women Scholarship Fund — Albert Coates Memorial Trust

|  | 2020  $’000 | 2019  $’000 |
| --- | --- | --- |
| Cash at bank | 1,017 | 1,022 |
| Total funds under management | 1,017 | 1,022 |
| Balance brought forward | 1,022 | 1,028 |
| Interest earned | 16 | 25 |
| Total receipts | 16 | 25 |
| Scholarships/prizes paid | (21) | (31) |
| Total payments | (21) | (31) |
| Balance carried forward | 1,017 | 1,022 |

The fund was established in August 2006 to provide scholarships to students undertaking postgraduate studies in care of either older persons or palliative care at a recognised Victorian university. The funds are provided to the Australian Nurses Memorial Centre as the facilitator of the scholarships.

##### War Widows and Widowed Mothers Association Scholarship Fund

|  | 2020  $’000 | 2019  $’000 |
| --- | --- | --- |
| Cash at bank | 87 | 86 |
| Total funds under management | 87 | 86 |
| Balance brought forward | 86 | 84 |
| Interest earned | 1 | 2 |
| Total receipts | 1 | 2 |
| Balance carried forward | 87 | 86 |

This fund supports scholarships awarded by the Federation University Australia to students undertaking a Bachelor of Nursing or a Graduate Diploma of Midwifery.

##### The Victorian Blinded Soldiers’ Welfare Patriotic Fund

|  | 2020  $’000 | 2019  $’000 |
| --- | --- | --- |
| Cash at bank | 163 | 161 |
| Total funds under management | 163 | 161 |
| Balance brought forward | 161 | 157 |
| Interest earned | 2 | 4 |
| Total receipts | 2 | 4 |
| Balance carried forward | 163 | 161 |

This fund was established in April 2013 to provide welfare assistance to veterans who have a visual impairment due to their service in defence of our nation, and to their dependants.

##### The EDA Patriotic Fund

|  | 2020  $’000 | 2019  $’000 |
| --- | --- | --- |
| Cash at bank | 24 | 34 |
| Total funds under management | 24 | 34 |
| Balance brought forward | 34 | 34 |
| Interest earned | – | 1 |
| Total receipts | – | 1 |
| Scholarships/prizes paid | (10) | (1) |
| Total payments | (10) | (1) |
| Balance carried forward | 24 | 34 |

This fund was established in 2013–14 to provide an annual prize of $500 for the Victorian Veteran Community Story Writing and Art Competition (discontinued in 2018), and to provide scholarships for Victorian students.

##### Australian United Ex-Services Association Patriotic Fund

|  | 2020  $’000 | 2019  $’000 |
| --- | --- | --- |
| Cash at bank | 348 | 343 |
| Total funds under management | 348 | 343 |
| Balance brought forward | 343 | 335 |
| Interest earned | 5 | 8 |
| Total receipts | 5 | 8 |
| Balance carried forward | 348 | 343 |

This fund provides for yearly scholarships to train clinicians working at the Psychological Trauma Recovery Service at the Heidelberg Repatriation Hospital in cognitive processing therapy, with an associated year of supervision.

8.10 Changes in accounting policies, other accounting policies and Australian Accounting Standards issued but not yet effective

##### Changes in accounting policies

###### Leases

This note explains the effect of adopting AASB 16 (Leases)on the department’s financial statements.

The department has applied AASB 16 with a date of initial application of 1 July 2019.

The department has elected to apply AASB 16 using the modified retrospective approach, as per the transitional provisions of AASB 16 for all leases for which the department is the lessee. The cumulative effect of initial application is recognised in retained earnings at 1 July 2019. Accordingly, the comparative information presented is not restated and is reported under AASB 117 and related interpretations.

Previously, the department determined at contract inception whether an arrangement is or contains a lease under AASB 117 and Interpretation 4 Determining whether an arrangement contains a Lease. Under AASB 16, the department assesses whether a contract is or contains a lease based on the definition of a lease as explained in Note 7.1.

As a lessee, the department previously classified leases as operating or finance leases based on its assessment of whether the lease transferred significantly all of the risks and rewards incidental to ownership of the underlying asset to the department. Under AASB 16, the department recognises   
right-of-use assets and lease liabilities for all leases except where an exemption is availed in respect of short-term and low-value leases.

On adoption of AASB 16, the department recognised lease liabilities in relation to leases that had previously been classified as operating leases under the principles of AASB 117. These liabilities were measured at the present value of the remaining lease payments, discounted using the department’s incremental borrowing rate as of 1 July 2019. On transition, right-of-use assets are measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the balance sheet at 30 June 2019.

The department has elected to apply the following practical expedients when applying AASB 16 to leases previously classified as operating leases under AASB 117:

* applied a single discount rate to a portfolio of leases with similar characteristics
* adjusted the right-of-use assets by the amount of AASB 137 onerous contracts provision immediately before the date of initial application, as an alternative to an impairment review
* applied the exemption not to recognise right-of-use assets and liabilities for leases with less than 12 months of lease term
* excluded initial direct costs from measuring the right-of-use asset at the date of initial application
* used hindsight when determining the lease term if the contract contains options to extend or terminate the lease.

For leases that were classified as finance leases under AASB 117, the carrying amount of the right-of-use asset and lease liability at 1 July 2019 are determined as the carrying amount of the lease asset and lease liability under AASB 117 immediately before that date.

##### Impacts on financial statements

On transition to AASB 16, the department recognised $63.8 million of right-of-use assets and $63.8 million of lease liabilities. These right-of-use assets and liabilities were subsequently transferred to DTF effective  
1 November 2019 as a transfer through equity.

##### Revenue from contracts with customers

The department has nil impact from transitional application of AASB 15.

##### Income of not-for-profit entities

In accordance with Financial Reporting Direction 122 requirements, the department has applied the transitional provision of AASB 1058, under a modified retrospective method with the cumulative effect of initially applying this standard against the opening retained earnings at 1 July 2019. Under this transition method, the department applied this standard retrospectively only to contracts and transactions that were not completed contracts at the date of initial application.

Comparative information has not been restated.

Note 2.1 (see under ‘Grants’) and Note 6.2 Payables include details about the transitional application of AASB 1058 and how the standard has been applied to revenue transactions.

The adoption of AASB 1058 did not have an impact on Other comprehensive income or the Cash flow statement for the financial year.

##### Other accounting policies — contributions by owners

In relation to machinery of government changes and consistent with the requirements of AASB 1004 (Contributions), contributions by owners, contributed capital and its repayments are treated as equity transactions and do not form part of the department’s income and expenses.

Additions to net assets that have been designated as contributions by owners are recognised as contributed capital. Other transfers that are in the nature of contributions to, or distributions by, owners are designated as contributions by owners.

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

##### Australian Accounting Standards issued but not yet effective

Certain new and revised accounting standards have been issued but are not effective for the 2019–20 reporting period. These accounting standards have not been applied to the department’s financial statements. The State is reviewing its existing policies and assessing the potential implications of these accounting standards, which includes:

* AASB 2018-7 Amendments to Australian Accounting Standards — Definition of Material

This AAS principally amends AASB 101 (Presentation of Financial Statements) and AASB 108 (Accounting Policies, Changes in Accounting Estimates and Errors). It applies to reporting periods beginning on or after 1 January 2020 with earlier application permitted. The department has not earlier adopted the standard.

The amendments refine and clarify the definition of material in AASB 101 and its application by improving the wording and aligning the definition across AASs and other publications. The amendments also include some supporting requirements in AASB 101 in the definition to give it more prominence and clarify the explanation accompanying the definition of material.

The standard is not expected to have a significant impact on the public sector.

* AASB 2020-1 Amendments to Australian Accounting Standards — Classification of Liabilities as Current or Non-Current

This AAS amends AASB 101 to clarify requirements for the presentation of liabilities in the statement of financial position as current or non-current. It initially applied to annual reporting periods beginning on or after 1 January 2022 with earlier application permitted however, the AASB has recently issued ED 301 Classification of Liabilities as Current or Non-Current — Deferral of Effective Date with the intention to defer the application by one year to periods beginning on or after 1 January 2023. The department will not early adopt the standard.

The standard is not expected to have a significant impact on the public sector.

Several other amending standards and AASB interpretations have been issued that apply to future reporting periods but are considered to have limited impact on the department’s reporting. In general, these amended standards include editorial and reference changes that are expected to have insignificant impacts on public sector reporting and include:

* AASB 2018-6 Amendments to Australian Accounting Standards — Definition of a Business
* AASB 2019-1 Amendments to Australian Accounting Standards — References to the Conceptual Framework
* AASB 2019-3 Amendments to Australian Accounting Standards — Interest Rate Benchmark Reform
* AASB 2019-5 Amendments to Australian Accounting Standards — Disclosure of the Effect of New IFRS Standards Not Yet Issued in Australia
* AASB 2019-4 Amendments to Australian Accounting Standards — Disclosure in Special Purpose Financial Statements of Not-for-Profit Private Sector Entities on Compliance with Recognition and Measurement Requirements
* AASB 1060 General Purpose Financial Statements — Simplified Disclosures for For-Profit and   
  Not-for-Profit Tier 2 Entities (Appendix C)
* AASB 17 Insurance Contracts
* AASB 1060 General Purpose Financial Statements — Simplified Disclosures for For-Profit and   
  Not-for-Profit Tier 2 Entities (Appendix C).

8.11 Subsequent events

No significant events have occurred since 30 June 2020 that will have a material impact on the information disclosed in the financial statements.

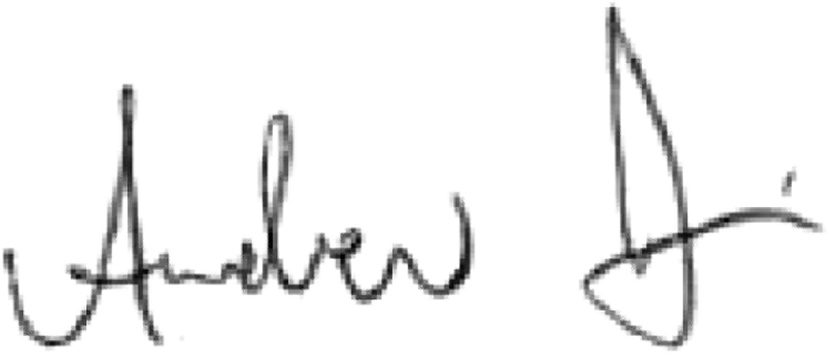
## Accountable Officer’s and Chief Financial Officer’s declaration

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

We further state that, in our opinion, the information set out in the comprehensive operating statement, balance sheet, cash flow statement, statement of changes in equity and accompanying notes, presents fairly the financial transactions during the year ended 30 June 2020 and financial position of the department at 30 June 2020.

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

We authorise the attached financial statements for issue on 16 September 2020.



**Andrew Davis**

Chief Financial Officer

Department of Premier and Cabinet

Melbourne  
16 September 2020



**Chris Eccles AO**

Secretary

Department of Premier and Cabinet

Melbourne  
16 September 2020

## Independent audit report for the year ended 30 June 2020

