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Auditor-General's Report on the Annual Financial Report of the State of Victoria: 2025–26

October 2026

Victorian Auditor-General's Report
2026–27

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Auditor-General's Report on the Annual Financial Report of the State of Victoria: 2025–26

Independent assurance report to Parliament

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of the Parliament of Victoria

October 2026

The Hon Shaun Leane MLC
President
Legislative Council
Parliament House
Melbourne

The Hon Maree Edwards MP
Speaker
Legislative Assembly
Parliament House
Melbourne

Dear Presiding Officers

Under the provisions of the *Audit Act 1994*, I transmit my report *Auditor-General's Report on the Annual Financial Report of the State of Victoria: 2025–26*.

Yours faithfully



Andrew Greaves
Auditor-General
30 October 2026

The Victorian Auditor-General's Office (VAGO) acknowledges the Traditional Custodians of the lands and waters throughout Victoria. We pay our respects to Aboriginal and Torres Strait Islander communities, their continuing culture, and to Elders past and present.

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Report snapshot

About this report

The state manages more than half a trillion dollars in assets and spends more than \$130 billion each year to fund public hospitals, schools, transport and other services Victorians rely on. The state's Annual Financial Report (the AFR) is the primary public record of how this money was raised and used.

Legislation requires the Auditor-General to independently audit the AFR and the financial reports of all state-controlled entities, so Parliament and the community can use them with confidence.

This report outlines the results of our audits of the AFR and of the 31 entities with the greatest influence on the state's results. It provides insight into what the state's financial outcomes mean, drawing out key trends and audit findings not readily apparent in the AFR alone, and gives our independent perspective on the risks that may affect the state's ability to maintain sustainable finances and services over the long term.

Audit outcomes

We provided a clear audit opinion for the 2025–26 AFR, confirming that the state's reported financial performance and position is reliable.

We also issued clear opinions on 29 of the 31 material entities' separate financial reports, which together represent the majority of the state's transactions, balances and disclosures.

We continue to modify our audit opinion on VicTrack's financial report because we disagree with how it accounts for leased assets. We also modified our audit opinion on the National Gallery of Victoria's financial report because limitations on available information and our statutory obligations prevented us from obtaining sufficient appropriate audit evidence relating to transactions and balances affected by alleged fraud investigated by the Independent Broad-based Anti-corruption Commission.

Most state-controlled entities had progressed through the financial reporting and audit process ahead of the amended *Financial Management Act 1994* transmission requirements, with 222 audit opinions issued as at 15 October 2026.

Financial outcomes

The general government sector's (GGS) financial operating outcomes improved in 2025–26, recording its first operating surplus in 7 years. The \$2.4 billion surplus is a \$5.2 billion turnaround from the deficit of \$2.8 billion last year.

Revenue and income drove the stronger result, increasing by \$13.1 billion or 12.9 per cent, which outpaced expense growth of \$7.9 billion or 7.6 per cent. Much of the improvement was due to higher Australian Government grants of \$10.0 billion and taxation receipts of \$2.6 billion. Expenses continued to grow across all major categories, including employee, interest, grant and other operating expenses.

One year of improved results does not remove the structural pressures on the state's finances. Operating losses of \$50.7 billion over the previous 6 years have reduced the state's financial resilience.

Reported operating results also do not always provide a complete picture of the state's underlying financial performance. Accounting standards, sector classification requirements and transactions between government entities can influence how financial outcomes are reported and interpreted.

This year's surplus illustrates this point. It was impacted by \$5.1 billion in specific purpose Australian Government non-recurrent capital grants, including funding for the Melbourne Airport Rail, North East Link and Suburban Rail Loop projects, which is not available to fund government

operations and services. These grants were a key contributor to the reported GGS operating surplus.

The treatment of leased public transport infrastructure assets provides a further example. VicTrack, a public corporation outside the GGS, recognised approximately \$2.4 billion of costs associated with public transport infrastructure assets in 2025–26. The assets are leased to the Department of Transport and Planning (DTP) within the GGS under concessionary lease arrangements. The current accounting treatment relating to our modification of VicTrack’s financial report, together with the government electing to measure these leases at cost rather than fair value, affects where the costs of using public transport infrastructure are recognised in the AFR. This means the full cost of operating public transport infrastructure is not reflected in the GGS operating result.

The GGS continued to record a fiscal cash deficit this year of \$5.2 billion. While this is also an improvement on the prior year’s deficit of \$12.8 billion, it is consistent with the past 10 years. It means the government again did not generate sufficient cash flows from operations to fund its capital program and remains reliant on debt. The 2026–27 Budget forecasts this trend to continue, with fiscal cash deficits in every year to 2029–30, each larger than this year’s, accumulating to \$30.5 billion over the next 4 years.

GGS gross debt increased by \$15.4 billion, from \$187.9 billion at 30 June 2025 to \$203.3 billion at 30 June 2026. It is forecast to reach \$244.9 billion by 30 June 2030. Net debt continues to grow, although at a slower rate relative to economic activity. This stabilisation reflects economic growth, particularly the effects of inflation, and financial assets that offset debt, rather than the state paying down debt. It therefore does not, on its own, demonstrate improved debt sustainability, particularly as interest costs continue to consume a growing share of revenue.

Risks to fiscal sustainability

The current fiscal strategy remains focused on short-term outcomes. While recent operating financial results have improved, fiscal cash deficits persist, debt remains relatively high, and long-term expenditure pressures continue to grow. Headline results continue to be influenced by non-recurring items rather than structural improvements in revenue or expenditure.

Recent government initiatives do not go far enough to address the state’s financial challenges or strengthen long-term financial resilience. For example, \$12.8 billion in savings initiatives announced in state budgets from 2017–18 to 2025–26 has largely supported new or expanded expenditure rather than rebuilding fiscal capacity or reducing debt.

The state also faces significant materialising and emerging risks, 11 of which we highlight in this report. Some are already evident in current financial outcomes and budget settings, while others may have a greater impact over the medium to long term. Effective management of these risks is important to fiscal repair and long-term sustainability.

The *Independent Review of the Victorian Public Service* released in late 2025 recommended improvements to fiscal management and strategy. However, these recommendations remain unactioned, limiting the review’s implementation to some short-term savings and entity reforms.

Likewise, our recommendations over the past 4 years to strengthen fiscal discipline, fiscal sustainability, debt management, long-term planning and transparency remain largely unactioned.

Common problems with financial reporting and controls

The Department of Treasury and Finance (DTF) implemented effective internal controls to support the preparation of the AFR.

Material entities generally maintained adequate controls and accounting records to support reliable financial reporting. However, recurring weaknesses in governance, asset management, outsourced-service oversight and IT controls continued to expose entities to operational, reporting, fraud and information security risks. Longstanding IT control weaknesses remain unresolved, and some entities require greater assurance over outsourced providers and access to information needed to meet accountability and reporting obligations.

Key numbers: general government sector

Measure	2025–26 outcome	Performance trajectory
Net operating result	\$2.4 billion	First in 7 years
Operating cash result	\$9.8 billion	Surplus, supported by Australian Government capital grants
Fiscal cash result	-\$5.2 billion	Deficit every year since 2016–17
Gross debt to GSP	30.3%	Rising to a mid-decade peak
Gross debt to revenue	177.6%	Forecast to rise to 195% by 2029–30
Interest to revenue	6.9%	Forecast to rise past 9% by 2029–30

Source: VAGO.

Our recommendations

We consulted with the audited agencies and considered their views when reaching our conclusions. The agencies' full responses are in Appendix A.

Recommendations		Agency response(s)
Department of Treasury and Finance	<p>1 Work with government as a matter of priority to:</p> <ul style="list-style-type: none"> • address our previous recommendations to strengthen fiscal management, debt management, long-term planning and transparency • progress work on addressing the fiscal management and strategy recommendations of the <i>Independent Review of the Victorian Public Service</i>. <p>In doing so, consider how transparency can be enhanced to help Parliament and the community understand the state's underlying financial performance, progress against its fiscal strategy and exposure to existing and emerging fiscal risks.</p> <p>Refer to parts 3 and 4 for more detail.</p>	Noted
Department of Treasury and Finance	<p>2 Work with the Department of Transport and Planning and VicTrack to assess whether the current accounting treatment for operational transport assets:</p> <ul style="list-style-type: none"> • appropriately reflects the economic substance of the underlying arrangement • uses a measurement basis that appropriately reflects the economic benefits obtained from using the assets and the cost of consuming those benefits in the general government sector • clearly identifies and considers the effect on reported and forecast general government sector financial outcomes • provides users with a transparent understanding of the economic substance of the arrangements and the cost of delivering public transport services within the general government sector. <p>Refer to parts 2 and 3 for more detail.</p>	Not supported
Material entities	<p>3 Identify and resolve complex accounting matters during the planning phase of the financial reporting cycle, well in advance of balance date, by:</p> <ul style="list-style-type: none"> • identifying significant transactions, projects and accounting implications • preparing accounting positions and obtaining specialist advice where required • engaging auditors early on significant or contentious accounting positions • seeking audit committee review and challenge of these positions and oversight of their timely resolution • identifying disclosure requirements and incorporating into shell financial reports • obtaining the supporting information needed to finalise accounting treatments. 	-

Refer to parts 2 and 5 for more detail.

Material entities	4	<p>Embed asset management and financial reporting requirements into project planning by:</p> <ul style="list-style-type: none"> • assessing ownership and accounting implications before contracts are executed • specifying in contracts the financial and asset information contract delivery parties must provide, including its timing, format and level of detail • assigning responsibility for collecting, reviewing and retaining this information throughout the project • monitoring compliance with these requirements and escalating gaps promptly • ensuring complete asset information is available before assets are commissioned, transferred or recognised • maintaining the information needed for effective asset management and to meet the Department of Treasury and Finance's <i>Asset Management Accountability Framework</i> requirements. 	-
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Refer to part 5 for more detail.

Follow-up on prior-year recommendations

Recommendations to the Department of Treasury and Finance on strengthening financial management and transparency

	Recommendation	Response	Year raised	Status in 2025–26	
1	Work with the government to regularly publish updates on its progress against the COVID Debt Repayment Plan.	Noted	2024–25	Not actioned	
2	<p>Work with the government to:</p> <ul style="list-style-type: none"> • better articulate its longer-term financial plan that prioritises the management of existing and emerging financial risks • use this long-term plan as a framework to anchor government decision-making in the allocation of public resources to emphasise alignment with financial and economic strategies • transparently report this plan and ongoing progress against the plan to Parliament and the public. 	Noted	2023–24	Not actioned	
3	Enhance its public reporting to demonstrate progress against saving initiatives and efficiency dividends outlined in the state budgets and the realisation of their benefits.	Noted	2023–24	Not actioned	

	Recommendation	Response	Year raised	Status in 2025–26
4	Work with the government to set specific targets and clear timeframes for achieving its key financial measures, including net debt to gross state product and interest expense to revenue.	Noted	2022–23	Not actioned
5	Work with the government to outline its debt management strategy including when and how the state will be able to start to pay down the debt that it has and plans to accumulate.	Noted	2022–23	Partially actioned The government outlined a strategy to manage debt in line with economic growth, not to reduce it. It aims to lower net debt as a share of gross state product. The strategy does not include plans for how or when the government will begin reducing existing or planned debt. See Part 4.

Recommendations to material entities on financial reporting processes and controls

For progress on past recommendations to material entities specifically, refer to Appendix E.

1.

Why this report matters

The state's finances fund public hospitals, schools, transport and other services Victorians rely on. With more than half a trillion dollars in assets and more than \$130 billion spent each year, how these financial resources are managed shapes the state's capacity to deliver services now and into the future.

The state's Annual Financial Report (AFR) is the primary public record of how the government raised and used public money and of the state's financial position. It is an accountability document that helps Parliament and the community understand the state's financial management.

The Auditor-General is an independent officer of Parliament. Legislation requires the Auditor-General to audit the AFR and the financial reports of state-controlled entities and give an opinion on whether they are reliable. The Auditor-General determines how each audit is performed and is not directed by government. This independent assurance means these financial reports can be used with confidence.

This report outlines the results of our audit of the AFR and the 31 state-controlled entities with the greatest influence on the state's reported results. It explains what the state's financial outcomes mean, drawing out key trends and findings not readily apparent from the AFR alone. It also examines risks that may affect the state's capacity to maintain sustainable finances and services over the long term.

What the AFR is and what it reports

The Department of Treasury and Finance (DTF) prepares the AFR, the state's consolidated financial report. Formally titled the *Financial Report (Incorporating Quarterly Financial Report No. 4)*, it presents the State of Victoria's financial results each year.

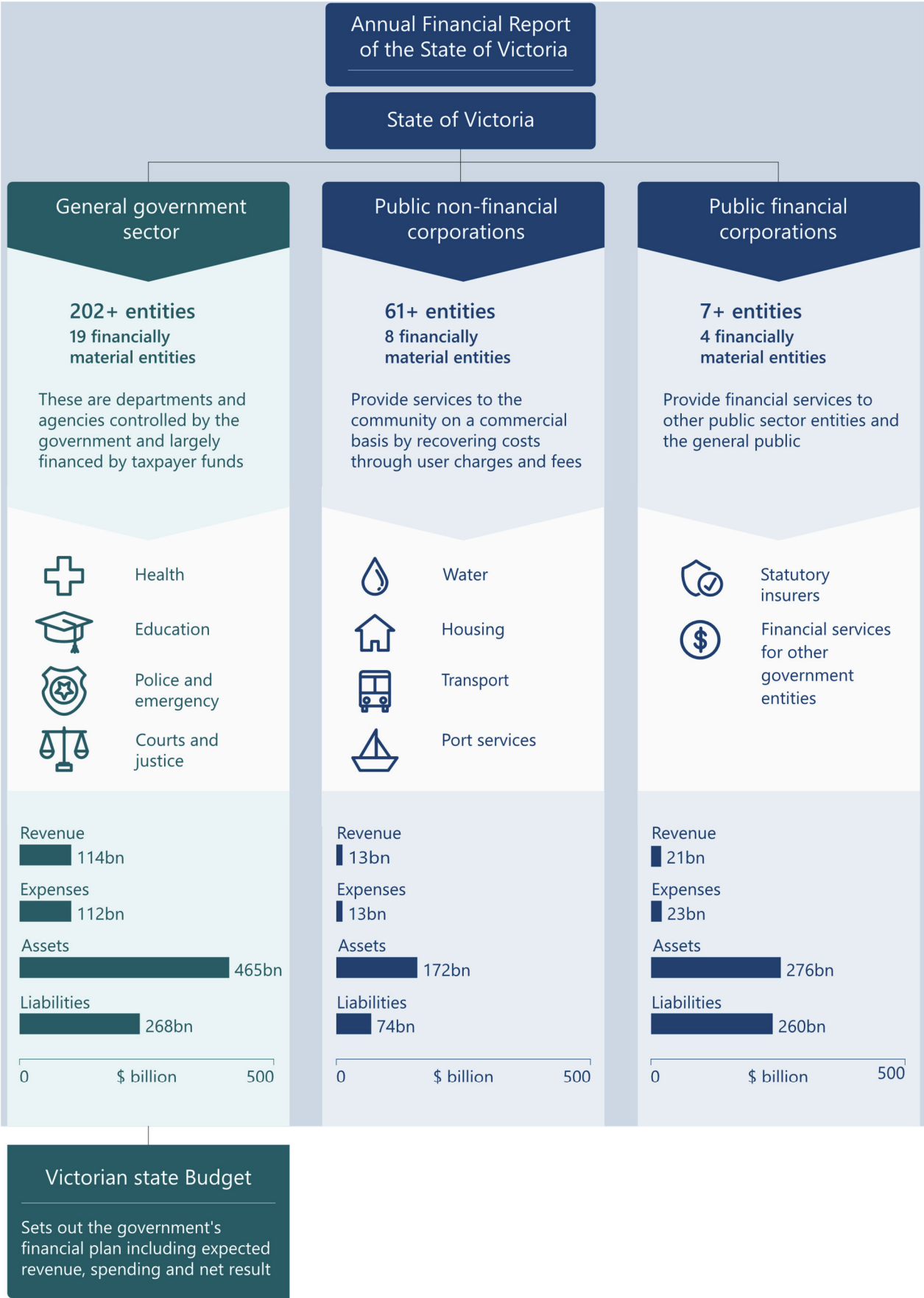
It consolidates financial information from over 270 state-controlled entities across the 3 sectors of government, shown in Figure 1.

The AFR also reports how money was spent from the public account, as required by the *Financial Management Act 1994*.

The public account

The public account is the Victorian Government's official bank account. The *Financial Management Act 1994* sets the legal requirements for government spending from the public account.

Figure 1: Victorian state sectors



Note: Figures exclude consolidation eliminations between sectors made when preparing consolidated financial reports for entities under common control.
Source: VAGO.

Who prepares and audits the AFR

DTF and VAGO have distinct roles in the preparation and audit of the AFR. DTF prepares the AFR and is accountable for its content. VAGO independently audits the AFR and reports the results to Parliament. VAGO does not prepare the AFR or determine the financial results reported in it.

DTF's role	VAGO's role
Prepares the AFR on behalf of the Victorian Government	Independently audits the AFR on behalf of Parliament
Fairly presents the AFR	Expresses an independent audit opinion on the AFR
Determines the accounting policies and disclosures used in the AFR	Assesses whether the accounting policies and disclosures comply with the applicable financial reporting framework
Maintains the systems, processes and controls used to prepare the AFR	Evaluates and tests relevant systems, processes and controls as part of the audit
Provides evidence supporting the reported amounts and disclosures	Obtains sufficient appropriate audit evidence to support the audit opinion
Is responsible for the information reported in the AFR	Provides independent assurance on whether the AFR is reliable

Why material entities are central to our audit of the AFR

The AFR consolidates financial information from more than 270 state-controlled entities. While we audit all of these entities, their contributions to the state's financial results and position vary significantly. For the purposes of the AFR audit, we focus our audit effort on the entities with the greatest influence on the AFR.

In 2025–26, we identified 31 material entities. Together, they accounted for most of the financial transactions, balances and disclosures reported in the AFR.

The audit outcomes of these entities form a significant part of our audit of the AFR because their financial results are consolidated into the state's financial report. This report therefore focuses on the audit outcomes for the AFR and these 31 material entities.

Material entity

We determine which entities within the Victorian Government are material to the AFR. Material entities are determined by the size, nature and circumstances of that entity. Material entities make up a significant portion of the state's transactions, balances and disclosures.

**What the AFR
does not include**

The AFR includes only entities the state controls for financial reporting purposes. The public sector entities outlined below are excluded from the AFR but are subject to separate financial report audits by VAGO.

The AFR excludes ...	because ...
local government	it is a separate tier of government. Councils are elected by and accountable to their communities.
universities	they are mainly funded by the Australian Government. The state appoints some university council members.
denominational hospitals	they are privately owned public health service providers and have their own governance arrangements.
state superannuation funds	their net assets belong to members. However, any net asset shortfalls related to certain defined benefit scheme entitlements are a state obligation and are reported as a liability in the AFR.
registered community health centres and aged-care providers	they are privately owned and have their own governance arrangements.
Gellung Warl	it is controlled by the First Peoples' Assembly, whose members are elected by First Nations people.

**Reporting our
insights on the
state's finances**

Our audit opinion on the AFR provides assurance on whether it is reliable. This report goes further by providing insight into what the state's financial outcomes mean, drawing out key trends and audit findings not readily apparent from the AFR alone. It also provides our independent perspective on the risks that may affect the state's ability to maintain sustainable finances and services over the long term.

We prepare this report under section 57(1) of the *Audit Act 1994*. The Act also allows us to comment on and make recommendations about the effective and efficient management of public resources and the maintenance of proper accounts and records.

**Further
information**

See Appendix B for more information about our audit approach, independence and our costs.

2.

What we found from our audits

Snapshot

The state's financial report is reliable



Most material entities' financial reports are reliable, except for VicTrack and National Gallery of Victoria



Material adjustments were required at some material entities



Late resolution of contentious issues affected timelines



Most state-controlled entities audit opinions issued by 15 October 2026



Conclusion

We provided a clear audit opinion for the 2025–26 AFR. This provides reasonable assurance that the state's reported financial performance and position is reliable.

The separate financial reports of 29 of the 31 material entities are also reliable. These entities together represent the majority of the state's transactions, balances and disclosures.

We modified our audit opinion on the National Gallery of Victoria's (NGV) financial report because limitations on the information available and our statutory obligations meant we could not obtain sufficient appropriate audit evidence. This affected expenses, payables and prepayments associated with alleged fraud investigated by the Independent Broad-based Anti-corruption Commission. The matter was not material to the AFR and did not affect our audit opinion on it.

We continued to issue our longstanding modified audit opinion on VicTrack's financial report because of how it accounts for leased assets. DTF corrected the issue when consolidating VicTrack's results into the AFR, so it did not affect our audit opinion on the AFR.

Significant audit differences highlighted the importance of maintaining accurate records, effective controls and timely resolution of accounting issues. Contentious issues at some material entities delayed their financial reporting and audit processes.

Most of the approximately 270 state-controlled entities had progressed through the financial reporting and audit process ahead of the amended *Financial Management Act 1994* transmission requirements, with 222 audit opinions issued as at 15 October 2026.

The state's financial report is reliable

Audit opinion on the AFR

We provided a clear audit opinion on the 2025–26 AFR. Our clear opinion provides reasonable assurance that the financial performance and position of the State of Victoria, and within it the general government sector (GGS), as reported in the AFR is free from material error.

Key audit matters

Key audit matters are the matters we identify as most significant to an audit. Including them in an audit report provides greater transparency about the audit and the areas on which we focused. A key audit matter does not mean we identified an error or qualified our audit opinion.

We include such matters in our AFR audit report and in the audit reports of material entities where we judge it necessary.

We reported the following key audit matters in the AFR audit report for 2025–26:

- financial reporting risks arising from progress towards key financial targets
- recognition of transport assets
- valuation of non-financial physical assets
- recognition and measurement of service concession assets, liabilities and commitments
- valuation of defined benefit superannuation liability
- valuation of provision for insurance claims.

A copy of our audit report is in Appendix C.

Most material entities' financial reports are reliable

Material entity audit outcomes

When we issued our clear opinion on the AFR, we had issued clear audit opinions on the financial reports of 26 of the 31 material entities.

Our audits of the Department of Government Services (DGS), Greater Western Water (GWW), Department of Jobs, Skills, Industry and Regions (DJSIR) and NGV remained in progress due to delays in resolving contentious audit and accounting issues.

We subsequently issued 3 clear opinions for DGS, DJSIR and GWW after the AFR.

We issued modified opinions on the financial reports of VicTrack and NGV.

These delays and modified opinions did not affect our opinion on the AFR because:

- for VicTrack, DTF corrected the matter through a central consolidation adjustment
- for DJSIR, NGV, GWW and DGS, the individual matters were not material to the AFR. We had also completed our audit of the balances and transactions material to the AFR before we issued our opinion on the AFR.

Appendix D lists the material entities and summarises their financial results and our audit opinions.

The delays in issuing these audit opinions, and the reasons for the modified opinions are discussed below.

Delayed financial report certification of DJSIR

DJSIR has a service concession arrangement with BioNTech for an mRNA research and manufacturing facility. A complex financial reporting matter relating to this arrangement delayed certification of DJSIR's financial report and completion of our audit.

The matter was subsequently resolved and we issued a clear audit opinion on 20 October 2026.

Qualified audit opinion of NGV's financial report

We issued a qualified opinion on NGV's financial report, including the comparative information. As disclosed in note 8.6 of NGV's financial report, an IBAC investigation into alleged theft and misconduct in public office by a former employee has concluded. The alleged conduct occurred between September 2019 and September 2025, and related court proceedings are ongoing.

These circumstances limited the information available to us, and our statutory obligations limited the audit procedures we could perform in response to the identified fraud risks. We were therefore unable to obtain sufficient appropriate audit evidence over supplies and services expenses, payables and other assets affected by the alleged fraud.

We could not quantify the potential financial effects or determine whether adjustments were required to the current year or comparative amounts for these transactions and balances, or to the accumulated surplus.

The audit opinion was issued on 19 October 2026.

Delayed financial report certification of GWW

Remediation activities relating to the May 2024 billing system transition continued throughout 2025–26.

The financial reporting impacts of those issues, including those arising from the enforceable undertaking entered into by GWW with the Essential Services Commission in October 2025, required additional audit effort and delayed completion of the audit.

These matters were subsequently resolved, and we issued a clear audit opinion on 16 October 2026.

Delayed audit process – DGS

The DGS audit opinion was issued on 2 October 2026, the day after the AFR, due to delays in obtaining audit evidence following DGS's payroll system migration. We discuss this further in Part 5.

Adverse audit opinion on VicTrack financial report continues

Our adverse opinion for VicTrack

We have continued to issue an adverse opinion on VicTrack's financial report. This means that its financial report does not accurately reflect its financial performance and position.

VicTrack has continued to account for assets it leases to DTP as operating leases.

We disagree. VicTrack's incorrect accounting is material and pervasive to its financial report.

Our view is that DTP is responsible for the operation of the transport network as a whole and that in this regard, DTP:

- directs the use of transport assets by setting the timetables and operating conditions for all modes of transport with no significant input from VicTrack
- substantially holds the risks and rewards of ownership of the operational transport assets.

This is why we formed the view that it is a finance lease. VicTrack continues to incorrectly recognise these leased assets and associated transactions that should be accounted for by DTP.

In the AFR, DTF made a central adjustment on consolidation to correct this inconsistent accounting treatment. This means the fair value of the underlying assets and associated transactions were correctly reinstated at the State of Victoria level.

Adverse opinion

We make an adverse opinion when an entity's financial report is misrepresented, misstated or does not accurately reflect the entity's financial health.

DTP delivers public transport services in Victoria through contracted service providers. VicTrack, a public non-financial corporation outside the GGS, is the legal owner of most of Victoria's transport infrastructure assets.

DTP constructs these assets using funds sourced from DTF through GGS borrowings. Once completed, ownership transfers to VicTrack, which acts as the custodian of the state's transport assets.

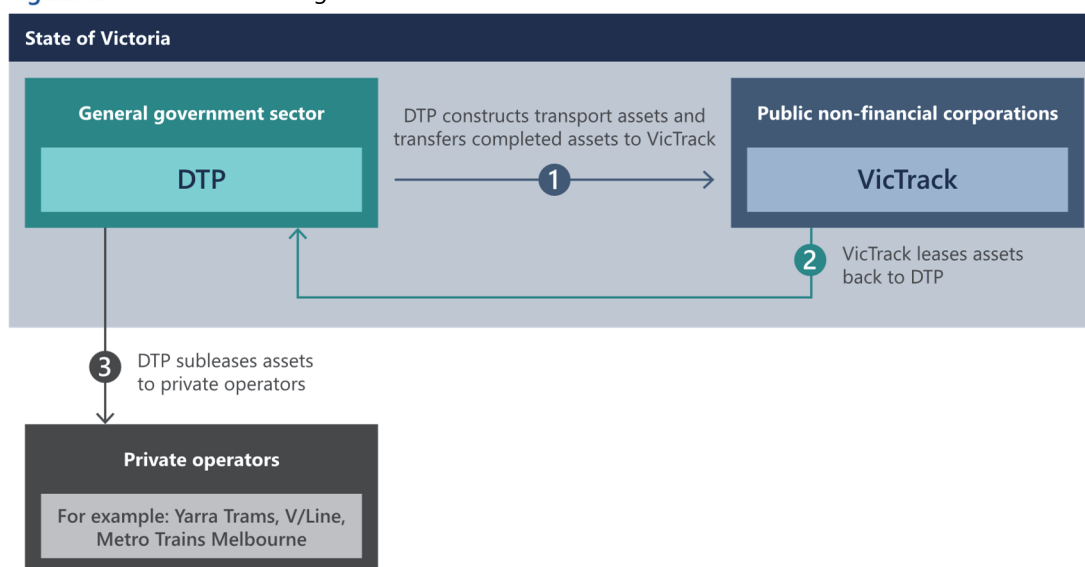
VicTrack records these assets and their depreciation expenses in its financial report. Annual depreciation on these assets was approximately \$2.4 billion in 2025–26.

DTP leases these assets back from VicTrack for a nominal amount, typically between \$1 and \$10 per year (a concessionary lease), and then subleases them to third-party service providers that operate transport services.

DTP does not recognise any costs associated with the assets. However, DTP records its share of farebox revenue from subleasing the assets, which totalled \$319 million in 2026. This was lower than in previous years due to the state's free and half-price public transport initiatives.

Figure 2 shows the lease arrangement between DTP and VicTrack.

Figure 2: VicTrack lease arrangement with DTP



Source: VAGO.

Under the Australian Accounting Standards, entities must recognise lease arrangements on their balance sheets, recording a right-of-use asset and a corresponding liability that reflects lease payments over the lease term. For not-for-profit public sector lessees, AASB 16 *Leases* initially allowed below-market leased assets (concessionary leases), such as the VicTrack–DTP arrangement, to be measured at cost rather than fair value, through a relief mechanism. Ordinarily, leased assets would be measured at fair value.

In August 2026, the AASB made this concessionary lease relief an ongoing accounting policy choice for financial report preparers, rather than an interim measure. As a result, the state can properly continue to measure concessionary right-of-use assets either at cost or fair value. It has elected to use the cost method.

This method results in the assets being recorded by DTP at nominal values with no amortisation cost recognised over the lease term. The GGS operating result therefore does not reflect the economic cost of using these transport assets in delivering public services.

If the government had elected to measure the leased assets at fair value, based on the current depreciation expense recognised by VicTrack on the underlying operational transport assets, the

annual impact on the GGS result could be broadly consistent with the order of magnitude of the current depreciation expense of approximately \$2.4 billion.

Part 3 further examines how this accounting treatment affects reported and forecast GGS financial outcomes.

Fair value of concessionary lease arrangements

Fair value reflects the economic value obtained from using the asset and results in a corresponding amortisation cost that reflects its consumption over time.

For concessionary leases, fair value reflects the economic benefit of using the asset, not the physical asset's fair value if owned. Therefore, the right-of-use assets at fair value is usually lower than the physical asset's fair value. The two values only match when the lease payments are close to market rates and the lease gives the entity almost all the benefits of owning the asset. We consider this to be the case for the VicTrack-DTP arrangement.

Quality of financial reporting

Why reporting quality matters Reliable financial reporting supports accountability, informed decision-making and confidence in the state's finances. It relies on entities maintaining effective controls, capable finance functions, accurate records, and appropriate accounting treatments throughout the year.

Errors identified late in the reporting process, or left uncorrected, can indicate weaknesses in the processes, controls and judgements that underpin financial reporting.

Our audits of the material entities identified several misstatements above the thresholds used for correcting and communicating audit differences.

Prior year error of \$1 billion at DTP During 2025–26, DTP identified that minor capital works of rail infrastructure and operational control, and management system assets delivered by train and tram operators between 2020–21 and 2024–25 had been recorded as assets under construction. DTP did not have sufficient information about these assets to transfer them to VicTrack and recognise them as completed assets. DTP had to therefore remove the \$1 billion from the asset balances and recognise the expenditure as payments to the transport service operators.

Of this amount, \$862 million related to periods before 2024–25 and \$150 million related to 2024–25. The state restated its prior year information in the financial report, reducing asset balances at 30 June 2025 by \$1 billion and the 2024–25 net result by \$150 million.

This correction reflects longstanding weaknesses in asset record keeping and accounting for transport assets. We have previously reported that entities lacked sufficient information to support the recognition of major project assets, including assets owned by VicTrack.

Adjusted and unadjusted financial report audit differences The table below summarises audit differences of more than \$25 million identified across several material entities and the AFR, including the range of individual differences.

We identified ...	with an ...	ranging from ...
5 material entities	adjusted audit difference	\$25.8 million to \$567.0 million.
8 material entities and the AFR	unadjusted audit difference	\$28.6 million to \$968.0 million.

All adjusted audit differences were corrected by management before the relevant financial reports were finalised.

Unadjusted audit differences remained in the financial reports. However, individually and in aggregate, they were not material to the relevant financial reports, or the AFR. Appendix G summarises the individual unadjusted audit differences of more than \$25 million.

Material entities left the resolution of complex accounting and audit issues too late

Entities need to identify and resolve complex accounting matters early to support high-quality, timely financial reporting. This allows them time to gather evidence, assess alternative treatments, obtain specialist advice where required, and make any necessary changes to systems, processes and disclosures before reporting deadlines.

However, several material entities did not commence the work required to address complex accounting matters early enough in the reporting cycle.

This compressed the time available to test accounting judgements, assess compliance with accounting standards and finalise disclosures. It also placed avoidable pressure on management and audit teams, increased the risk of material error and contributed to delays in completing financial reports.

Across these matters, we identified 3 recurring factors that affected timely financial reporting:

- accounting implications were not considered early enough
- supporting information was incomplete, unavailable or difficult to access
- insufficient time remained to resolve technical accounting and disclosure issues before reporting deadlines.

Figure 3 below summarises some of the key issues encountered this year with material entity audits, the resulting financial reporting and audit impact.

Figure 3: Complex accounting and audit matters that delayed financial reporting and audit processes

Entity	Issue	Root causes	Implications
Department of Health	Transfer of new Footscray Hospital assets	Incomplete asset information prevented the transfer of the new Footscray Hospital assets and liabilities to Western Health.	The new Footscray Hospital could not be legally transferred to Western Health. See Part 5 for further details.
DJSIR	BioNTech accounting and disclosure requirements	DJSIR did not sufficiently consider the accounting requirements when establishing the contract and sought advice too late. As a result, the contract did not require BioNTech to provide information needed to support accounting assessments and disclosures.	Late resolution of accounting and disclosure requirements delayed completion of the audit.
Department of Energy, Environment and Climate Action	Accounting treatment of a contract transferred to SEC Victoria	The department provided its accounting position supporting derecognition of a contract transferred to SEC Victoria only in July.	Late finalisation of the accounting position affected the audit process.
DGS	Payroll system migration and shared service assurance	DGS migrated payroll and leave processing from EduPay to VicGov People during the year. Delays occurred in obtaining evidence for migrated payroll records.	This delayed the certification of financial reports and the audit opinions for DGS and its customer departments and agencies. See Part 5 for further details.
DTP	Metro Tunnel asset transfer to VicTrack	DTP transferred the completed Metro Tunnel assets to VicTrack but did not finalise the transfer values provided until late in the reporting process.	This delay required additional audit work. See Part 5 for further details.

Source: VAGO.

Most entities met reporting timelines

Legislated timelines

DTF and the state-controlled entities must complete financial reporting tasks by the dates set in the *Financial Management Act 1994*. Entities are required to provide financial reports to us within 8 weeks of the balance date (30 June), which is 25 August.

The *Audit Act 1994* requires us to provide the entity with an audit opinion within 4 weeks of receiving its financial report. That means we should provide audit opinions by 22 September.

To meet their legislative timelines, DTF and VAGO rely on entities providing complete and accurate financial information on time. Delays impact the timeliness of our audit opinions as well as the preparation and tabling of the material entities' financial reports and the AFR in Parliament.

Timeliness against agreed timelines with audit

We agree key dates with each material entity, including the submission dates for their draft financial reports, so we can schedule audit visits and allocate audit resources effectively. When material entities submit required information – such as audit requests and draft financial reports – by these agreed dates, audits progress smoothly as planned.

Material entities provided draft financial reports an average 8 days later than the agreed date.

Six material entities submitted their draft financial reports early, 3 on time and 22 late.

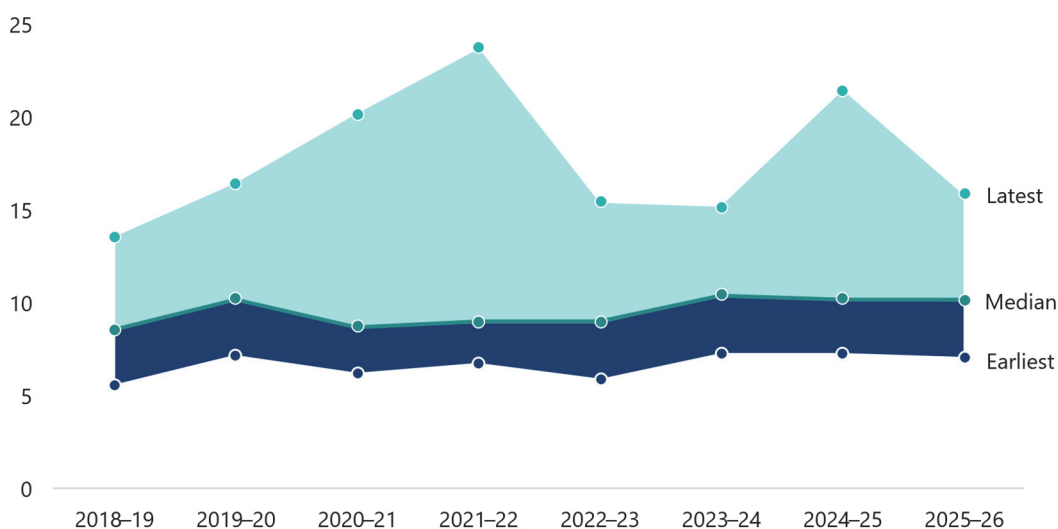
Timeliness against statutory requirements

Figure 4 shows how many weeks after 30 June material entities took to certify their financial reports.

In 2026, the median time was similar to recent years. Most material entities certified their financial reports by 22 September, with 24 of 31 doing so by this date. Some of these delays are discussed earlier in this report.

Figure 4: Timeliness of financial report certifications from 2019 to 2026

Weeks after 30 June



Source: VAGO.

This year, one material entity certified its financial report and a further 29 provided draft financial reports by the *Financial Management Act 1994* due date of 25 August.

We were then able to provide:

- 21 material entities with an audit opinion by 22 September
- audit opinions for a further 6 material entities before issuing our audit opinion on the AFR, with one additional audit opinion issued the following day
- 3 material entity financial reports remained uncertified and did not have audit opinions when the AFR was finalised.

Audit report timeliness

VAGO publishes a dashboard to support transparency and accountability by reporting against whether we have met the statutory deadline for issuing audit opinions under the *Audit Act 1994*.

The dashboard can be found at www.audit.vic.gov.au/how-we-are-accountable.

Financial reporting and audit status ahead of the annual report transmission window to Parliament

Annual reports are important accountability documents

Annual reports of public sector entities promote transparency and accountability. These reports provide an overview of an entity's activities, financial performance and use of public resources and include the audited financial report.

As required by the *Financial Management Act 1994* (the Act), state-controlled entities must, by 31 October, either table or transmit their annual reports, or ensure that the relevant Minister notifies Parliament of receipt. The applicable requirement depends on the entity's expenditure level, as determined by the threshold set out in the Act.

If they do not meet this date, responsible ministers must:

- report this to Parliament, along with the reasons for the delay
- ensure the annual reports are tabled as soon as possible after they are received.

We have an obligation under the Australian Auditing Standards to consider whether information in annual reports is consistent with the audited financial report. If we identify an inconsistency, it may indicate a material misstatement in either the financial report or financial information of the annual report. This consistency check is done before we release our audit opinion only if the annual report is made available by the entity.

Amendments to the *Financial Management Act 1994*

The August 2025 amendments to the Act changed how annual reports are provided to Parliament. Section 46(1) of the Act requires annual reports to be transmitted after 15 October, following the publication of the AFR. Reports may now be transmitted on non-sitting days between 15 and 31 October.

As a result, many entities that complete their financial reporting and audits before this date must wait until the transmission window opens before providing their annual report to Parliament.

Ministers must disclose when they received each report and cannot direct entities to submit reports on a particular date.

Where an entity's expenses and obligations do not exceed \$5 million, the Minister needs to notify Parliament of receipt and transmit the report to Parliament only if a member requests it.

Financial
reporting and
audit status
ahead of
transmission
window

We prepared this report before 31 October 2026. As a result, we cannot assess the timeliness of annual report transmission as we have done in prior years.

As at 15 October 2026, of the approximately 270 state-controlled entities:

- 222 audit opinions had been issued on the financial reports of state-controlled entities
- 2 state-controlled entities had certified their financial reports and were awaiting audit opinions.

The remaining state-controlled entities had not yet provided their financial reports for audit, or their audits were in progress.

3.

How the state's finances performed

Snapshot

The GGS returned to surplus, but structural pressures remain



Reported results do not fully reflect the state's underlying structural position



GGS operating cash improved, but much of the result was not generated from cash from GGS's operating activities



Fiscal cash deficits continued for a tenth year and are forecast to persist



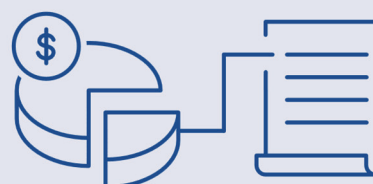
The whole of the state remained in deficit despite the GGS result



Net debt continues to grow despite plans to stabilise it relative to economic growth



A growing share of revenue is needed to meet interest expenses



Conclusion

The GGS's financial operating outcomes improved this year, recording the first operating surplus in 7 years. The \$2.4 billion surplus represented a \$5.2 billion turnaround from a deficit of \$2.8 billion last year.

Revenue and income drove the stronger result, increasing by \$13.1 billion or 12.9 per cent, outpacing expense growth of \$7.9 billion or 7.6 per cent. Much of the improvement was due to higher Australian Government grants of \$10.0 billion and taxation receipts of \$2.6 billion. Expenses continued to grow across all major categories, including employee, interest, grant and other operating expenses. One year of improved results does not reverse the structural pressures on the state's finances. Operating losses of \$50.7 billion over the previous 6 years have reduced the state's financial resilience.

Reported operating results do not always provide a complete picture of the state's underlying financial performance. Accounting standards, sector classification requirements and transactions between government entities can influence how financial outcomes are reported and interpreted. This year's surplus illustrates this point. It includes \$5.1 billion in specific purpose Australian Government capital grants for projects including the Melbourne Airport Rail, North East Link and Suburban Rail Loop that are non-recurrent and not available to fund government operations. These grants were a key contributor to the reported GGS operating surplus.

The treatment of leased public transport infrastructure assets provides a further example. VicTrack, a public corporation outside the GGS, recognised approximately \$2.4 billion of costs associated with public transport infrastructure assets in 2025–26. The assets are leased to DTP within the GGS under concessionary lease arrangements. The current accounting treatment relating to our modification of VicTrack's financial report, together with the government electing to measure these leases at cost rather than fair value, affects where the costs of using public transport infrastructure are recognised in the AFR. This means the full cost of operating public transport infrastructure is not reflected in the GGS operating result.

The GGS continued to record a fiscal cash deficit of \$5.2 billion. While this is an improvement on the prior year's deficit of \$12.8 billion, it is consistent with the trend over the past 10 years. This means the government is not generating sufficient cash flows from operations to fund its capital program and remains reliant on debt. The 2026–27 Budget forecasts this trend to continue, with fiscal cash deficits in every year to 2029–30, each larger than this year's, accumulating to \$30.5 billion over the 4 years.

GGS gross debt increased by \$15.4 billion and is forecast to reach \$244.9 billion by 30 June 2030. Net debt continues to grow, although it is stabilising relative to economic activity. This stabilisation reflects economic growth, particularly the effects of inflation, and financial assets that offset debt, rather than the state paying down debt. It does not, on its own, demonstrate improved debt sustainability.

Financial outcomes for 2025–26

In this part we analyse the 2025–26 financial outcomes against the short-term financial measures and targets the government sets for itself each year.

We compare these results with historical trends and the 2026–27 Budget forecasts and provide our independent perspective on what they mean for the state's finances. In Part 4, we look beyond these short-term outcomes and examine risks affecting longer-term fiscal sustainability.

Why we focus on the GGS We analyse the financial performance of the GGS because it is central to fiscal policy, manages revenue and expenditure and the state's overall financial outcomes. The government uses the GGS as its primary measure for fiscal targets and budget management.

The GGS drives most movements in the state's consolidated financial outcomes. However, some factors affecting GGS outcomes sit outside the sector. Where relevant, we highlight these factors and their impact.

Short-term financial measures, targets and outcomes for 2025–26

Outcomes against the government's financial targets Each year, the government sets short-term financial measures and targets for the GGS through the state Budget. These targets sit within its broader fiscal strategy and support its long-term financial management objectives.

Figure 5 compares the government's key GGS financial measures and targets with the Budget and actual results for 2024–25 and 2025–26.

Figure 5: GGS key financial targets and results

Financial measure	Target	2025–26 actual	2025–26 Budget	2024–25 actual
Measure 1: Net operating balance	Net operating balance will return to surplus by 2025–26	\$2.4 billion surplus	\$0.6 billion surplus	\$2.8 billion deficit
Measure 2: Operating cash surplus ¹	A net operating cash surplus consistent with maintaining GGS net debt at a sustainable level	\$9.8 billion surplus	\$6.2 billion surplus	\$3.1 billion surplus
Measure 3: Net debt to GSP ²	GGS net debt as a share of GSP will stabilise and begin to decline by the end of the forward estimates period	24.0%	25.1%	23.7%
Measure 4: Interest expense to revenue	GGS interest expense as a percentage of revenue to stabilise in the medium term	6.9%	7.0%	6.7%
Measure 5: Superannuation liabilities (contribution to the State Superannuation Fund)	Fully fund the unfunded superannuation liability by 2035	\$0.5 billion	\$0.5 billion	\$0.4 billion

Notes: ¹These are the net cashflows from operating activities as disclosed in the consolidated cashflow statement.
²Net debt is gross debt less liquid financial assets. It is the sum of deposits held, advances received, government securities, loans and other borrowings less the sum of cash and deposits, advances paid, investments, loans and placements.
Source: VAGO, based on data from the state Budget and the AFR.

The GGS exceeded budget on both its net operating balance and net operating cash balance. Higher Australian Government grants, taxation revenue and sales of goods and services supported both results.

Net debt increased by \$9.8 billion to fund the capital infrastructure program.

Net debt measures borrowings after deducting the government's liquid financial assets, such as cash and investments. As a result, it is affected by both debt levels and the value of financial assets held by the government.

Measured against the size of the economy, using gross state product (GSP), net debt rose slightly on last year but finished below budget. This outcome does not mean the government borrowed less. In fact, debt increased. The lower-than-budget result reflects the government holding more cash and investments than forecast, including:

- cash, with a stronger operating cash surplus that was \$3.6 billion higher than budget
- investments in the Victorian Future Fund, Victorian Social Housing Growth Fund and Victorian Homebuyer Fund, which reached a combined balance of \$16.3 billion at 30 June 2026, compared with \$15.0 billion forecast
- \$1.0 billion of investments backing domestic building insurance liabilities reported by the Building and Plumbing Commission. These investments reduced net debt even though related insurance liabilities are excluded from the measure.

Interest expenses rose by \$1.1 billion to \$7.9 billion as debt increased and existing debt was refinanced at higher rates. The interest expense continued to grow faster than revenue, increasing the share of revenue required to pay interest from 6.7 per cent last year to 6.9 per cent.

The government contributed \$0.5 billion to the State Superannuation Fund in 2025–26, in line with the Budget.

We analyse these outcomes in more detail below.

Gross state product (GSP)

Gross state product, or GSP, measures the total economic production of the state's economy. It is the state equivalent of gross domestic product, which measures the size of a national economy.

In practical terms, GSP represents the income earned by individuals and businesses across Victoria as wages, profits and other forms of compensation. Comparing debt with GSP therefore shows how large the state's borrowings are relative to the size of the economy that must ultimately support them.

Measure 1: The GGS returned to an operating surplus, but underlying structural pressures remain

What the operating result shows and why it is important

The operating result shows the difference between what the GGS earns (revenue and income) and what it spends (expenses) during a financial year. It is also known as the net operating balance.

This result is a key measure of the GGS's financial performance and fiscal sustainability. A positive operating result over time shows that the GGS generates revenue and income and manages its expenses well enough to produce surplus funds that can support future needs.

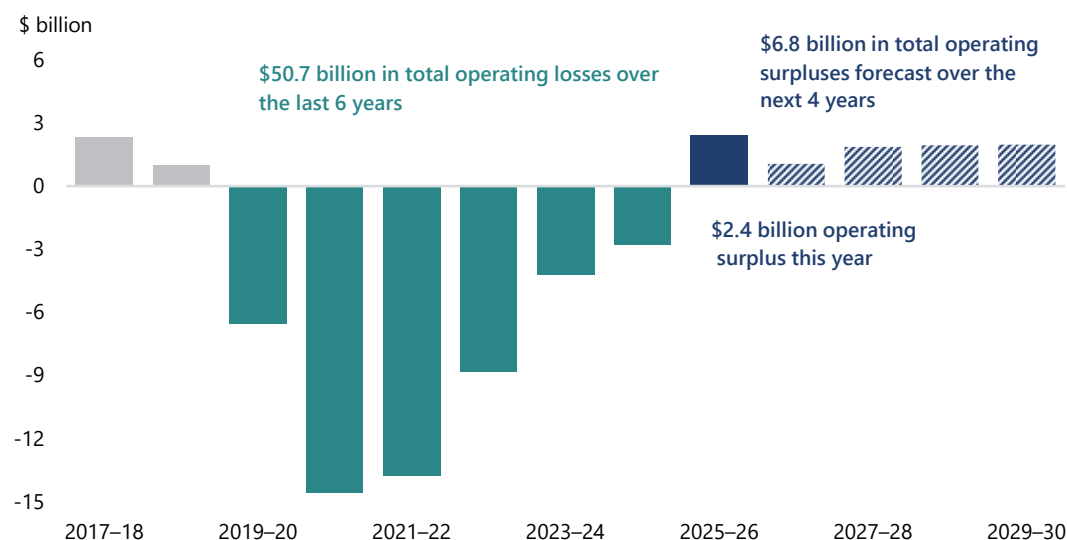
The GGS reported a net operating surplus of \$2.4 billion, the first surplus in 7 years.

Figure 6 compares this result with \$50.7 billion in operating losses over the previous 6 years. Adding the \$6.8 billion in surpluses forecast over the next 4 years, the GGS is estimated to recover \$9.2 billion, less than one fifth of the losses incurred since 2019–20.

The forecast surpluses are also smaller than this year's result. On current projections, 2025–26 is the strongest year of the period, with the surplus falling in 2026–27 before recovering modestly over the remaining forward estimates.

Restoring the financial resilience lost over recent years will require substantially larger surpluses than those currently forecast.

Figure 6: GGS operating results



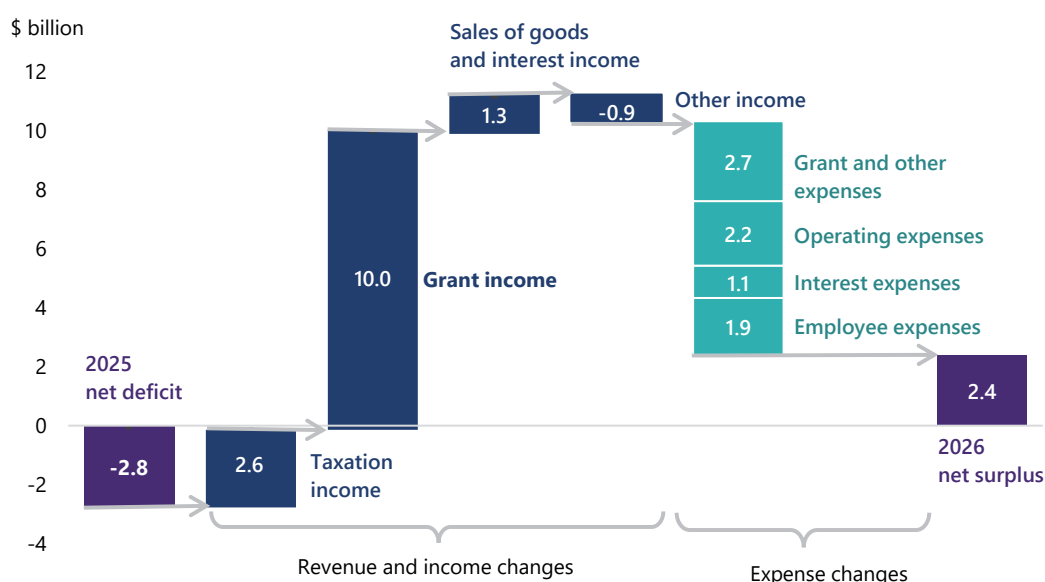
Source: VAGO, based on the AFR and state Budget.

The return to surplus is an important step in the government's fiscal strategy. However, one year of stronger results does not reverse the structural weaknesses in the state's financial position. The fiscal pressures built up over recent years remain, and emerging risks threaten the state's fiscal sustainability. We examine these in Part 4.

How the GGS returned to an operating surplus

Figure 7 shows the key contributors to this year's surplus compared with last year.

Figure 7: Changes in the GGS net operating result from 2025 to 2026



Note: Numbers may not add up due to rounding.
Source: VAGO, based on the AFR.

The GGS returned to surplus in 2025–26 because revenue and income grew by 12.9 per cent, compared with expense growth of 7.6 per cent. Expenses still increased across every major category.

The surplus reflects stronger revenue and income growth, not lower spending.

Revenue and income rose by \$13.1 billion to \$114.5 billion. The main drivers were higher:

- taxation income, up \$2.6 billion. This included increases of \$1.5 billion in land transfer duty, \$0.6 billion in payroll tax and \$0.5 billion from the Emergency Services Volunteer Fund which replaced the Fire Services Property Levy on 1 July 2025. Wage growth, more property transactions and a broader tax base drove these increases.
- Australian Government grants, up \$10.0 billion. This included:
 - \$4.3 billion from growth in the national GST pool and Victoria's larger share of it
 - \$3.5 billion increase in capital grants for projects including the North East Link, Melbourne Airport Rail and Suburban Rail Loop.

Expenses rose by \$7.9 billion from \$104.2 billion to \$112.1 billion in 2025–26. The main drivers were higher:

- employee expenses, up \$1.9 billion due to more staff and higher wages
- interest expenses, up \$1.1 billion as the government took on new borrowings and refinanced existing debt at higher interest rates
- other operating expenses, up \$2.2 billion due to higher prices and increased demand driven by population growth and high inflation
- grant expenses, up by \$1.7 billion due to additional grants to community organisations and higher Australian Government grants passed on to other entities.

The reported operating surplus does not, on its own, provide a complete picture of the state's underlying financial performance

Reported operating results do not always provide a complete picture of the state's underlying financial performance. Accounting standards, sector classification requirements and transactions between government entities can influence how financial outcomes are reported and interpreted.

This year's surplus illustrates this point. The reported result includes some income that is not available to fund government operations and excludes some costs associated with delivering public transport services. As a result, the reported surplus does not, on its own, provide a complete view of the state's underlying financial performance.

Capital grants had a significant effect on the reported GGS operating result

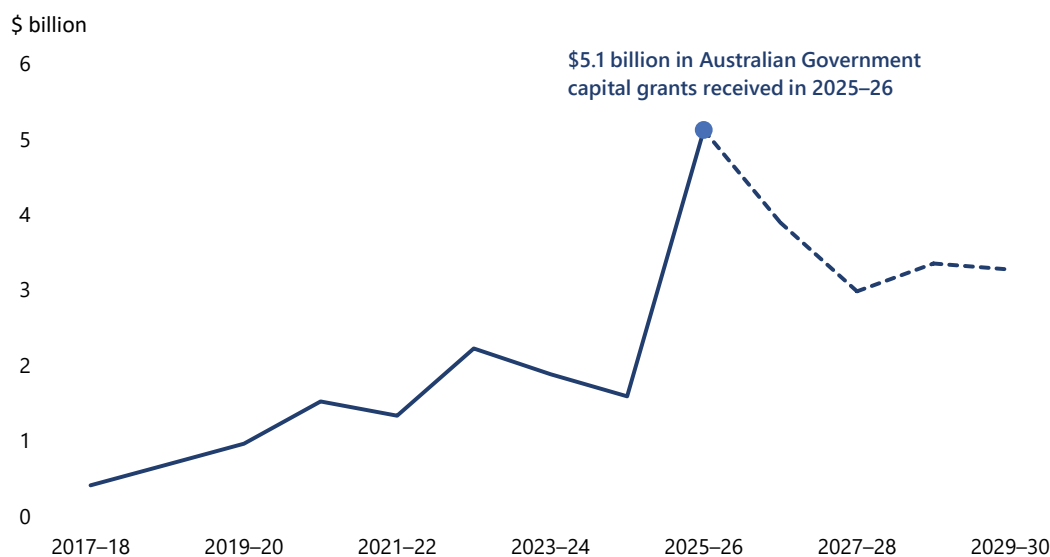
The GGS moved from a \$2.8 billion operating deficit last year to a \$2.4 billion surplus this year, a turnaround of \$5.2 billion.

Australian Government capital grants made a significant contribution to this improvement. They contributed \$5.1 billion to the GGS operating result in 2025–26. These grants are recognised as income in the operating result but are tied to specific infrastructure projects, including the Melbourne Airport Rail, North East Link and Suburban Rail Loop. While they improve the reported operating result, they are not available to meet GGS operating costs.

These funding sources are not unique to 2025–26. The government forecasts a further \$13.5 billion in Australian Government capital grants over the 4 years to 30 June 2030. These amounts directly support the operating surpluses it forecasts over that period.

Figure 8 shows actual and forecast Australian Government capital grants from 2017–18 to 2029–30.

Figure 8: Australian Government capital grants



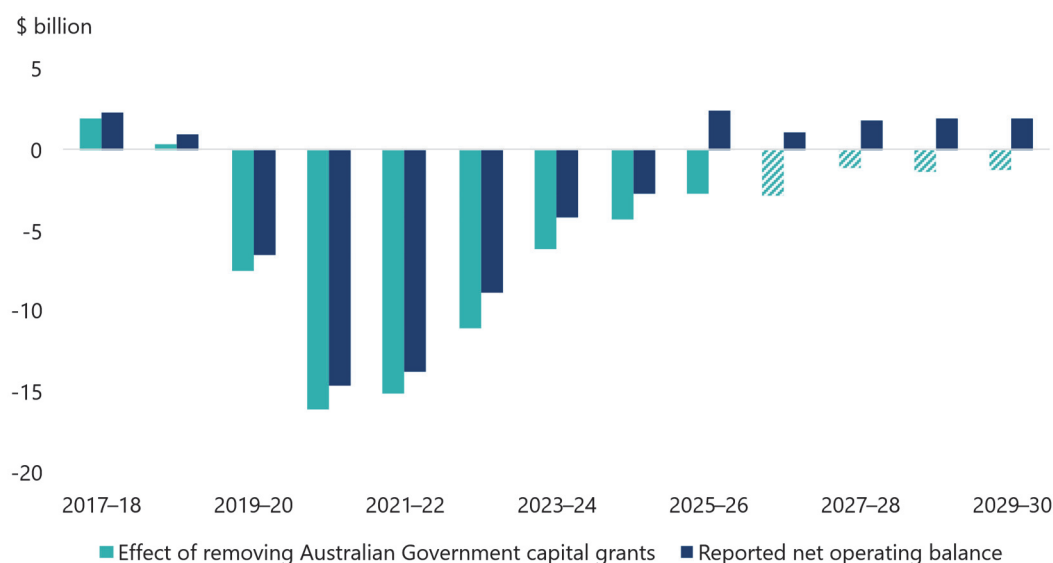
Source: VAGO, based on the AFR and state Budget.

We present analysis of the effect of material Australian Government capital grant income on the GGS operating results to better reflect the state's underlying operating performance. The analysis removes material Australian Government capital grant income to illustrate the extent to which these grants influence the reported operating results. This provides a clearer view of whether the recurrent revenue and income are enough to fund the ongoing cost of government services.

As Figure 9 shows, the reported net operating balance improved from a \$2.8 billion deficit in 2024-25 to a \$2.4 billion surplus in 2025-26. However, Australian Government capital grant income had a significant effect on the GGS operating result, exceeding the reported surplus. Figure 9 illustrates the extent to which the reported and forecast operating results are influenced by these grants, with a similar trend expected throughout the forward estimates period.

This suggests the state has not yet closed the structural gap between the recurring revenue and income it generates and the recurring cost of delivering public services.

Figure 9: Effect of Australian Government capital funding on the GGS operating result



Source: VAGO, based on the AFR and state Budget.

This analysis is relevant because the government develops its fiscal strategy and assesses financial performance using GGS outcomes. Understanding the effect of significant non-recurring capital grants provides context when interpreting reported results, fiscal targets and fiscal sustainability.

We therefore encourage the government to consider the effect of non-recurring items, where appropriate, when setting, assessing and reporting on fiscal targets. Doing so would support a more informed assessment of the reported financial outcomes and progress being made toward fiscal sustainability.

Current accounting treatment affects how transport infrastructure asset costs are reflected in GGS results

As discussed in Part 2, we have modified our audit opinion on VicTrack's financial report since 2019–20 because, in our view, operational transport assets held by VicTrack, a public corporation outside the GGS, are controlled by DTP and should therefore be recognised by DTP within the GGS.

Under the current accounting treatment, VicTrack continues to recognise these assets and the associated transactions. As a result, the costs associated with the use of these assets are recognised outside the GGS operating results. While DTF corrects this treatment through a consolidation adjustment when preparing the state's AFR, ensuring the assets and transactions are correctly recognised at the whole-of-state level, the treatment continues to have a significant effect on GGS financial outcomes.

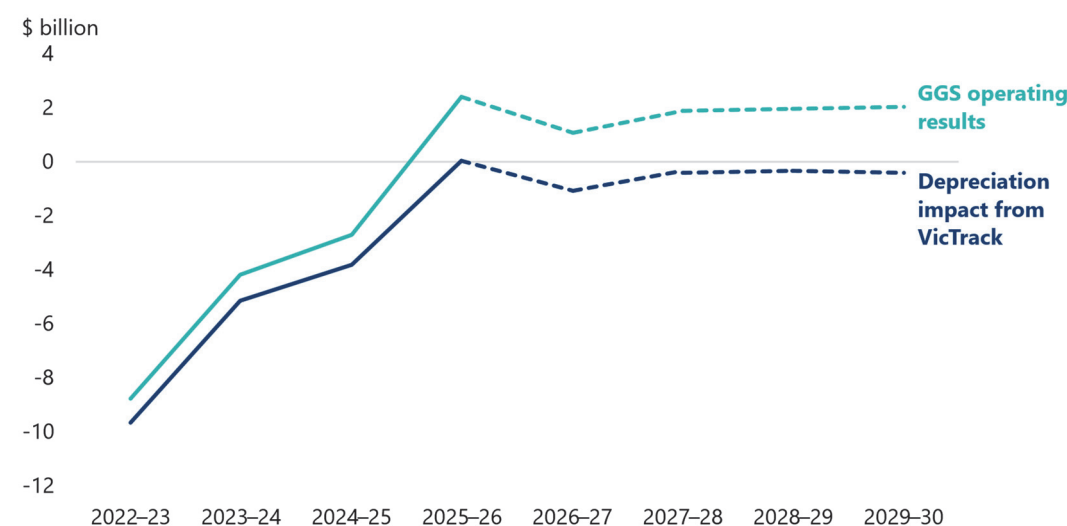
One of the most significant costs affected is depreciation. Depreciation reflects the consumption of an asset's service potential. It is therefore both a core cost of delivering public services and an indicator of the funding needed to renew and replace assets.

Depreciation attributable to these operational transport assets increased from approximately \$0.6 billion in 2019–20 to \$2.4 billion in 2025–26 and is estimated to remain above \$2.2 billion a year over the 4 years to 2029–30. The increase reflects growth in the transport asset base from asset valuations and major capital projects such as the Metro Tunnel.

We have raised this issue for 7 consecutive years, and it remains unresolved.

Figure 10 shows the effects of this depreciation on the GGS financial outcomes.

Figure 10: GGS net operating results and estimated impact of VicTrack depreciation



Source: VAGO, based on the AFR, state Budget and VicTrack.

We encourage the government and affected entities to consider whether the current accounting treatment provides users with a transparent understanding of the economic substance of the arrangement and its effect on GGS outcomes.

Measure 2: GGS operating cash improved, but much of the result was not generated from the GGS's operating activities

The operating cash surplus and why it is important

The operating cash surplus measures the cash the government has left over in a financial year after paying for its operations and running expenses, such as employee salaries, supplier expenses, interest costs and utilities.

The GGS achieved an operating cash surplus of \$9.8 billion in 2025–26, exceeding budget by \$3.6 billion and the prior year's result by \$6.7 billion. Consistent with the operating result, stronger taxation revenue and Australian Government grants drove the improvement.

Of the reported \$9.8 billion operating cash surplus, \$5.1 billion came from Australian Government capital grants and \$1.1 billion came from receipts from public corporations including levies, income tax equivalent payments and dividends. Receipts drawn from public corporations are generated outside the GGS and reduce the financial resources retained by those entities.

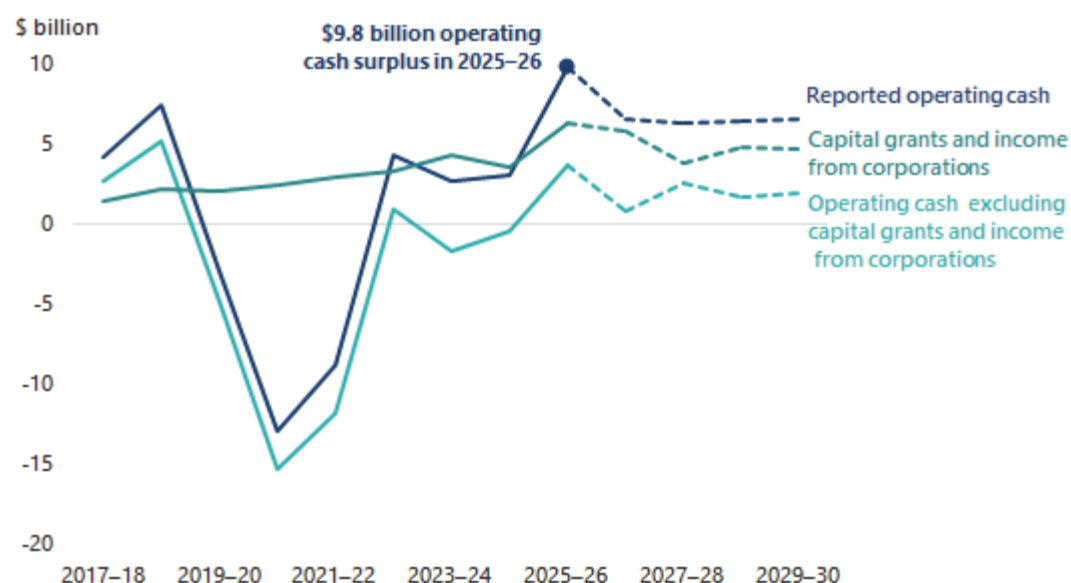
Together, these amounts contributed \$6.2 billion, or almost two-thirds, of the reported operating cash surplus this year without being generated from the GGS's operating activities.

This pattern is expected to continue. The GGS expects to report cumulative operating cash surpluses of \$25.8 billion over the next 4 years to 2029–30. However, \$18.8 billion, or nearly 73 per cent, is expected to come from Australian Government capital grants of \$13.5 billion and revenue drawn from public corporations of \$5.3 billion.

As a result, only \$7.0 billion of the forecast \$25.8 billion operating cash surplus over the next 4 years is expected to be generated from GGS's underlying operating activities. The remaining \$18.8 billion relies on Australian Government capital funding and revenue drawn from public corporations rather than cash generated from GGS's own operations.

Figure 11 shows the GGS operating cash outcomes since 2017–18, together with the Budget projection and forecast results from 2026–27 to 2029–30.

Figure 11: Operating cash surplus/deficit



Source: VAGO, based on the AFR and state Budget.

Fiscal cash surplus and why it is important

A fiscal cash surplus means the GGS's cash inflows from operations exceed its recurrent and capital outlays.

A fiscal cash surplus is a sign of good financial health because it means there is available cash for the government to use to invest in public services, pay down debt or build financial resilience for

future uncertainties. A fiscal cash deficit means the government must borrow to cover investments in infrastructure assets used to provide public services.

While the operating cash surplus is a positive result, it does not mean the GGS has enough cash to fund its capital program without further borrowing.

The government is still planning a significant capital investment program. The gap between operating cash surpluses and planned capital spending means fiscal cash deficits are expected to continue, requiring ongoing reliance on debt.

Fiscal cash deficits continued for a tenth year and are forecast to persist

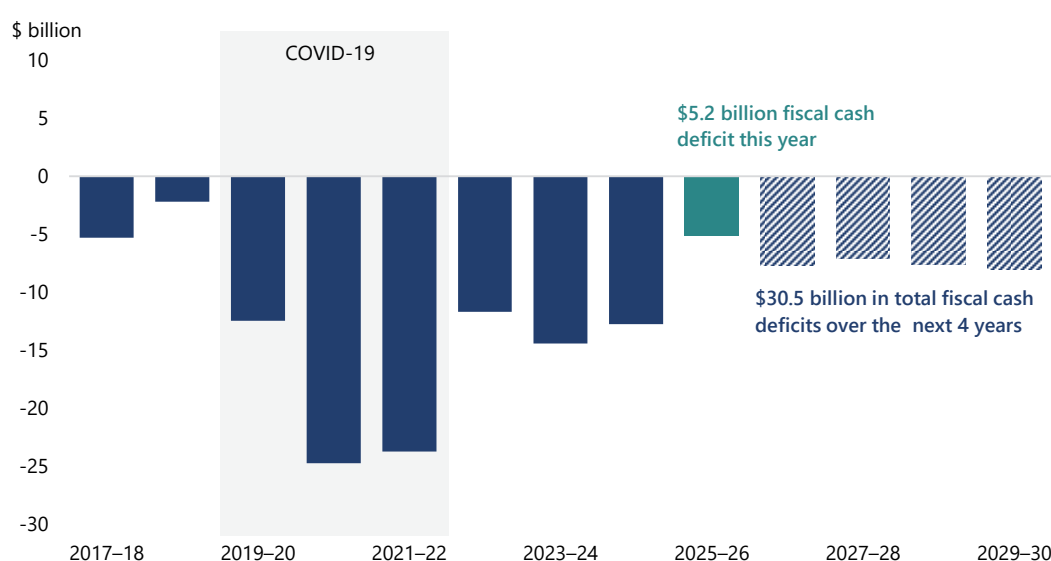
In 2025–26, the GGS recorded a fiscal cash deficit of \$5.2 billion, an improvement on the prior year's deficit of \$12.8 billion.

Figure 12 shows the GGS fiscal cash result from 2017–18 in addition to the projected outcome for the Budget and the forecast years from 2026–27 to 2029–30.

The GGS has recorded a fiscal cash deficit in each of the past 10 years. This prolonged period of fiscal deficits highlights why the government has relied heavily on borrowings to fund its capital investments, as capital funding requirements have exceeded the funding available from operations.

The 2026–27 Budget forecasts this trend to continue, with fiscal cash deficits in every year to 2029–30, each larger than this year's, accumulating to \$30.5 billion over the 4 years. As a result, the government will likely continue to rely on debt to fund capital investment.

Figure 12: Fiscal cash deficit



Source: VAGO, based on the AFR and state Budget.

Borrowing to fund long-lived infrastructure assets can be appropriate. It spreads the cost across the generations that benefit from it.

However, persistent fiscal cash deficits show the government's capital program is not sufficiently funded from the cash its operations generate. The state is borrowing the difference. This matters because each year of deficit adds to debt and interest costs. As interest costs rise, they commit a higher amount of future revenue to servicing debt rather than delivering services or funding new initiatives. The state's ability to respond to future needs and shocks also narrows.

Fiscal cash deficits are therefore a key indicator of pressure on the state's long-term fiscal sustainability. We discuss this further in Part 4.

Fiscal cash surplus/deficit

The cash surplus/deficit is calculated by:

- net cashflows received from operating activities, which are the sum of cash received from sources, such as taxes and government grants, offset by cash spent on operating expenses, such as employee costs
- plus, net cashflows from investment in non-financial assets, being the sum of cash earned from investment activities, such as the sale of land and buildings, offset by cash spent on capital projects.

Measure 3: Net debt continues to grow in dollar terms despite slowing relative to economic growth

GGs gross debt grew with the trend set to continue

GGs gross debt comprises interest-bearing liabilities, mainly domestic borrowings raised through Treasury Corporation of Victoria (TCV). It also includes other less significant interest-bearing liabilities including lease liabilities and service concession arrangement liabilities.

GGs gross debt increased by \$15.4 billion from \$187.9 billion at 30 June 2025 to \$203.3 billion at 30 June 2026. It is forecast to reach \$244.9 billion by 30 June 2030.

Debt is stabilising as a share of GSP because nominal GSP is growing, not because debt is falling

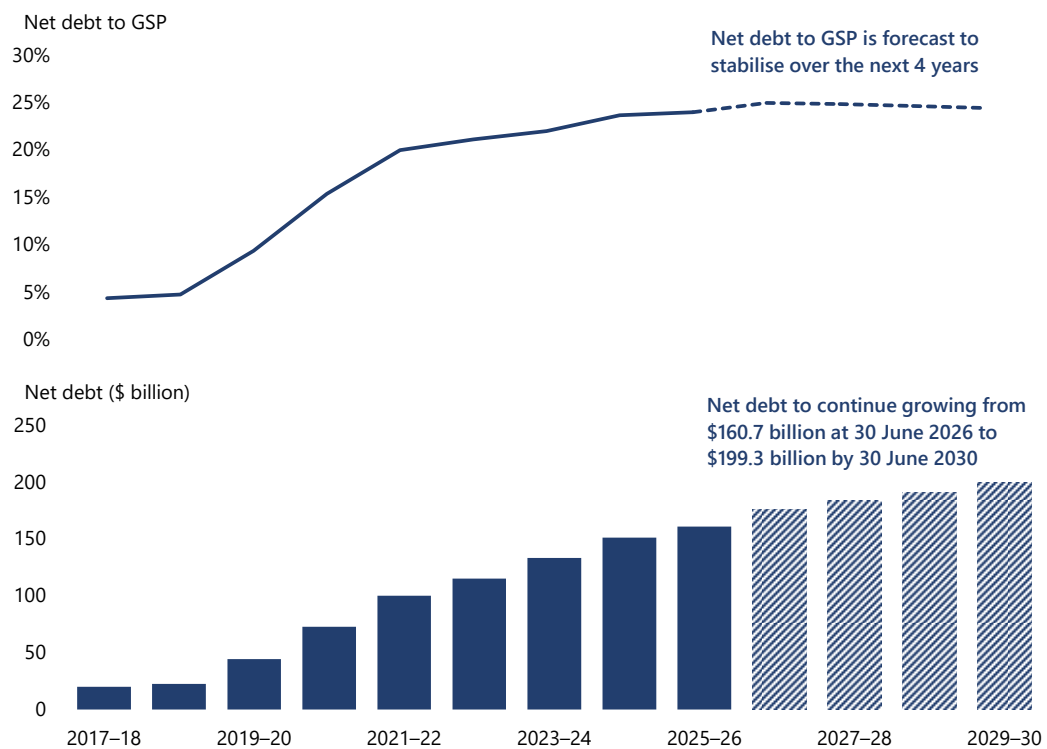
Stabilising net debt as a share of GSP is a key financial measure for the government, and the government considers it important when assessing debt sustainability. This ratio compares the size of GGs debt with the size of the state's economy.

The government set a 2025–26 target of net debt at 25.1 per cent of GSP as part of its short-term financial measures. It achieved 24.0 per cent. The government forecasts that net debt will stabilise and then begin to decline as a share of the economy by the end of the forward estimates period.

A rising ratio means state debt is growing faster than the economy, which increases pressure on debt servicing costs and makes repayment more difficult. A declining ratio means debt may still be increasing in dollar terms, but at a slower rate than economic growth.

Figure 13 shows nominal net debt and net debt as a share of GSP. Although debt is forecast to stabilise and marginally decline relative to GSP, nominal net debt is continuing to increase, from \$160.7 billion at 30 June 2026 to \$199.3 billion by 30 June 2030.

Figure 13: Net debt and net debt to GSP



Source: VAGO, based on the AFR and state Budget.

Net debt deducts cash and other financial assets from gross debt. While these financial assets can generate income, gross debt shows the total debt on which the state pays interest. Some financial assets deducted in calculating net debt are also held for specific purposes or against other liabilities and are not available to repay borrowings. Gross debt therefore provides a clearer view of the state's total debt burden, which we discuss further in Part 4.

Gross debt

Gross debt is the total of loans and other borrowings, deposits held, advances received and government securities.

Net debt

Net debt is gross debt minus cash and deposits, advances paid, and investments, loans and placements.

How the government expects to stabilise debt

Comparing debt with GSP shows how large the state's debt is relative to the size of the economy that must ultimately support it, and the state's capacity to service that debt.

The government plans to achieve this target through:

- keeping growth in net debt at or below nominal GSP growth
- growing investments that offset gross debt when calculating net debt
- generating cash inflows from the optimisation and commercialisation of the state's assets
- growing balances in the hypothecated trust accounts.

As seen in Figure 14, net debt is forecast to stabilise over the forecast years, however this is not from economic growth alone. Growth in cash and investments and one-off cash inflows from asset initiatives also reduce the reported figure because they offset gross debt. However, some of these

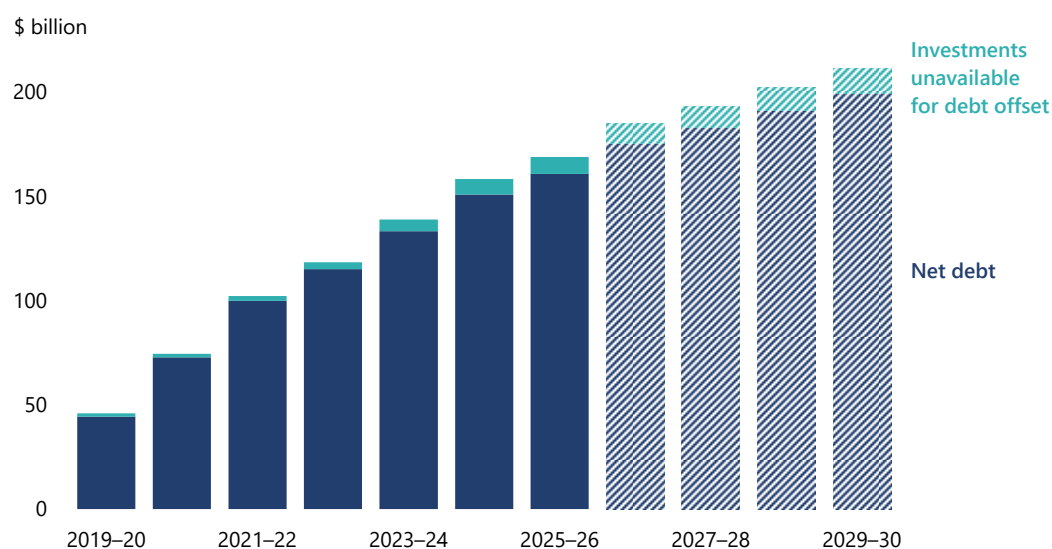
investments are held for specific purposes or against other liabilities, so the government cannot use them to repay borrowings.

Figure 14 shows that investments unavailable to repay debt increased from \$1.7 billion in 2019–20 to \$8.2 billion in 2025–26 and are forecast to reach \$12.0 billion by 2029–30.

These investments are held in the Homebuyer Fund, Social Housing Growth Fund, Building and Plumbing Commission, Portable Long Service Leave Authority, Growth Areas Public Transport Fund, Sustainability Fund Trust, Community Support Fund and Victorian Property Fund. Excluding them, net debt would be \$168.9 billion this year rather than \$160.7 billion and forecast to reach \$211.3 billion by 2029–30 rather than \$199.3 billion.

Removing the effects of these cash and investment balances provides a clearer view of the net debt the GGS must repay.

Figure 14: Net debt impacts of the investments unavailable for debt offset



Source: VAGO, based on the AFR and state Budget.

The 2026–27 Budget forecasts \$4.6 billion in cash inflows from asset commercialisation and capital repatriation initiatives, including \$1.1 billion in 2026–27 from extending the Public Lottery licence.

Together, growth in cash and investments, including balances held in hypothecated trust accounts, and cash inflows from asset commercialisation and capital repatriation, support the government's forecast net debt trajectory.

The forecast \$4.6 billion of inflows in the short term reduces the government's borrowing requirement and supports its net debt target. However, some initiatives, such as the 40-year lottery licence extension, bring forward cash that would otherwise be received by future generations. Capital repatriations from the public corporations may reduce their financial resilience and increase interest costs where they reduce capital available to support future operations, with potential implications for future fees and charges.

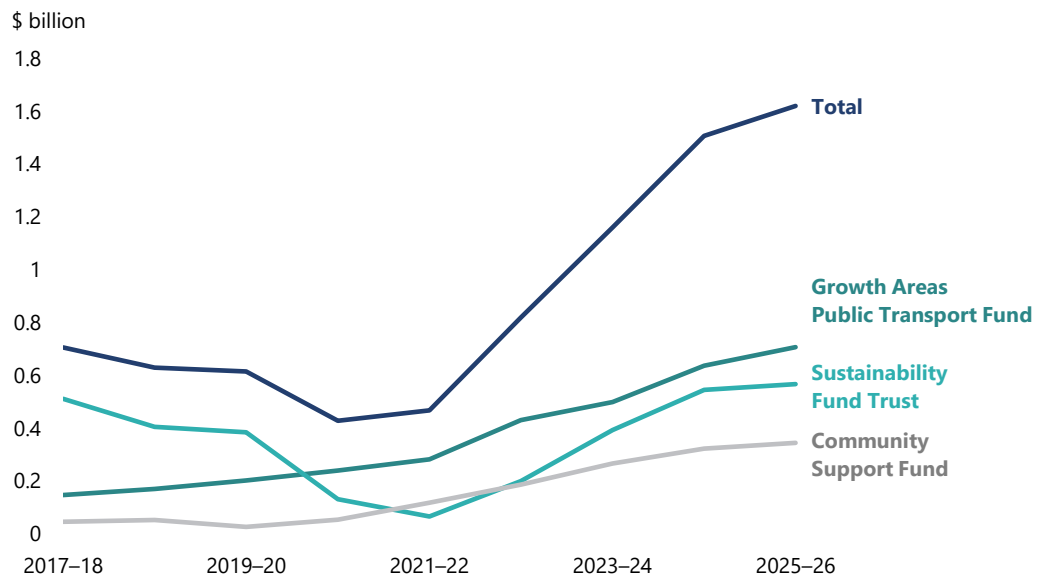
Without these inflows, and assuming all other factors remain unchanged, reported net debt would reach \$203.9 billion, or 25.0 per cent of GSP, by 30 June 2030, \$4.6 billion and 0.6 percentage points above the current forecast of \$199.3 billion, or 24.4 per cent of GSP.

How growing trust account balances temporarily reduced net debt and signal delayed spending

Cash held in trust accounts is recorded as a financial asset and deducted from gross debt when calculating GGS net debt. However, because these balances are restricted for specified purposes and expected to be spent in the future, their effect on reported net debt is temporary.

Figure 15 shows the growth in the significant trust account balances over the past 9 years, from \$0.7 billion at 30 June 2018 to \$1.6 billion at 30 June 2026. Most of this growth occurred after 2021–22, when the combined balance was \$0.5 billion.

Figure 15: Significant trust account balances



Source: VAGO, based on financial report disclosures of departments.

By 2025–26, the Growth Areas Public Transport Fund held \$707.7 million, the Sustainability Fund Trust held \$567.2 million and the Community Support Fund held \$345.7 million.

Unspent trust balances reduce reported GGS net debt while they sit in cash or other financial assets. They do not improve the state's fiscal capacity because the government cannot use them to fund other priorities or repay debt.

Persistent growth in these balances raises 2 issues. First, reported net debt appears stronger than it will be once the funds are spent. Second, the growing balances point to delays in delivering the transport, sustainability and community initiatives for which the money was collected.

Our prior-year recommendation on this trend therefore stands. We recommended that departments responsible for administering these assess whether current spending patterns are effectively achieving the purposes for which the trust accounts were established.

We further suggest DTF consider reporting the effect these financial assets have on the net debt measure when setting, assessing and reporting on fiscal targets. This would provide additional insight into the state's underlying debt position.

Hypothecated trust account

A hypothecated trust account holds money collected from a specific levy for a particular purpose.

Measure 4: Interest expense is consuming a growing share of revenue and income

The government has not met its target of stabilising interest costs as a share of revenue and income

In the 2020–21 state Budget, the government introduced a key financial measure and target to stabilise interest expense as a share of revenue and income over the medium term.

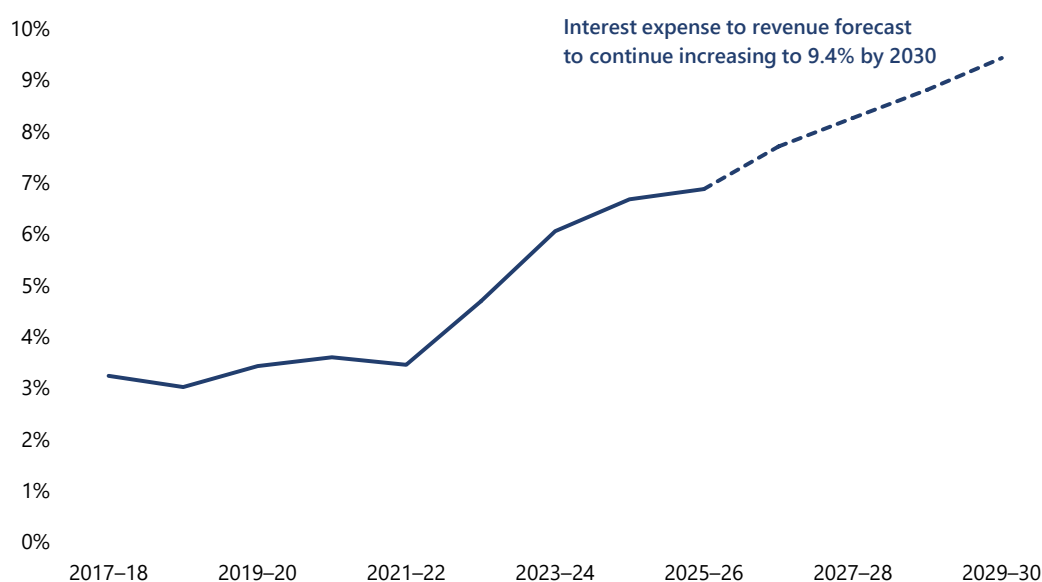
In practical terms, the target is intended to stop interest costs consuming an increasing share of the state's revenue and income, which reduces funding available for services and infrastructure.

This target did not specify the level at which interest expense should stabilise, or by when. This limits transparency about the level of interest costs the government considers sustainable, making it difficult to assess progress against its debt strategy.

The government has not met this target. Five years on, interest expense as a share of revenue and income has significantly increased and is forecast to continue rising through to 30 June 2030.

Figure 16 shows this share increased from 3.2 per cent in 2017–18 to 6.9 per cent in 2025–26 and is forecast to reach 9.4 per cent by 2029–30. By then, close to one dollar of every 10 the GGS earns will go to servicing debt instead of services.

Figure 16: Interest expense to revenue and income



Source: VAGO, based on the AFR and state Budget.

Why interest expenses have not stabilised

GGS interest expense has not stabilised because the government continues to borrow and refinance maturing debt at higher rates than those originally secured.

Interest rates were historically low from 2020–21 to 2022–23 during the COVID-19 pandemic but have since increased. As a result, the average interest rate on GGS debt has risen, and the 2026–27 Budget forecasts it will reach 4.9 per cent by 2029–30. Higher rates increase both the cost of new borrowings and the cost of refinancing existing debt.

Until debt growth slows, interest costs will keep rising, making it more difficult for the government to achieve its medium-term target.

Measure 5: \$0.5 billion contributed towards the unfunded superannuation liability, following 2 years of lower-than-planned contributions

What is the state superannuation liability The state's public sector defined benefit superannuation plans hold liabilities for employees' superannuation entitlements. These plans are not reported in the AFR because the state does not control them. These plans, which mainly cover GGS employees, are not fully funded. Because the state is responsible for funding these obligations, the AFR recognises a corresponding liability.

At 30 June 2026, the state recognised a \$17.1 billion net superannuation liability. In accordance with AASB 119 *Employee Benefits*, this liability is valued using a discount rate based on Australian Government bond yields. However, the state's funding requirement is determined using the expected return on the superannuation fund's assets. On this basis, the state's actuarial service provider has estimated an unfunded superannuation liability lower than what is reported in the AFR, at \$12.8 billion as at 30 June 2026.

The unfunded superannuation liability for funding purposes is lower than the superannuation liability reported in the AFR because the expected return on assets of the superannuation fund is currently greater than the Australian Government's bond yield.

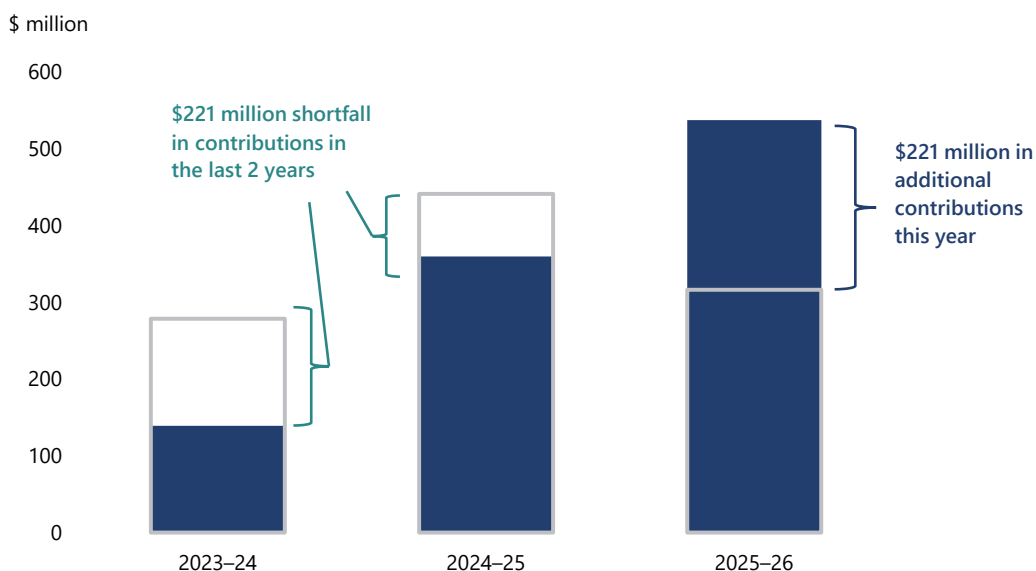
The government aims to fully fund this unfunded superannuation liability by 2035 through annual contributions, which is a key financial measure.

The government exceeded its 2025–26 contribution target to offset previous shortfalls

Following the Victorian election in 2022, the government deferred annual contributions by \$3.0 billion from 2023 to 2027, as outlined in *Labor's Financial Statement 2022*. The government did not explain the reasons for varying and deferring these payments. However, it keeps its commitment to fully fund the liability by 2035.

As Figure 17 shows, actual contributions in 2023–24 and 2024–25 were below the amounts in the government's 2022–23 revised contribution plan, which reflected the deferral. In 2025–26, however, the government contributed more than planned to offset these shortfalls and support its target of fully funding the liability by 2035.

Figure 17: Planned and actual contributions to the superannuation liability



Source: VAGO, based on the AFR and state Budget.

Achieving the funding target by 2035 remains challenging in the current constrained fiscal environment, particularly given competing budget pressures and the emerging risks. We discuss this further in Part 4.

4.

Fiscal sustainability and emerging risks

Snapshot

Short-term fiscal repair remains the government's focus



Steps have continued to improve fiscal challenges, but they do not go far enough



Rising expenditure is absorbing savings and revenue growth



Transparency matters more under fiscal pressure



Materialising and emerging risks are challenging fiscal sustainability



Our past recommendations remain unaddressed and a long-term fiscal plan is still needed



Conclusion

The current fiscal strategy remains focused on short-term outcomes.

While some recent financial results have improved, fiscal cash deficits persist, debt remains high, and long-term expenditure pressures continue to grow. Headline financial outcomes continue to be influenced by non-recurring items rather than structural improvements in revenue or expenditure.

Recent government initiatives remain short-term and reactive. They do not go far enough to address the state's financial challenges or strengthen long-term financial resilience. For example, \$12.8 billion in savings initiatives announced in state budgets from 2017–18 to 2025–26 has largely supported new or expanded expenditure rather than rebuilding fiscal capacity or reducing debt.

The state also faces significant materialising and emerging risks, 11 of which we highlight in this report. Some are already evident in current financial outcomes and budget settings, while others may have a greater impact over the medium to long term. Effective management of these risks is important to fiscal repair and long-term sustainability.

The *Independent Review of the Victorian Public Service* released in 2025 recommended improvements to fiscal management and strategy. However, these recommendations remain unactioned, limiting the review's implementation to some short-term savings and entity reforms.

Likewise, our recommendations over the past 4 years to strengthen fiscal discipline, debt management, long-term planning and transparency on fiscal management progress remain largely unactioned.

4.1 Fiscal sustainability and fiscal strategy

The government's fiscal strategy is focused on restoring short-term budget outcomes and slowing debt growth. While these are important objectives, long-term fiscal sustainability requires consideration of a broader set of factors affecting the state's capacity to continue funding services, infrastructure and future obligations.

Fiscal sustainability

What is fiscal sustainability?

To remain fiscally sustainable, the state must be able to fund current and future expenditure requirements from revenue earned, absorb foreseeable changes and materialising risks and manage the impact from these factors to changing revenue and expenditure requirements.

Fiscal sustainability

Fiscal sustainability is the ability of the government to maintain public finances at a credible and serviceable position now and into the future. Ensuring long-term fiscal sustainability requires governments to engage in ongoing monitoring and strategic forecasting of future revenue and expenditure, environmental factors and socioeconomic trends to remain fiscally resilient.

Fiscal progress remains exposed to underlying pressures

Improved results have not removed underlying fiscal pressures

The government reports progress against its fiscal strategy, including restoring budget balance, strengthening cash and operating results, and stabilising then reducing net debt as a share of the economy.

The design of the strategy is a matter for the government. However, recent results do not reflect a sustained improvement in the state's underlying fiscal sustainability.

While some recent financial outcomes and forecasts have improved, fiscal cash deficits persist, debt remains high, and long-term expenditure pressures continue to grow. Headline results continue to be influenced by non-recurring items and timing effects rather than structural improvements in revenue or expenditure.

The state continues to face significant long-term challenges, including expenditure growth, rising debt and interest costs, infrastructure funding requirements and emerging fiscal risks.

The fiscal strategy focuses on short-term fiscal repair

The government's fiscal strategy

The state Budget sets out the Victorian Government's long-term financial management objectives for the GGS along with short-term objectives and key financial measures and targets for achieving the government's fiscal strategy.

The state's long-term financial management objectives, as outlined in the 2025–26 state Budget, are:

- sound financial management
- improved services
- building infrastructure
- efficient use of public resources
- a resilient economy.

In the 2020–21 state Budget, the government set out a 4-step fiscal strategy aligned to its key financial measures and sustainability objectives. In the 2024–25 Budget, the government added a fifth step. The 5-step fiscal strategy comprises:

- Step 1: Creating jobs, reducing unemployment and restoring economic growth
- Step 2: Returning to an operating cash surplus
- Step 3: Returning to operating surpluses
- Step 4: Stabilising net debt as a proportion of GSP
- Step 5: Reducing net debt as a proportion of GSP.

Together, the government expects the 5 steps to support economic recovery, budget repair and a transition to lower debt.

The government acknowledges that reducing spending, especially on inefficient and non-priority programs, as well as increasing operational efficiencies and process improvements across departments and programs are important for meeting its current fiscal strategy.

The current strategy is weighted towards short-term outcomes.

Fiscal strategy

A fiscal strategy is a clear statement of the government's fiscal objectives and targets over a defined period. It sets out the government's short-term and long-term fiscal strategies and objectives for managing its finances and existing and emerging risks. It also demonstrates how planned government policies will contribute to fiscal sustainability and macroeconomic stability.

Progress against short-term targets

The government has met some headline steps in its fiscal strategy, including reporting operating cash surpluses since 2022–23 and an operating surplus in 2025–26.

However, the reported cash surpluses were materially supported by non-recurring transactions, grant timing and one-off revenue. The 2025–26 operating surplus and forward estimates are also influenced by non-recurrent funding. These results satisfy headline targets but do not yet demonstrate sustained improvement in the underlying balance between revenue and expenditure.

Historical performance has yet to demonstrate sustained debt stabilisation, although net debt to GSP is forecast to stabilise from 2027–28. Net debt increased from 4.3 per cent of GSP in 2017–18 to 24.0 per cent in 2025–26, showing that debt grew faster than the economy. Higher borrowings and refinancing costs have also increased interest expense, reducing the funding available for services and infrastructure.

As a result, the net debt stabilisation and reduction remains largely dependent on forecast improvements and continued nominal economic growth. Overall, while the state has made progress against the strategy's short-term fiscal targets, there is limited evidence that Victoria's fiscal resilience has strengthened in a sustained and structural way.

Financial measures and targets continue to lack specificity

To support its financial objectives, the state has set key financial measures and targets, discussed in Part 3. Over the last 13 years, financial measures and targets have been gradually revised from specific and quantifiable to less-specific targets, as outlined in Appendix F.

Except for the measure to fully fund the superannuation liability by 2035, the state's other key measures do not include explicit targets or clearly defined timeframes.

Our recommendation from our 2022–23 report therefore remains appropriate. We continue to encourage DTF to work with the government to set specific targets and clear timeframes for achieving its key financial measures.

Transparency matters more when finances are under pressure

Greater transparency required to strengthen accountability and confidence

The International Monetary Fund's April 2026 *Fiscal Monitor: Fiscal Policy under Pressure: High Debt, Rising Risks* report found that, in a high-debt environment, transparency and clear communication have become central to maintaining fiscal credibility. It noted that hidden deficits, vague promises of future adjustment and opaque contingent liabilities undermine that credibility. It also found that credible medium-term debt management strategies are essential to managing borrowing costs and signalling a commitment to prudent fiscal management.

These findings are relevant to Victoria. The state's fiscal targets have no set levels or specific timing. The fiscal strategy does not measure the fiscal cash balance. There is no plan to repay debt. Some growing obligations and climate-related risks, which we discuss later in this part, are not fully visible in reported outcomes.

As a result, Parliament and the community may find it difficult to assess the state's underlying financial position, its exposure to fiscal risks, and whether current actions are sufficient to address longer-term fiscal pressures. Clearer reporting would strengthen accountability and provide greater transparency over long-term fiscal management.

Current initiatives help short-term outcomes but do not yet address long-term sustainability risks

The government has introduced a range of savings, revenue and financial management measures. While these actions support short-term budget repair, they do not yet show how the state will address structural expenditure pressures, stabilise debt and interest costs, or rebuild fiscal capacity over the long term.

This section examines the government's current key initiatives and reforms.

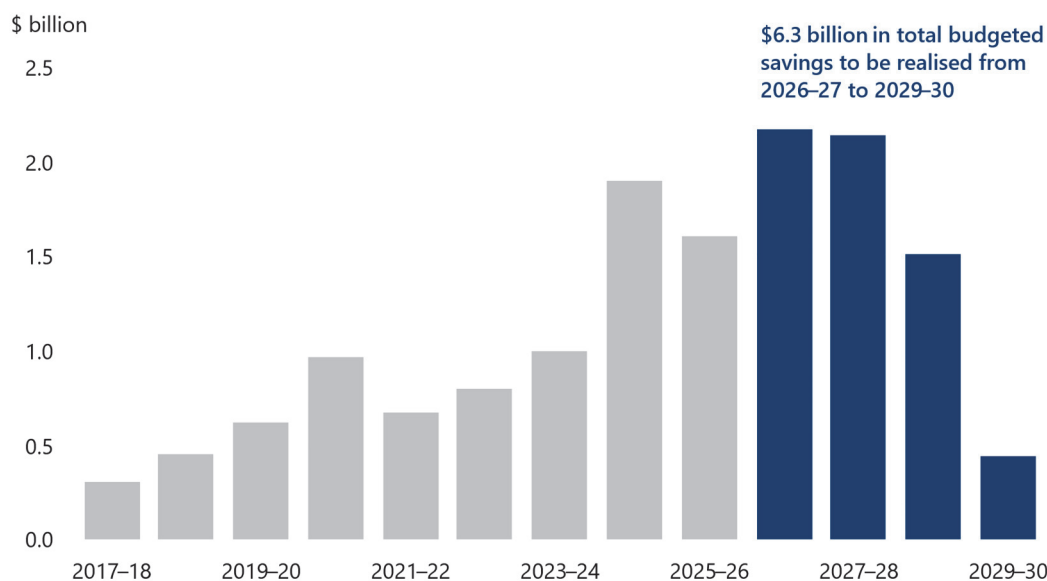
Savings initiatives

Savings and efficiency measures remain a central part of the government's fiscal repair approach. They include workforce and executive reductions, lower spending on consultants and labour hire, reduced accommodation costs and shared-service reforms.

The 2025–26 mid-year Budget update and the 2026–27 state Budget included an additional \$1.6 billion in savings targets for 2026–27 to 2029–30. This is in addition to \$12.8 billion announced in state budgets from 2017–18 to 2025–26.

Figure 18 shows \$14.6 billion in cumulative savings announced to be realised from 2017–18 to 2029–30, including \$6.3 billion expected over 2026–27 to 2029–30.

Figure 18: Cumulative saving initiatives announced in the state Budget



Source: VAGO, based on state budgets.

Delivering these targets will be difficult while demand for, and the cost of, public services continue to rise. Unless savings are recurring and exceed growth in expenditure, they will not materially improve the underlying budget position.

These savings initiatives have not translated into a stronger underlying fiscal position through lower debt or rebuilt fiscal capacity. Instead, they have largely supported new and expanded expenditure.

Financial Management Act reforms

Parliament amended the *Financial Management Act 1994* on 19 August 2025 to strengthen financial discipline and accountability. The reforms require departments and public sector entities to operate within approved budgets, notify DTF of expected overruns, and strengthen the responsibilities of accountable officers, responsible bodies and chief finance officers.

These reforms are a positive step towards strengthening financial discipline and accountability across the public sector. The amendments do not introduce changes to strengthen the state's focus on long-term financial sustainability planning.

The Independent Review of the Victorian Public Service

The *Independent Review of the Victorian Public Service* report was made public in December 2025. The review recommended broader reforms across a range of areas including stronger prioritisation and base-funding reviews, evidence-based savings, earlier action on emerging pressures, simpler public sector arrangements, digital and shared-service reforms, and stronger federal–state engagement.

It also made specific recommendations to the government on fiscal management and strategy, including:

- integrating savings programs with the government's overall fiscal management strategy and budget and resource allocation process
- enhancing fiscal management and strategy, including addressing the ongoing impact of pandemic-era budget practices
- adopting good budget practices to create budget capacity and build confidence in Victoria's budget and financial position
- providing a strong pathway to manage debt servicing over the medium to longer term
- adhering to enhanced budget rules to support the fiscal strategy and improve the effectiveness, efficiency and quality of government service delivery.

The government released the review and its response in December 2025, accepting some recommendations and rejecting others.

Implementation has so far focused on short-term savings, workforce reductions and some entity reforms. Recommendations relating to fiscal management and strategy have not yet been actioned and are expected to commence after the November 2026 election.

This delay risks reducing the review to a short-term savings program, while the underlying drivers of expenditure growth, debt and fiscal pressure remain unresolved.

The review did not examine the infrastructure program or debt management strategy.

COVID Debt Repayment Plan

The government established the plan in the 2023–24 state Budget to meet the servicing costs of \$31.5 billion in COVID-19-related debt over the 10 years to 2033. It is funded through temporary land and payroll tax levies, government savings and efficiencies, and the Victorian Future Fund.

The plan does not directly repay debt. Instead, it uses levy revenue, savings and investment returns to reduce future borrowing and offset debt-servicing costs. The government expects these measures to offset the \$31.5 billion in debt and \$12.7 billion in estimated interest expenses over the 10-year period.

Since 2023–24, the government has collected \$3.1 billion from the payroll tax levy and \$3.4 billion from the landholdings levy. At 30 June 2026, the Victorian Future Fund held \$10.9 billion in investments, including \$236 million from land-sale proceeds and \$2.8 billion in investment returns over 3 years.

The government has not publicly reported progress against the plan since it was introduced. Parliament therefore cannot readily assess whether the plan is on track or how much it has reduced future borrowing and interest costs.

A longer-term focus on fiscal sustainability remains important

Our past recommendations have not been actioned

Initial steps have been taken to address the state's financial challenges through the initiatives described above and support fiscal repair. However, these measures remain short-term and focused on addressing immediate fiscal pressures rather than building longer-term financial resilience. They do not yet demonstrate how the state will address the structural drivers of expenditure growth, manage rising debt and interest costs, or restore fiscal capacity over the longer term.

Our recommendations over the past 4 years to strengthen fiscal management, debt management, long-term planning and transparency remain largely unactioned. While some recommendations have been acknowledged, progress in addressing the underlying fiscal challenges identified in our previous reports has been limited.

Collectively, these recommendations sought to encourage a longer-term approach to managing the state's finances. They were aimed at moving beyond the short term, reactive responses to fiscal pressures and addressing underlying financial challenges and emerging financial risks we have identified and reported over time.

They also highlighted the need for a well-defined, long-term plan to guide government decision-making, support the sustainable allocation of public resources, monitor emerging risks and transparently report progress in managing the state's fiscal sustainability. Without this plan, it remains unclear how current initiatives will address the state's longer-term fiscal challenges.

For these reasons, our previous recommendations remain relevant and are reproduced at the beginning of this report.

The need for action on these recommendations is reinforced by the persistent and emerging risks to the state's long-term financial sustainability. These risks are discussed in sections 4.2 and 4.3.

4.2 Risks to fiscal repair and long-term fiscal sustainability

Several risks may affect the state's ability to achieve its fiscal repair agenda and sustain long-term fiscal health

The state's fiscal repair agenda and long-term fiscal sustainability depend on how effectively the government manages several interconnected financial risks. Some risks are already materialising and visible in current financial outcomes and budget settings, while others are emerging and may have a greater impact over the medium to long term.

Figure 19 summarises each risk, its outlook, the sector affected, the potential impact on the state's finances and the government's current response.

Together, these risks could reduce the state's financial flexibility, increase funding requirements, and limit the government's capacity to respond to future economic and fiscal shocks. The analysis following Figure 19 examines each risk in detail.

Figure 19: Risks to fiscal repair and long-term fiscal sustainability

Risk	Outlook	Sector	Impact	Government response to date and our observations
1. Rising debt and interest costs may further constrain the state's fiscal flexibility	Now and ongoing	GGS and state	As more revenue is committed to servicing debt, less is available to fund services, respond to economic shocks or address emerging priorities.	The government aims to stabilise debt relative to the size of the economy, and interest costs as a share of revenue. These objectives have not yet been achieved, and no plan has been outlined to reduce debt levels.
2. Employee and operating costs may continue to outpace budget expectations and impede fiscal repair	Now and ongoing	GGS	Higher costs consume a growing share of revenue and slow progress towards fiscal repair. Continued growth above budget estimates reduces confidence that forecast savings and fiscal repair measures will be achieved.	Savings and expenditure initiatives have been in place for several years and continue to be implemented. However, they have largely supported new or expanded expenditure rather than rebuilding fiscal capacity or reducing debt.
3. Slower revenue growth may constrain fiscal resilience	Emerging	GGS	Modest and uncertain revenue growth limits the state's capacity to absorb cost pressures, manage debt and support fiscal repair.	Reflected in budget forecasts, but outcomes remain dependent on taxation growth, Australian Government funding and one-off commercial initiatives.
4. Cost pressures and scope changes may further increase the cost of major capital projects	Now and ongoing	GGS	Additional funding may be required, displacing other budget priorities.	The government has recently announced project reprioritisations, scope refinements and savings initiatives, including a technical review of the Suburban Rail Loop.
5. Delayed asset renewal and maintenance may increase future costs and disrupt services	Now and growing	GGS	Delays increase future replacement costs, funding requirements and may reduce asset performance impacting service delivery.	The government has provided road, school and fire-service maintenance and renewal funding. However, assessed needs materially exceed identified funding. Current road investment is expected only to slow deterioration.
6. Rapid growth in redress schemes, civil claims and contingent liabilities may continue, increasing funding obligations	Now and ongoing	GGS	Future obligations may significantly exceed current estimates, creating significant funding pressures and fiscal uncertainty.	Obligations are recognised when known. However, they do not fully incorporate the potential impact of continuing growth in claim numbers, settlement values and claims handling costs, which may impact future obligations and funding requirements.
7. Policy reforms responding to community expectations may	Now and ongoing	GGS	New and expanded commitments may create ongoing expenditure	Initial funding has been provided, but enduring demand and whole-of-

Risk	Outlook	Sector	Impact	Government response to date and our observations
create further expenditure pressures			obligations that exceed initial funding estimates.	system costs may exceed current estimates.
8. Financial sustainability pressures in public corporations may increase the state's fiscal exposure	Now and ongoing	State, with potential GGS	These pressures may reduce returns to the government or require future funding support.	Some entity-specific support and reforms are in place, but underlying structural risks remain.
9. Meeting the unfunded superannuation target may constrain future budget priorities	Emerging	State and GGS	An estimated \$17.0 billion in contributions is required to fully fund the liability by 2035, competing with other budget priorities and reducing future fiscal flexibility.	A contribution plan is in place. However, the required future contributions are substantially higher than current levels and remain exposed to investment returns.
10. Natural disasters and climate-related events may create significant unbudgeted costs	Now and ongoing	State and GGS	Such events may create significant and unpredictable funding requirements when fiscal resilience is already constrained.	The government has committed to net zero emissions by 2045, introduced climate legislation, state-wide climate-risk reporting, strategies and adaptation plans. Budget forecasts consider climate policy settings and the financial impacts of natural disasters. However, public reporting provides limited insight into the scenarios assessed, their fiscal impacts, and planned responses.
11. Macroeconomic and geopolitical uncertainty may weaken financial outcomes and impede fiscal repair	Now and ongoing	State and GGS	Adverse developments could weaken revenue, increase expenditure and interest costs.	The 2026–27 Budget forecasts were prepared in an environment of ongoing macroeconomic and geopolitical uncertainty. The government updates its economic assumptions through each Budget and Budget update, however forecast outcomes remain sensitive to factors largely outside its control.

Source: VAGO.

The risks above affect the GGS, the broader state or both. Risks within the GGS are more directly linked to budget repair, debt management and the government's capacity to fund essential services and infrastructure. Risks beyond the GGS may still affect the GGS's finances if they require government support, reduce income from public corporations or increase future obligations.

The risks are interconnected and their financial impacts may compound over time. The discussion that follows therefore distinguishes each risk while recognising their interconnections.

Managing these risks will require close monitoring, timely action and integration into the government's longer-term fiscal planning. We discuss each risk below.

Risk 1. Rising debt and interest costs may further constrain the state's fiscal flexibility

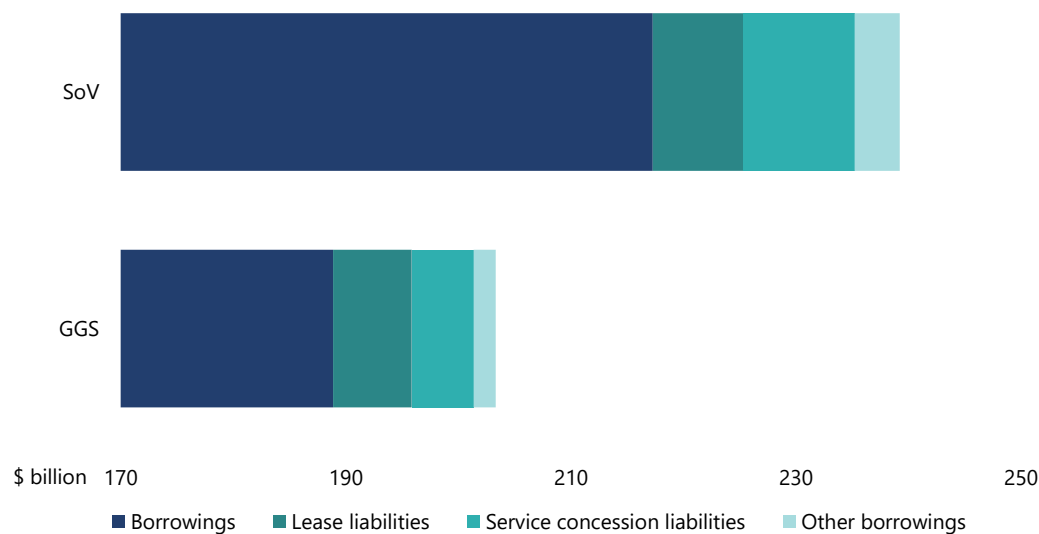
This risk has materialised. Victoria’s rising debt and interest costs are absorbing a growing share of the state's revenue, and there is no plan to pay the principal on existing or new borrowings. This now poses a significant risk to the state’s long-term fiscal sustainability.

Understanding what makes up the state's debt

Debt consists mainly of interest-bearing liabilities raised through domestic borrowings from the TCV. It also includes other interest-bearing liabilities, such as lease liabilities, service concession arrangement liabilities and deposits and advances received.

Figure 20 shows the composition of the state’s borrowings at 30 June 2026 for both the GGS and the State of Victoria (SoV).

Figure 20: Composition of the GGS and the State of Victoria borrowings



Source: VAGO, based on the AFR and state Budget.

At 30 June 2026, the GGS owed \$188.9 billion in domestic borrowings, the majority of which was borrowed from TCV, as well as \$7.0 billion in lease liabilities and \$7.5 billion in service concession arrangement liabilities and other borrowings. These liabilities totalled \$203.3 billion.

At the SoV level, domestic and foreign currency borrowings totalled \$217.3 billion, the majority of which were issued by TCV to bondholders. The state also had \$8.1 billion in lease liabilities and \$13.9 billion in service concession arrangement liabilities and other borrowings. These liabilities totalled \$239.3 billion.

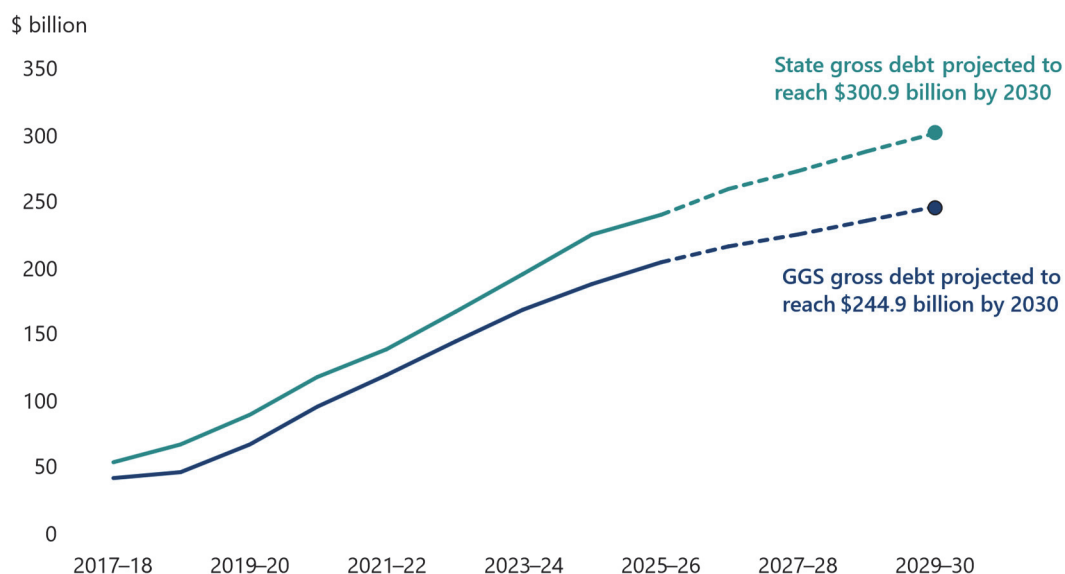
Debt growth is forecast to continue through to 2030

GGS gross debt grew from \$41.6 billion in 2017–18 to \$203.3 billion at 30 June 2026, an average growth rate of 22.6 per cent per year. It is forecast to increase to \$244.9 billion by 30 June 2030, growing by an average of 4.8 per cent per year over the next 4 years.

State gross debt grew from \$53.5 billion in 2017–18 to \$239.3 billion over the same period, an average annual growth rate of 20.9 per cent per year. It is forecast to increase to \$300.9 billion by 30 June 2030, growing by an average of 5.9 per cent per year over the next 4 years.

Figure 21 shows the GGS and SoV gross debt growth from 2017–18 through to 2029–30.

Figure 21: Victoria's gross debt



Source: VAGO, based on the AFR and state Budget.

The 2026–27 Budget sets the government's capital program at \$181.4 billion, comprising \$7.7 billion for new projects and \$173.7 billion for existing projects. The total includes expenditure already incurred as well as \$121.8 billion of future expenditure, comprising \$26.9 billion in 2026–27 and an aggregate of \$94.9 billion in later years.

Of the total capital program, \$55.8 billion relates to GGS projects and \$125.6 billion to public non-financial corporation projects. The government estimates more than half of the future capital expenditure is expected to be funded through additional debt.

Looking beyond the government's debt sustainability measure

Sustainable debt management is critical to Victoria's long-term fiscal sustainability. It enables the government to fund services and infrastructure, respond to future shocks and support intergenerational equity.

Steps 4 and 5 of the government's fiscal strategy aim to stabilise and then reduce net debt as a percentage of GSP by 2030. They aim to progressively improve operating cash surpluses and grow the economy, allowing a greater proportion of capital expenditure to be funded from cash rather than debt.

While this strategy outlines the government's intended direction of debt relative to the size of the economy, it does not establish a long-term net debt-to-GSP target or other measurable debt management objectives. As debt and the cost of servicing it continues to grow, the absence of clear targets and debt management objectives makes it difficult to assess how the government intends to manage the long-term risks associated with rising debt.

The government assesses the financial impacts of debt through the following measures:

- net debt as a share of GSP
- interest expense as a share of revenue.

To assess debt sustainability more broadly, we also consider the following measures, which provide additional insight into the GGS's debt exposure and the capacity to service it:

- gross debt to GSP
- gross debt to revenue
- interest costs of new and refinanced debt.

The results of these measures show Victoria's GGS debt burden has increased significantly and debt servicing costs are placing growing pressure on the Budget.

We examine these measures in the following sections.

Intergenerational equity

Intergenerational equity means fairly sharing economic costs and benefits of the government's fiscal policy decisions, such as taxation, public spending and borrowing, across different generations.

Gross debt is forecast to stabilise as a share of GSP despite continuing to rise

Gross debt to GSP is a key measure of the total debt exposure, and an indicator of the borrowings on which the government pays interest relative to the size of the economy.

As explained in Part 3, the government uses net debt to GSP as its primary measure of debt management. However, gross debt to GSP provides additional insight because it shows the state's total borrowings relative to the size of the economy.

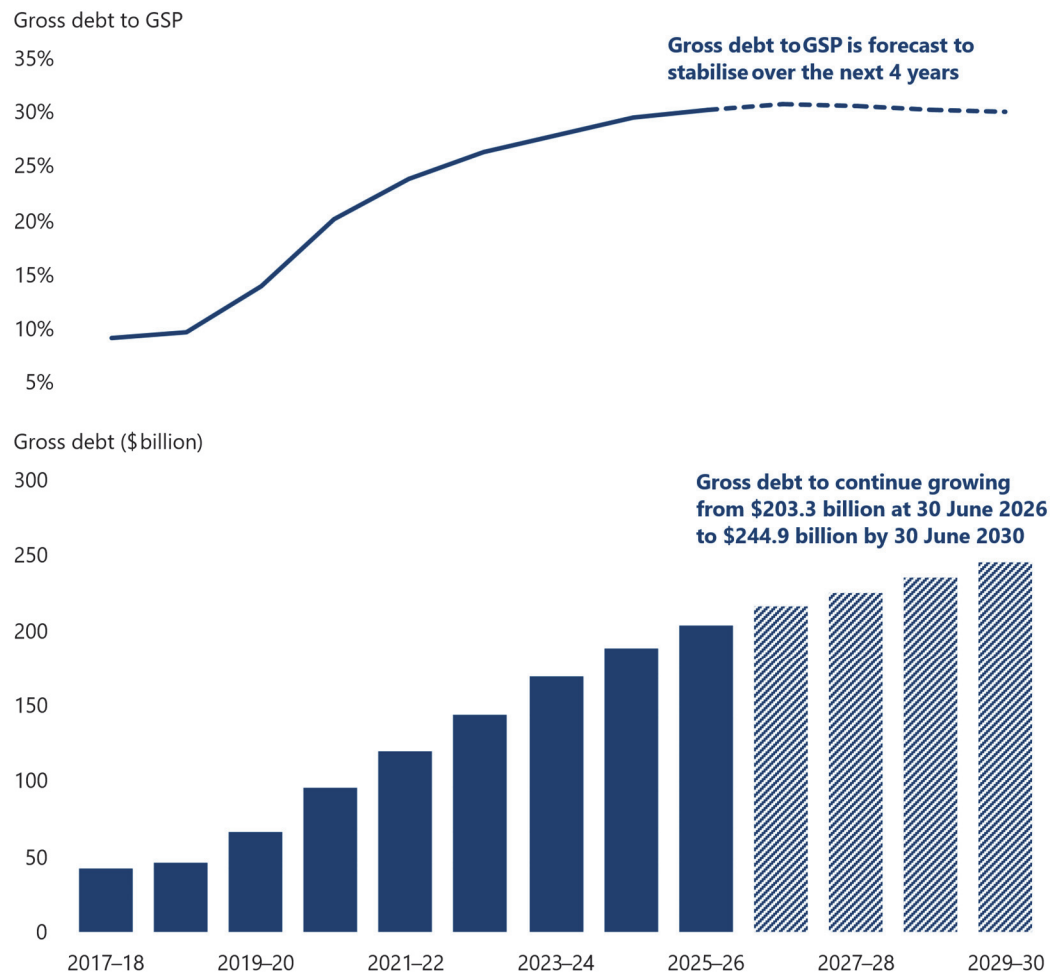
Unlike net debt, gross debt does not deduct financial assets. Some of these financial assets are held for specific purposes or support other liabilities and commitments and may therefore be unavailable to repay borrowings.

An increasing gross debt-to-GSP ratio means that state debt is growing faster than the economy while a decreasing ratio means debt may still be growing, but more slowly than the economy. An increasing and higher ratio indicates a greater debt burden relative to the state's economic base. This can increase debt servicing costs, weaken the net operating result and make debt repayment harder.

Figure 22 shows that gross debt as a share of GSP has rapidly grown over the last decade, from 9.0 per cent in 2017–18 to 30.3 per cent in 2025–26.

The 2026–27 Budget forecasts that gross debt will stabilise at around 30.7 per cent as a proportion of GSP in 2026–27 before declining marginally from 2027–28. However, stabilising debt as a share of the economy does not reduce the state's total debt burden.

Figure 22: GGS gross debt and GGS gross debt to GDP



Source: VAGO, based on the AFR and state Budget.

Gross debt increased by an annual average of 22.6 per cent from 2017–18 to 2025–26. This growth was driven by significant infrastructure investment and the government’s response to the pandemic. Gross debt is forecast to reach \$244.9 billion by 30 June 2030. This means the government plans to borrow, through debt and other sources, a further \$41.6 billion between 2026–27 and 2029–30.

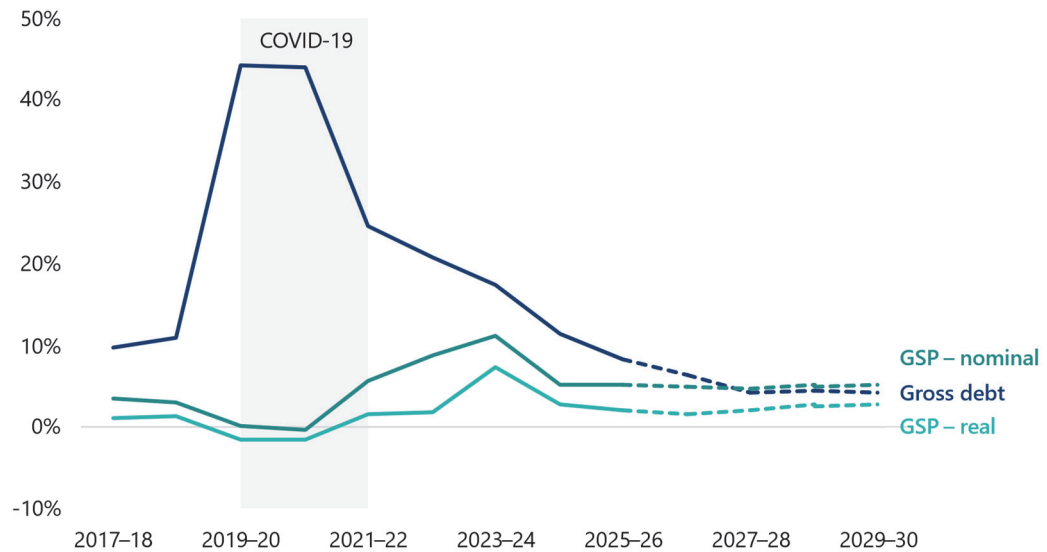
Sustained nominal economic growth is important to the government achieving steps 4 and 5 of the fiscal strategy. However, economic growth alone may not address the sustainability risks associated with rising debt and servicing costs.

The state’s current debt strategy relies on economic growth to stabilise debt measures

Gross debt growth accelerated from 9.8 per cent in 2017–18 to an annual average of 37.5 per cent between 2019–20 and 2021–22, partly reflecting the government’s response to the COVID-19 pandemic. It slowed to an average of 14.4 per cent a year between 2022–23 and 2025–26. Over this period, gross debt grew faster overall than nominal GSP and state revenue, although revenue growth exceeded gross debt growth in 2025–26.

Figure 23 shows that debt growth is forecast to slow and fall slightly below nominal GSP growth but remain well above real economic growth from 2027–28. This ongoing debt growth reflects the state’s reliance on borrowing to fund its significant infrastructure program and fiscal cash deficits.

Figure 23: Annual growth of debt, nominal GSP and real GSP



Source: VAGO, based on the AFR and state Budget.

Governments commonly use debt-to-GSP ratios to assess debt sustainability because both debt and GSP are measured in current nominal dollars. The state's debt management strategy uses this measure and assumes debt growth will broadly align with nominal GSP growth, before the ratio declines over the medium term.

Nominal GSP measures economic output at current market prices and therefore includes inflation and real growth in economic activity. Over the forward estimates, gross debt is forecast to grow by an average of 4.8 per cent a year compared with average nominal GSP growth of 5.0 per cent a year.

Real GSP removes the effect of inflation and measures growth in the underlying volume of economic activity. Real GSP growth is forecast to remain modest, averaging around 2.2 per cent growth each year over the forward estimates. This means the debt strategy does not assume debt will stop growing or decline. It assumes nominal economic growth will slightly outpace debt growth, allowing the debt-to-GSP ratio to stabilise and modestly decline over time.

However, because most forecast growth in nominal GSP comes from inflation, rather than stronger real economic activity, the stabilisation of debt to GSP does not necessarily reflect an increase in the state's underlying productive capacity. While inflation may support revenue growth, debt sustainability ultimately depends on whether government revenue grows sufficiently to service rising debt and interest costs. For this reason, we also consider debt servicing ratios when assessing debt sustainability.

Nominal GSP

Nominal GSP measures the dollar value of goods and services produced within a period at current prices. It is influenced by both changes in the volume of production and changes in prices.

Real GSP

Real GSP measures the volume of goods and services produced by removing the effect of price changes, providing a measure of growth in economic activity.

Gross debt is forecast to reach 195 per cent of revenue by 2030

Gross debt as a proportion of operating revenue provides a useful measure of debt sustainability because it compares debt with the revenue available to support it.

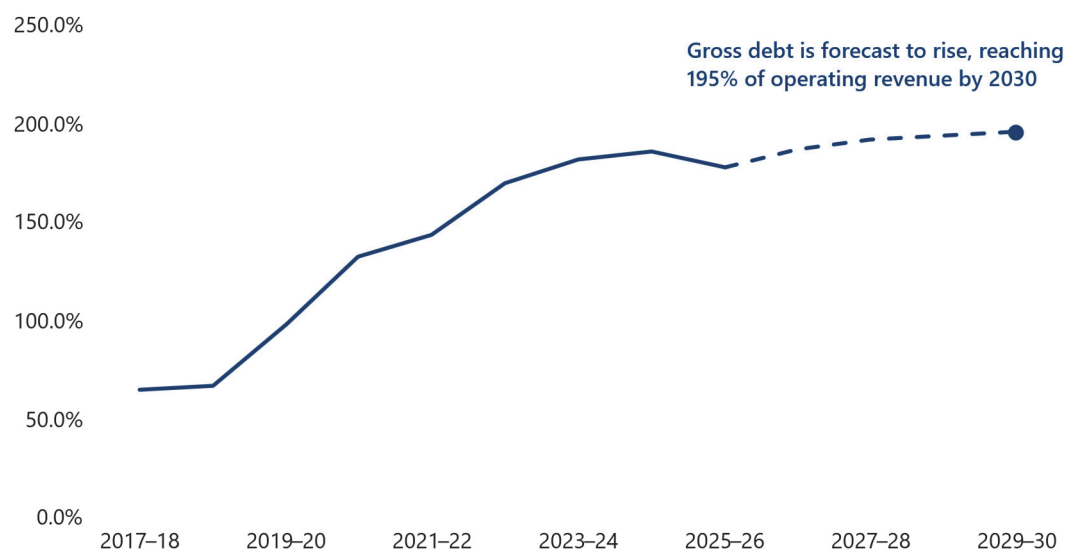
Operating revenue is the government's primary source of cash inflows used to pay interest and repay principal. Comparing debt to revenue therefore provides a clear indication of the government's capacity to meet its debt obligations.

It is particularly relevant when:

- state revenue growth diverges from economic growth
- interest rates exceed GSP growth and revenue growth.

Figure 24 presents annual growth in the gross debt to revenue ratio.

Figure 24: GGS gross debt as a proportion of revenue



Source: VAGO, based on the AFR and state Budget.

Gross debt has almost tripled relative to the state's revenue base over the past 9 years, rising from 64 per cent of revenue in 2017-18 to 178 per cent in 2025-26. The ratio improved slightly in 2025-26, because revenue grew faster than gross debt (12.9 per cent compared with 8.2 per cent), but this improvement is forecast to be temporary.

Over the forward estimates, gross debt is forecast to grow by an average of 4.8 per cent a year, compared with revenue growth of 2.1 per cent, increasing gross debt to 195 per cent of revenue by 2030.

Although nominal GSP is forecast to grow slightly faster than gross debt, growth in the economy does not necessarily translate into equivalent growth in government revenue.

The state's capacity to service and repay debt depends on the revenue it raises and receives, which may not grow in line with GSP. Without stronger revenue growth or slower debt growth, the state's debt burden will remain elevated and continue to place pressure on long term fiscal sustainability.

Interest expense is consuming a larger share of revenue – interest bite

The interest bite shows how much of the government's operating revenue is used to pay interest on debt. As it rises, less revenue is available for services, infrastructure and other priorities.

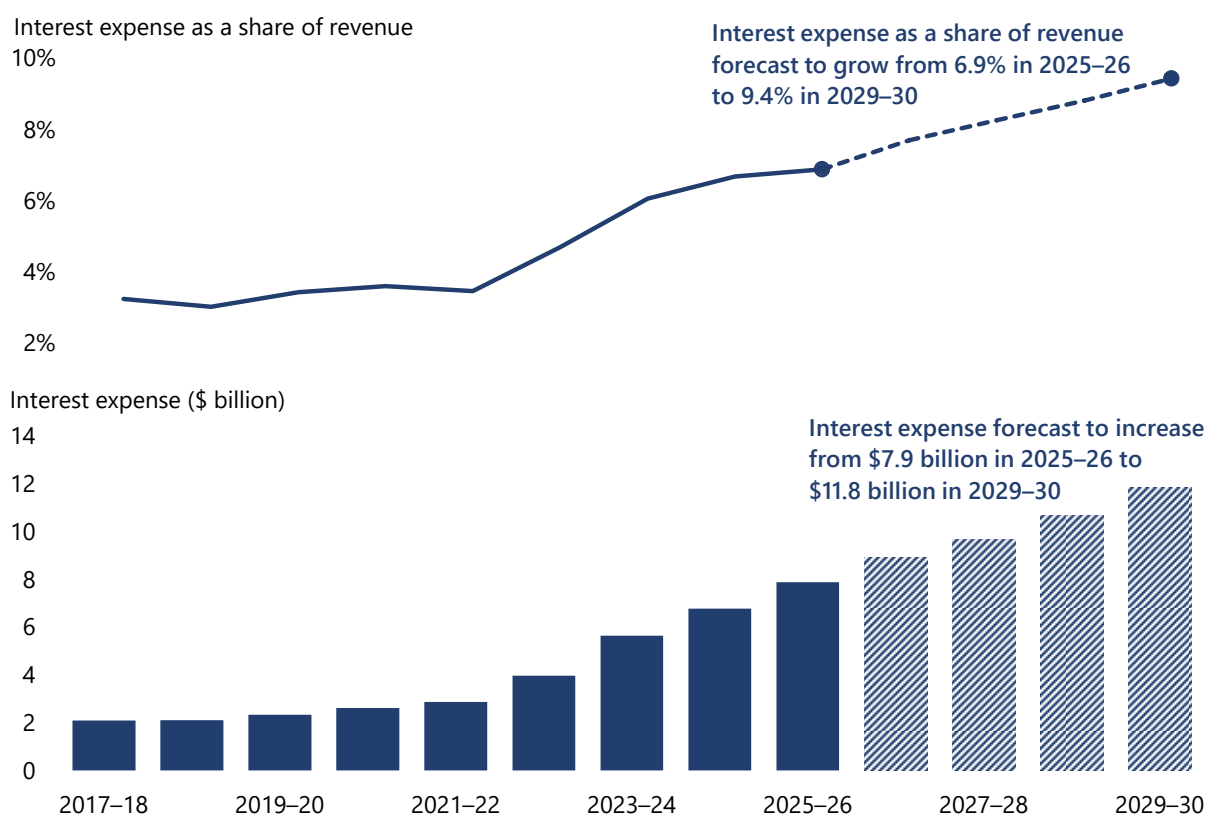
The growing interest bite increases the state's exposure to changes in borrowing costs and available revenue. As more revenue is committed to paying interest costs, the government's capacity to respond to economic shocks, fund new priorities and absorb higher interest rates becomes constrained.

The government aims to stabilise GGS interest expense as a share of revenue. However, the target does not define a sustainable level or set a timeframe for achieving it. This makes it difficult to assess the government's intended outcome and progress.

Figure 25 shows the growth in interest expense and interest expense as a share of operating revenue from 2017–18 to 2029–30.

The interest burden increased from 3.2 per cent of operating revenue (\$2.1 billion) in 2017–18 to 6.9 per cent (\$7.9 billion) in 2025–26. It is forecast to reach 9.4 per cent (\$11.8 billion) by 2029–30. This trend shows that interest costs are growing faster than revenue available to support them. This increases the risk that debt-servicing costs will constrain future budget flexibility, particularly if revenue weakens or borrowing costs remain elevated.

Figure 25: Growth in interest expense and interest expense as share of revenue



Source: VAGO, based on the AFR and state Budget.

A higher interest bite leaves the Budget more exposed to adverse movements in interest rates and revenue.

Higher interest rate environment is driving interest costs higher

Interest costs are influenced by both the amount of debt outstanding, and the interest rates applied to that debt.

Interest costs increase when:

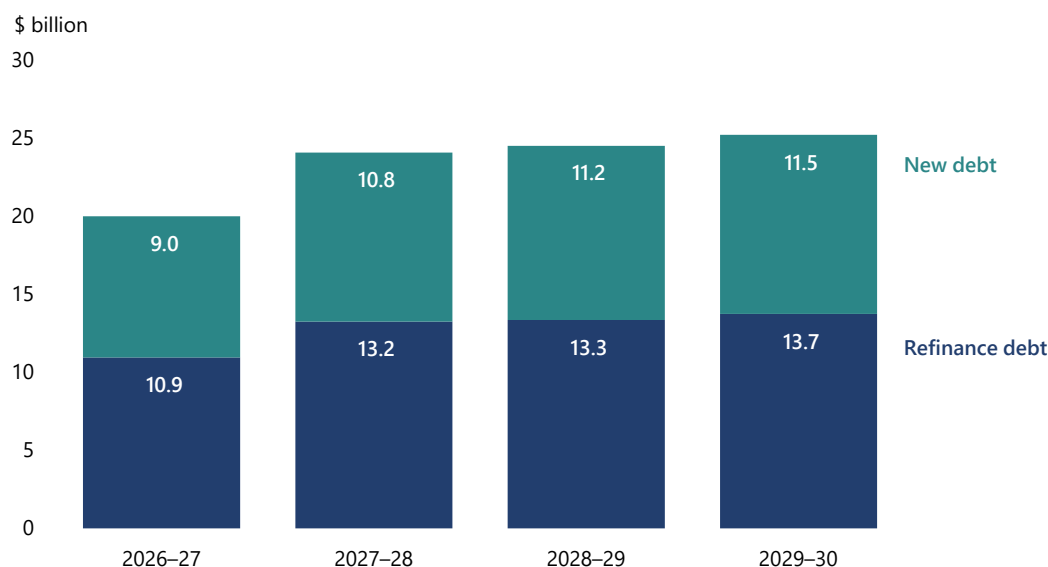
- the government takes on additional debt, resulting in a larger amount of debt on which interest must be paid
- existing debt matures and is refinanced at prevailing market rates. Where these rates are higher than those originally locked in, refinancing increases future interest costs even if the amount of debt remains unchanged.

The current high-interest rate environment is increasing the cost of new and refinanced debt.

TCV raises debt for the state by issuing government bonds to both the domestic and international capital markets. It then on-lends this to DTF and other government entities. TCV lends more than 80 per cent of its funds to the GGS via DTF.

As Figure 26 shows, TCV plans to provide \$42.5 billion in new debt and refinance \$51.2 billion of existing GGS debt over the next 4 years. Much of the debt due for refinancing was originally borrowed when interest rates were lower and had an average interest rate of 3.8 per cent at 30 June 2026.

Figure 26: Total financing required by GGS by origin over the next 4 years



Note: Numbers may not add up due to rounding.

New debt refers to the funds required to finance new capital projects and operational needs.

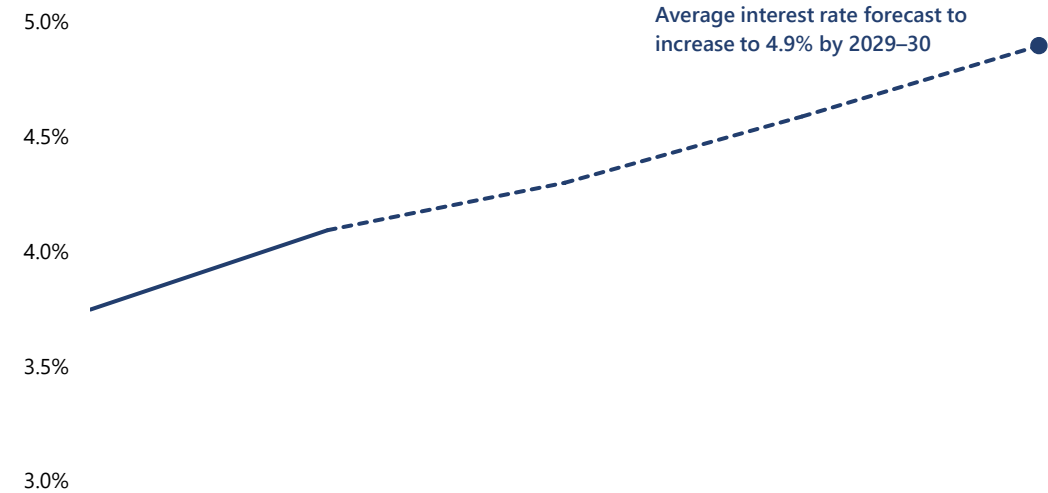
Refinance debt refers to the replacement of an existing debt obligation with another debt obligation under different terms. It is usually performed to extend the original debt over a longer period of time, to change fees or interest rates or to move from a fixed to variable interest rate.

Source: VAGO, based on TCV.

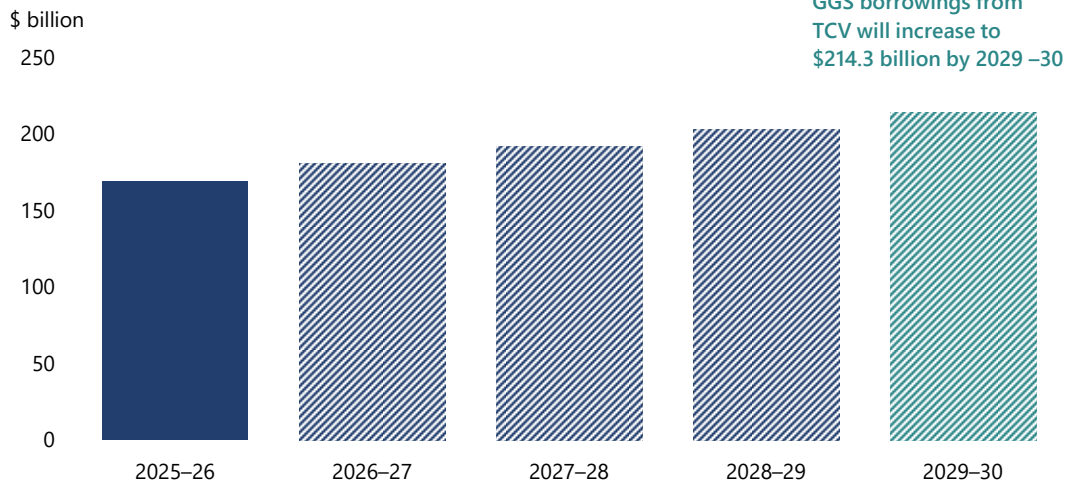
Figure 27 shows the GGS's actual borrowings from TCV at 30 June 2026, together with forecast borrowing levels and the corresponding average interest rates expected to apply on those borrowings over the next 4 years.

Figure 27: GGS borrowings from TCV and related interest rates

Average interest rate on
GGS borrowings from TCV



GGS borrowings from TCV



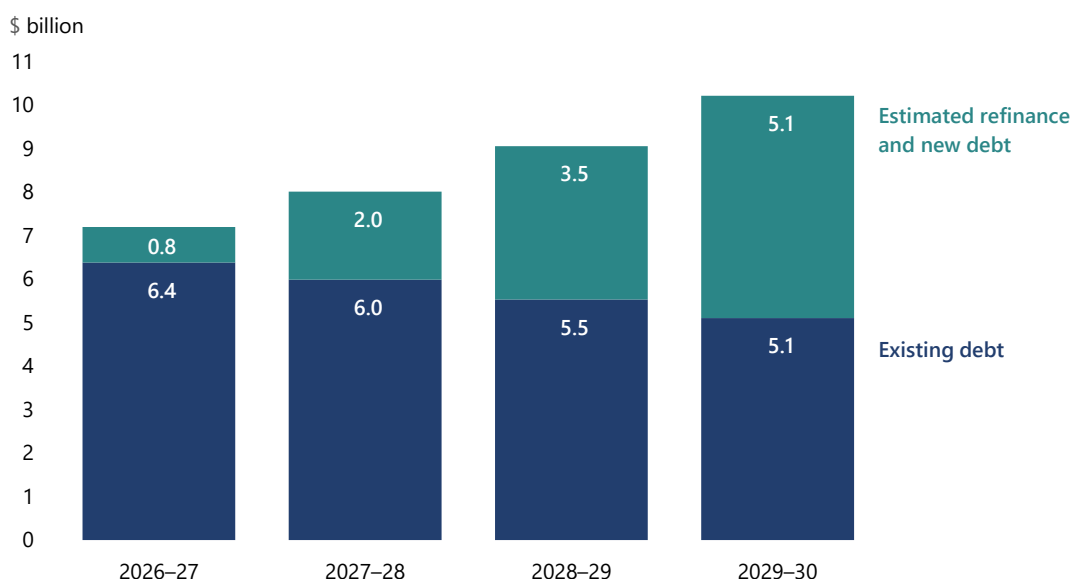
Source: VAGO, based on TCV and DTF.

At 30 June 2026, the GGS had existing debt of \$170.5 billion from TCV at an average interest rate of 3.8 per cent. By the end of August 2026, the interest rate on 10-year TCV bonds was 5.7 per cent, meaning TCV will need to borrow and on-lend to the GGS at higher rates than those applying to the existing debt.

As existing debt is refinanced and new borrowings are raised at higher interest rates, GGS borrowings from TCV are forecast to reach \$214.3 billion by 30 June 2030, with the average interest rate rising to 4.9 per cent.

Figure 28 shows that interest payments on existing TCV debt are expected to fall as older debt matures. However, interest costs on new and refinanced debt are projected to rise from about \$0.8 billion in 2026-27 to more than \$5.1 billion by 2029-30, increasing the total estimated interest expense on TCV debt to \$10.2 billion by 2029-30.

Figure 28: GGS expected interest cost on TCV debt including new and refinanced debt



Source: VAGO, based on TCV.

We estimate these higher interest rates would add more than \$4.7 billion to the GGS interest expenses over the next 4 years, in addition to the costs of new borrowings. For example, this is equivalent to Victoria Police's annual funding in the 2026–27 state Budget.

Government bond

A government bond is a loan for a specified period with regular interest payments with repayment of face value in full at maturity.

Risk 2. Employee and operating costs may continue to outpace budget expectations and impede fiscal repair

The government faces ongoing pressure to manage the rising cost of delivering public services. Employee and other operating expenses are the 2 largest expense categories in the GGS. In 2025–26, these expenses totalled \$73.5 billion, or 65.6 per cent of total expenses.

This risk has materialised in recent years, as up until this year, expense growth has continued to outpace revenue growth and exceed budget forecasts. Containing service delivery costs within budget and at sustainable levels remains a major challenge to financial sustainability.

Employee costs continue to grow and exceed budget

Employee expenses are the GGS's largest single operating cost and have consistently exceeded budget.

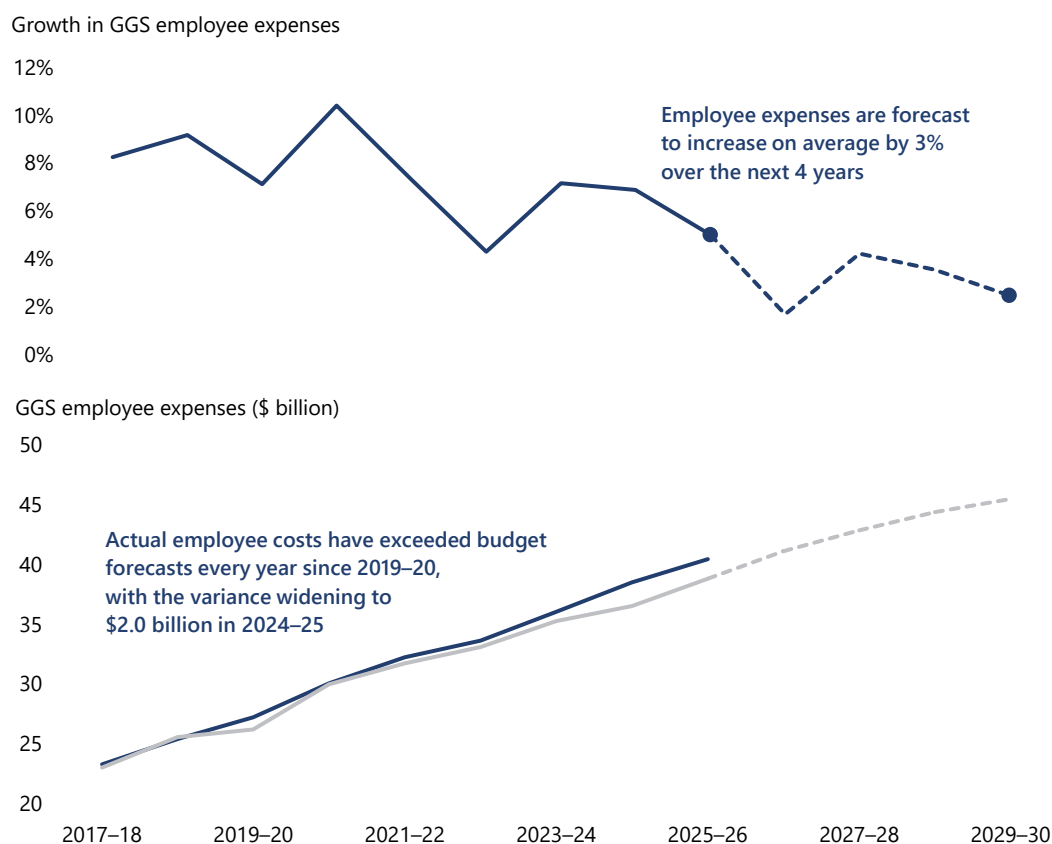
In 2025–26, employee expenses reached \$40.4 billion, \$1.9 billion higher than in 2024–25 and \$1.6 billion above budget. Actual employee costs have exceeded budget forecasts in every year since 2019–20, with the variance widening to \$2.0 billion in 2024–25 and remaining elevated in 2025–26.

This persistent pattern indicates that budgets have not fully captured the combined effects of workforce growth, wage outcomes and demand for public services, making informed decisions around fiscal repair more challenging.

As Figure 29 shows, employee expenses grew by an average of 7.3 per cent a year from 2017–18 to 2025–26, but the budget assumes average annual growth of only about 3.0 per cent from

2026–27 to 2029–30. Achieving this significant slowdown will require sustained control of employee cost growth and other expenditure pressures.

Figure 29: Employee expenses and their annual growth



Source: VAGO, based on the AFR and state Budget.

Ongoing enterprise bargaining and recently negotiated agreements will make employee expense growth harder to contain.

Employee expenses may also exceed forecasts because several major enterprise bargaining agreements have recently been finalised, are still being implemented or remain under negotiation. Large workforces have secured substantial wage increases, for example:

- the 2024–2028 nurses and midwives agreement provides a 28.4 per cent compounded wage increase
- the recently negotiated Victorian government schools agreement provides salary increases of at least 28.3 per cent over 4 years and a \$2,000 lump-sum payment to more than 80,000 teachers, principals and education support staff, subject to Fair Work Commission approval. It is estimated to add \$5.0 billion to \$5.5 billion to employee expenses over its 4-year term.

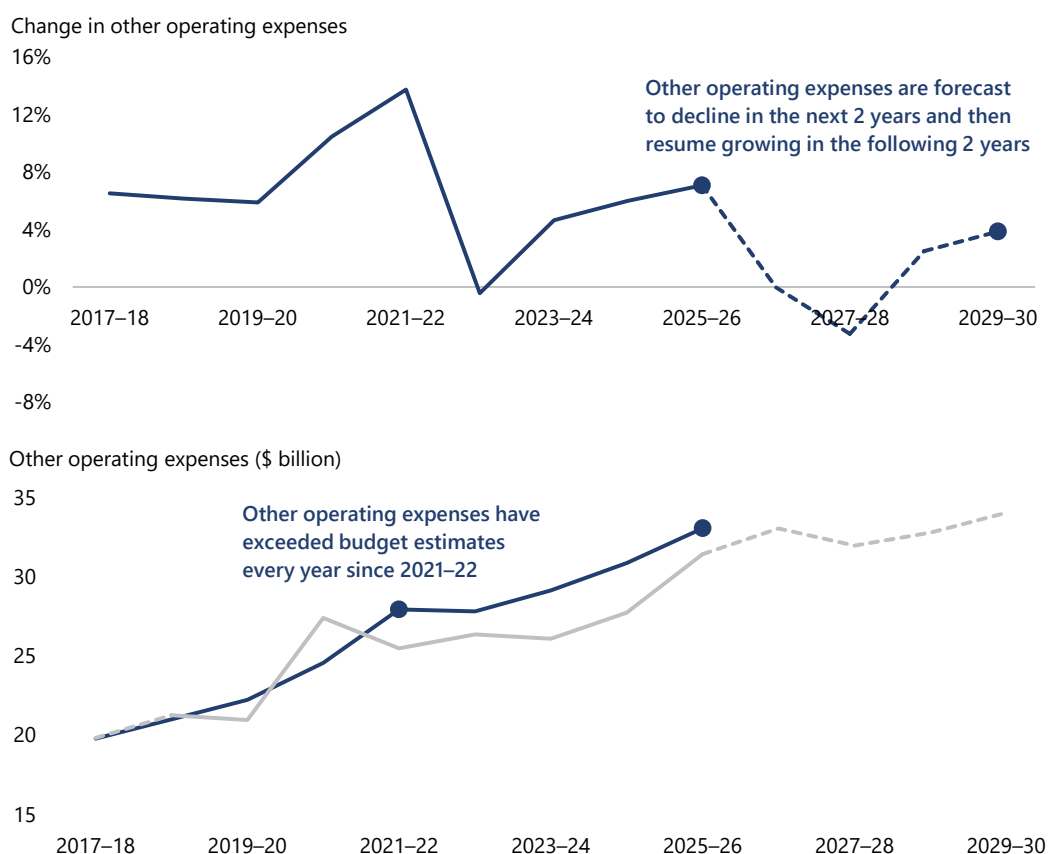
Upcoming negotiations covering other large public sector workforces, including allied health professionals and doctors, may add further costs. Unless the government offsets these costs through genuine savings, productivity gains or policy decisions, employee expenses are likely to exceed forecasts over the Budget and forward estimates.

Operating costs are following the same trend

Other operating expenses grew by \$2.2 billion, or 7.1 per cent, in 2025–26 to \$33.1 billion. This was above the 6.0 per cent increase in 2024–25 and \$1.6 billion, or 5.2 per cent, higher than the Budget estimate of \$31.4 billion.

As Figure 30 shows, actual other operating expenses have exceeded Budget estimates in each year since 2021–22. The cumulative variance over the 5 years to 2025–26 was \$11.7 billion, including overruns of \$3.0 billion in 2023–24 and \$3.1 billion in 2024–25. Over the 9 year period from 2017–18 to 2025–26, other operating expenses increased from \$19.8 billion to \$33.1 billion, an average increase of about 6.7 per cent a year.

Figure 30: Other operating expenses and their annual growth



Source: VAGO, based on the AFR and state Budget.

The 2026–27 Budget includes substantial cost-of-living relief that will add to expense pressures and reduce revenue. Key measures include \$1.2 billion to reduce transport costs, including \$759 million for a 20 per cent light vehicle registration rebate and \$278 million to halve public transport fares until 1 January 2027. While these measures provide direct support to households, they also reduce budget capacity and add to the challenge of fiscal repair.

The 2026–27 Budget provides further funding for Victoria’s reformed bail and justice system, including \$512 million for community safety measures and \$222 million for Victoria Police. This follows the \$1.6 billion provided in 2025–26 to implement tougher bail laws, including \$727 million to expand prison and youth justice capacity. Together, these measures add to ongoing expense pressures across police, courts, corrections and youth justice as bail refusals, revocations and remand decisions increase.

The 2026–27 Budget forecasts other operating expenses of \$33.1 billion in 2026–27, consistent with 2025–26, falling by 3.3 per cent to \$32.0 billion in 2027–28. Expenses are then forecast to rise, increasing by 2.5 per cent to \$32.8 billion in 2028–29 and by 3.7 per cent to \$34.0 billion in 2029–30.

Despite this later increase, expenses are forecast to remain below the 2025–26 level until 2029–30. Achieving no growth in 2026–27, followed by a reduction in 2027–28, will be challenging and require strong cost control.

**Fiscal repair
relies on
containing
expense growth**

Fiscal repair depends on a significant slowdown in employee and other operating expense growth, even though both have persistently exceeded budget forecasts.

Inflation is raising the cost of wages, supplies, contracts and other inputs, while population growth is increasing demand for health, education, transport, justice and other frontline services. The government must also absorb new policy measures and enterprise bargaining outcomes within existing budget capacity.

If the government cannot contain costs and deliver savings and productivity improvements while meeting required service levels, expenses may again exceed forecasts. This would weaken fiscal repair and further constrain improvement to long-term financial sustainability.

Risk 3. Slower revenue growth may constrain fiscal resilience

Revenue growth and resilience are important to Victoria's fiscal repair and long-term sustainability. Revenue funds public services, supports debt servicing and reduces the need for additional borrowing.

Although revenue has grown in recent years, its forecast growth is modest and remains vulnerable to changing economic conditions and Australian Government funding. This may reduce the state's capacity to manage debt, maintain services and respond to future shocks.

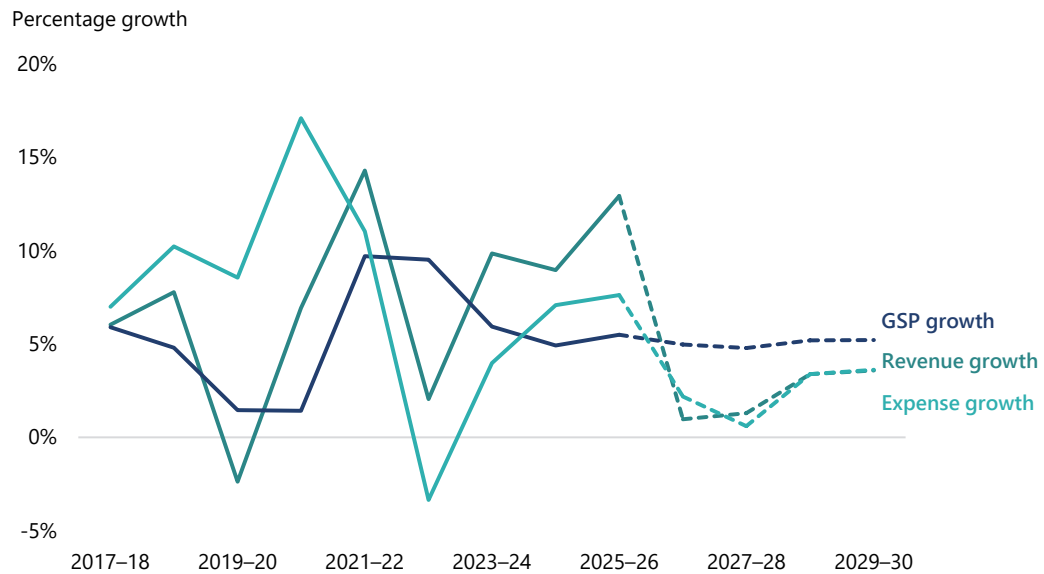
**Forecast
revenue growth
is modest and
slowing**

GGs revenue grew from \$64.6 billion in 2017–18 to \$114.5 billion in 2025–26, an increase of 77.2 per cent over the 9 year period, growing at an average of 7.4 per cent per year.

Despite this strong recent growth, the 2026–27 Budget forecasts revenue to increase from \$115.6 billion in 2026–27 to \$125.4 billion in 2029–30, a much lower average annual growth of around 2.1 per cent.

Figure 31 shows that forecast revenue growth is below forecast nominal GSP growth of around 5.0 per cent a year and slightly below forecast expense growth of 2.4 per cent from 2026–27 to 2029–30. This leaves little margin for underperformance. Achieving the forecast operating surpluses, a key part of the government's short-term fiscal repair, will therefore depend on revenue growth meeting expectations.

Figure 31: GGS revenue, expense and GSP growth



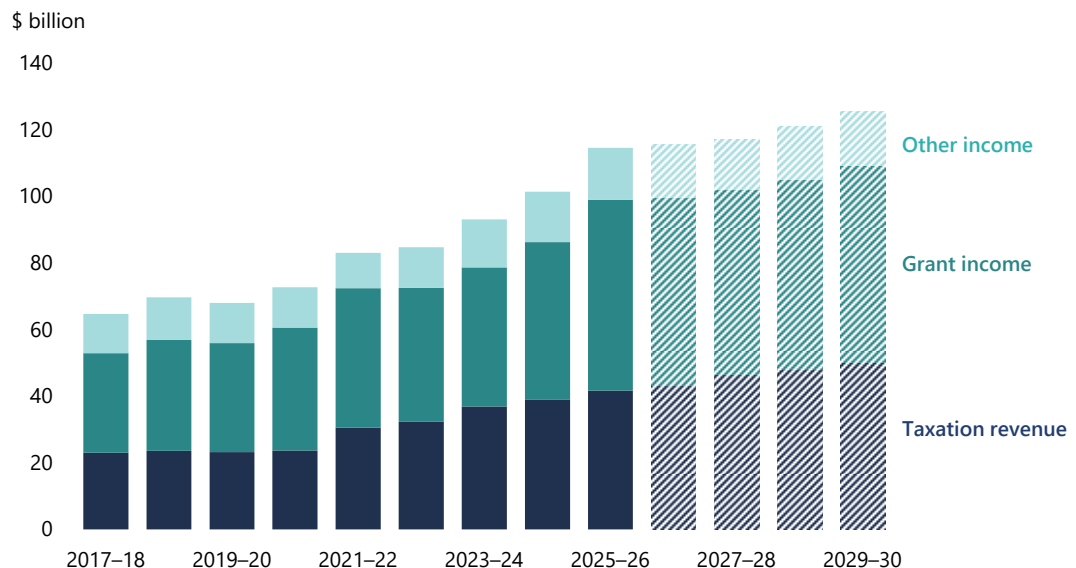
Source: VAGO, based on the AFR and state Budget.

Figure 32 shows the composition of GGS revenue and highlights where forecast growth is expected to come from.

Taxation revenue is forecast to grow from \$41.6 billion in 2025-26 to \$50.2 billion in 2029-30, increasing from 36.3 per cent to 40.0 per cent of total revenue. This represents average annual growth of 4.8 per cent, compared with 7.5 per cent between 2017-18 and 2025-26.

Growth in Australian Government grant revenue is also forecast to slow significantly from average annual growth of 8.8 per cent between 2017-18 and 2025-26 to 0.7 per cent over 2026-27 to 2029-30.

Figure 32: GGS revenue composition



Source: VAGO, based on the AFR and state Budget.

Around 70 per cent of the state's taxation revenue comes from property- and payroll-related taxes. Revenue from these taxes depends on higher property values, transaction volumes, wage growth and higher employment. These revenue sources are therefore sensitive to weaker economic conditions. For example, Victoria's unemployment rate (seasonally adjusted) in August 2026 was

5.2 per cent, compared with 4.6 per cent in July 2025 and the 4.8 per cent assumption in the 2026–27 state Budget, moving in the wrong direction.

Grants received from the Australian Government are forecast to continue to account for around half the total GGS revenue over the forward estimates. However, Australian Government grant revenue is forecast to grow by only 0.7 per cent a year on average. The government therefore relies on stronger growth in state-controlled revenue sources while Australian Government grant funding remains broadly flat.

The forecast revenue provides limited capacity to ease the state’s existing fiscal pressures or absorb emerging risks.

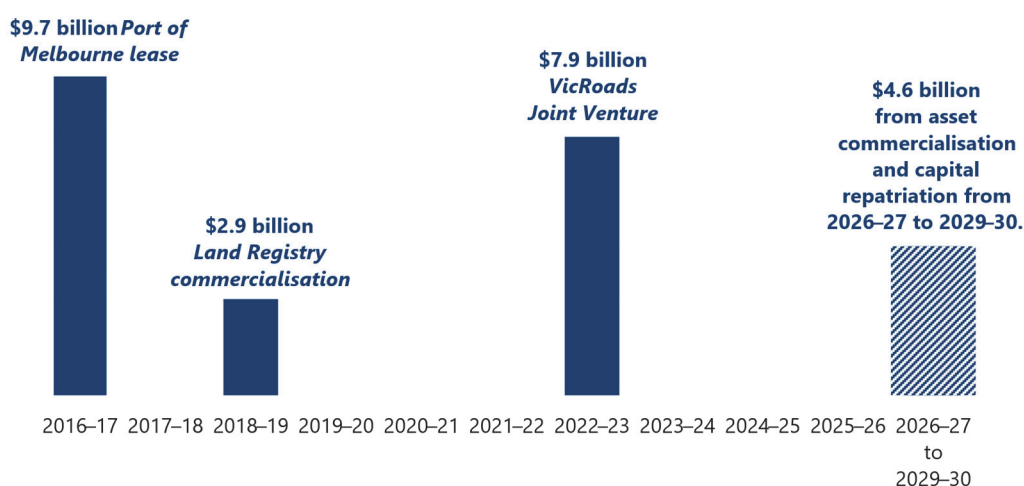
Commercialisation has brought forward future revenue to support the Budget, but this is slowing

In recent years, the commercialisation of assets, licences and services has provided substantial one-off cash inflows to the government. These transactions helped fund investment, manage debt pressures and improve key fiscal measures. However, these transactions depended on the availability of significant public assets, licences or service functions suitable for leasing or commercialisation. Forecast proceeds over the forward estimates are materially smaller than those completed in earlier years, suggesting fewer opportunities of comparable scale are available.

As shown in Figure 33, the government has received \$20.5 billion over the past decade from commercialising or leasing major assets and functions to private entities. These proceeds have supported operating and investing cash needs.

Over the forward estimates, the government forecasts a further \$4.6 billion in proceeds from asset commercialisation and capital repatriation, including \$1.1 billion in 2026–27 from extending the Public Lottery licence. These one-off inflows support operating cash outcomes and the government’s debt stabilisation strategy, however, they are materially lower than the proceeds generated from earlier transactions.

Figure 33: Proceeds from asset commercialisation and capital repatriation



Source: VAGO, based on the AFR and state Budget.

Such transactions bring forward lump sum proceeds to support current budgets, reducing future cash inflows that would otherwise have been generated over the life of the assets, licence or services commercialised. This is significant because some of the arrangements extend decades into the future, limiting revenue available for future generations.

Revenue forecasts rely on favourable economic conditions and Australian Government funding

Achieving the revenue forecasts depends on favourable economic conditions and Australian Government funding.

There are several risks to the current forecast growth which include ongoing geopolitical and macroeconomic uncertainties, weaker property market activity, rising unemployment and volatility in Australian Government grants.

Land transfer duty and land tax are forecast to rise from \$10.8 billion and \$6.5 billion in 2025–26 to \$12.4 billion and \$7.5 billion in 2029–30. If property transactions or values are weaker than forecast, land transfer duty and land tax revenue could fall below expectations.

Payroll tax is forecast to increase from \$11.9 billion to \$14.5 billion over the same period, but this depends on unemployment trends and wages growth. Victoria's unemployment rate was 5.2 per cent in August 2026, compared with the national average of 4.6 per cent and the 2026–27 Budget forecast of 4.8 per cent. Slower employment growth would reduce payroll tax collections and could also weaken household spending and property market activity.

Australian Government grant revenue is also subject to volatility. General purpose grants, mainly Victoria's share of the GST pool, are forecast to peak at \$29.2 billion in 2026–27, fall to \$28.9 billion in 2027–28 and \$28.5 billion in 2028–29, before rising to \$29.6 billion in 2029–30. Capital grants from the Australian Government are also forecast to fall from \$5.1 billion in 2025–26 to \$3.0 billion in 2027–28 before partly recovering to \$3.3 billion in 2029–30.

Risk 4. Cost pressures and scope changes may further increase the cost of major capital projects

The government continues to deliver a significant capital program, with the 2026–27 Budget reporting a total capital pipeline of \$181.4 billion. This includes \$59.6 billion already invested and \$121.8 billion of future investment in projects underway or yet to commence. While substantial, this is lower than the \$212.7 billion reported in the 2025–26 Budget.

Although the reduction partly reflects the completion of several major projects, the remaining capital pipeline is exposed to construction inflation, skilled-labour shortages, materials and supply-chain constraints, procurement and integrity risks, scope changes and contract variations. Because the pipeline is large, even relatively small percentage increases in project costs could materially increase funding and debt requirements.

Major projects' cost escalation increases debt and constrains budget repair

In 2025–26, the GGS invested \$15.0 billion in infrastructure and capital assets, \$0.8 billion less than in the previous year. The significant capital program still to be delivered exposes the state to higher capital project costs due to:

- project cost overruns and budget underestimation, based on the demonstrated pattern of performance of existing projects
- further construction cost escalation across the significant capital pipeline still to be delivered, given prevailing market conditions.

Recently completed projects demonstrate the scale of these factors. The total estimated investment (TEI) of the Metro Tunnel increased from about \$10.9 billion to \$13.5 billion, while the West Gate Tunnel increased from \$6.7 billion to \$10.2 billion. These increases reflected construction inflation, technical and site complexities, scope changes, delays and contract variations.

Projects still underway show that this exposure is continuing. The High-rise Redevelopment Program illustrates how an expanded scope can increase major project costs. Reported as the Public Housing Revitalisation Program in the 2024–25 state Budget, it had a total estimated investment of \$436.2 million. By the 2026–27 state Budget, this had increased to \$1.2 billion, reflecting expanded redevelopment works across additional public housing tower sites. Continued

growth in construction industry costs creates a further pressure that projects across the remaining capital pipeline will require additional funding or scope reductions.

In our performance audit *Delivering the Suburban Rail Loop*, we concluded that, based on the evidence available at the time, the project is more likely than not to exceed its publicly disclosed cost of up to \$34.5 billion. On 25 August 2026, the government announced an independent technical review aimed at identifying project savings. This example reinforces the importance of robust cost estimation, effective scope control and ongoing analysis and management of construction cost pressures across the capital program.

Total estimated investment (TEI)

TEI represents the estimated investment in each project for budget reporting purposes and is not necessarily equivalent to the final accounting cost of the infrastructure or the total cost borne by all parties. The amounts can differ due to the scope of costs included, public–private partnership arrangements, accounting treatment and related works reported separately.

The government needs to actively manage cost escalation across its capital program

Higher capital costs will place continued pressure on the state’s finances, which may require the government to reduce or defer expenditure, or reprioritise the capital program. It may also increase debt reliance, making fiscal repair more difficult.

Robust cost estimation, including scenario and sensitivity analysis, is needed to assess potential cost escalation and set appropriate contingencies.

The government should also consider clear disclosure of material changes in project costs, scope and delivery timeframes so Parliament and the public can understand their effects on the state’s finances and services.

Risk 5. Delayed asset renewal and maintenance may increase future costs and disrupt services

Victoria faces a growing financial sustainability risk from ageing assets and maintenance and renewal needs. The government must maintain and renew its existing asset base while also delivering new infrastructure for a growing population. Rising construction costs, more intensive asset use, adverse weather and competing budget priorities have increased this pressure.

Deferring preventative maintenance may reduce expenditure in the short term, but it allows assets to deteriorate further and can increase whole-of-life repair and replacement costs. It also raises the likelihood of asset failures, safety incidents, reduced reliability and disruption to essential services. Climate change is likely to compound these risks by increasing damage to public assets and increasing the need for resilient investment.

Backlogs are material across major asset classes

The scale of the risk is evident across roads, schools and fire services, some of the state's significant asset categories, as shown in Figure 34.

Figure 34: Maintenance and renewal pressures across selected asset categories

Asset category	Condition or renewal need	Maintenance and funding position
Roads	<p>Around 48 per cent of Victoria's state road network was in poor or very poor condition in 2024, up from 39 per cent in 2021.</p> <p>The network is deteriorating faster than repairs can be completed, and the gap between recorded and repaired defects more than doubled between January 2025 and June 2026.</p>	<p>DTP advised that funding is insufficient to maintain or improve road conditions, resulting in a greater focus on reactive and safety-critical repairs rather than preventative work.</p>
Schools	<p>The school building portfolio has a replacement value of about \$35.0 billion in 2025.</p> <p>At 30 June 2026, 242 schools were rated in poor condition⁽¹⁾, while a further 95 had works underway after previously being rated poor.</p>	<p>Planned Maintenance Program projects took an average of around 86 weeks to complete.</p>
Fire services	<p>Victoria's fire authorities collectively need an estimated \$1.5 billion between 2024–25 and 2033–34 for critical fire truck replacement and upgrades.</p>	<p>Identified capital and grant funding over this period totals about \$390 million, around 27 per cent of the estimated need.</p>

Note: ⁽¹⁾'Poor condition' means a school has building defects requiring maintenance or capital works. It does not mean the building cannot be used to deliver education services or requires an additional physical deterioration adjustment to its fair value.
Source: VAGO.

Available funding is below assessed needs

The available evidence indicates material funding gaps.

DTP's business case for the 2026–27 state Budget estimated more than \$3 billion a year is needed to maintain current service levels across road assets, including maintaining pavement condition and the replacement of age-expired assets. This substantially exceeds recent annual expenditure of about \$900 million to \$1 billion. The 2026–27 state Budget provided about \$1.4 billion for road maintenance and the government announced a further \$352 million on 30 August 2026 to double the number of potholes repaired across that same year. Despite this funding, DTP expects current investment only to slow deterioration, not reverse it.

For schools, the Victorian School Building Authority recommends, based on industry best practice, annual maintenance funding equal to 2.4 per cent of asset replacement value. This equates to approximately \$840 million a year for Victoria's \$35.0 billion school portfolio. By comparison, the 2026–27 state Budget allocated \$552 million, or an average of \$138 million a year, for school building maintenance and compliance from 2026–27 to 2029–30. This is also substantially below the benchmark amid existing asset condition and project delivery pressures.

For fire trucks, the \$1.5 billion estimated replacement requirement is almost 4 times the \$390 million currently identified and forecast.

Across these asset classes, underfunding renewal and preventative maintenance shifts costs into future budgets and increases the likelihood of more costly interventions as assets deteriorate.

The government needs a transparent, long-term response

Without timely action, the government will face higher repair and replacement costs, less reliable assets, and greater safety and service-delivery risks. The need for urgent remedial spending will also constrain future budgets and displace other priorities.

As discussed above, these pressures are already evident across major public asset portfolios. Incomplete asset information, short-term funding approaches and deferred preventive

maintenance can allow backlogs to grow, undermine asset reliability and increase whole-of-life costs.

Risk 6. Rapid growth in redress schemes, civil claims and contingent liabilities may continue, increasing funding obligations

Why the growing exposure is a key risk

The state's exposure to redress schemes, civil claims and contingent liabilities is increasing and remains difficult to estimate. These obligations arise from past harm experienced by individuals in institutional care, policing, justice and other government settings.

In recent years, the government has established several redress schemes to recognise this harm and provide financial payments, counselling and support services, and formal apologies. These schemes form part of the government's broader response to historical harm and institutional misconduct.

For financial reporting purposes, the government recognises a liability when it has a present obligation and can reliably estimate the amount expected to be paid under a scheme. If the obligation cannot be reliably measured, the exposure may instead be disclosed as a contingent liability.

At 30 June 2026, the government recognised liabilities and contingent liabilities relating to the following schemes:

- Redress for Historical Institutional Abuse
- Fiskville Redress Scheme
- Stolen Generations Reparations Package
- Restorative Engagement and Redress Scheme for Victoria Police
- Financial Assistance Scheme (victims of crime)
- Historical Forced Adoptions Redress Scheme
- National Redress Scheme for Institutional Child Sexual Abuse.

The state's financial exposure extends beyond recognised redress scheme liabilities.

Individuals may also pursue civil claims arising from historical abuse, institutional misconduct or other harm. These claims can be difficult to identify and estimate, and may result in additional provisions, contingent liabilities or settlement costs in future years.

Administering these schemes also incurs claims-handling costs beyond the payments to individuals.

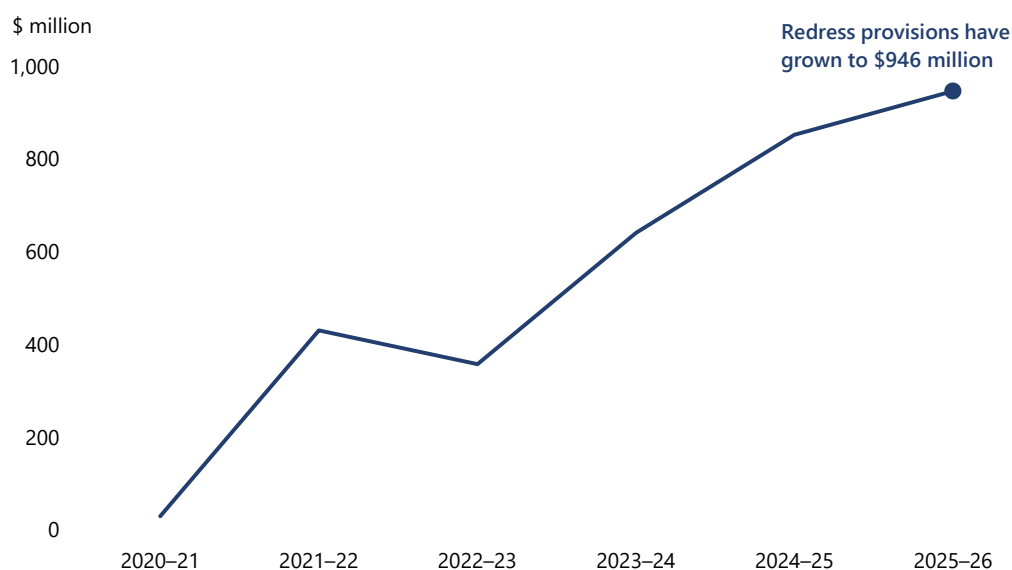
Redress scheme

A redress scheme is a program that provides support and compensation to individuals or groups who have experienced harm, often from institutions.

The scheme costs have risen significantly in recent years

The state's total provision for these redress schemes has risen significantly over the last 6 years, as shown in Figure 35.

Figure 35: Redress provisions



Source: VAGO, based on financial report disclosures of the Department of Families, Fairness and Housing and the Department of Justice and Community Safety.

At 30 June 2021, the government recognised a \$30 million liability for the National Redress Scheme for Institutional Child Sexual Abuse. This was the only redress scheme liability recognised at that time. By 30 June 2026, recognised liabilities had increased to \$946 million, with a further \$211 million disclosed as contingent liabilities, reflecting obligations for 6 additional schemes with different eligibility criteria, payment arrangements, financial exposures and claims handling costs.

The increase reflects both the creation of new schemes and the inherent uncertainty involved in estimating the cost of existing schemes. These estimates require significant management judgement, including assumptions about the number of eligible applicants, participation rates, payment amounts and the timing of claims.

Because these assumptions can change as more information becomes available, recognised provisions may be materially revised in future reporting periods. There is also uncertainty about people who may be eligible for a scheme but have not yet come forward. Where the government cannot reliably estimate these obligations, it discloses them as contingent liabilities rather than recognising a provision.

Recently, the state's exposure has also broadened as the volume and value of civil claims relating to historical child sexual abuse have increased relative to claims through the redress pathway. Future claims may further increase this exposure, particularly for public sector entities responsible for children, including schools, youth justice and correctional settings. Some obligations may therefore not be identified, appropriately measured or disclosed.

Rising obligations add to fiscal pressures

The state recognises obligations arising from past harm when they are known and can be reliably estimated. However, existing provisions may not fully reflect further increases in claim volumes and values, potentially increasing future funding needs.

This risk is heightened because the Budget does not disclose funding support for a potential escalation in these exposures.

These obligations may therefore add pressure to the state's fiscal repair and long-term financial sustainability by increasing debt or reducing funding available for other priorities.

Risk 7. Policy reforms responding to community expectations may create further expenditure pressures

Reforms respond to significant community risks

Recent legislative and policy reforms are increasing demand and expenditure pressures across the GGS. Many of these reforms respond to significant community risks, including public safety, family violence, mental health, youth justice, child protection and historical harm. However, they can also create ongoing funding obligations that extend well beyond the initial policy decision.

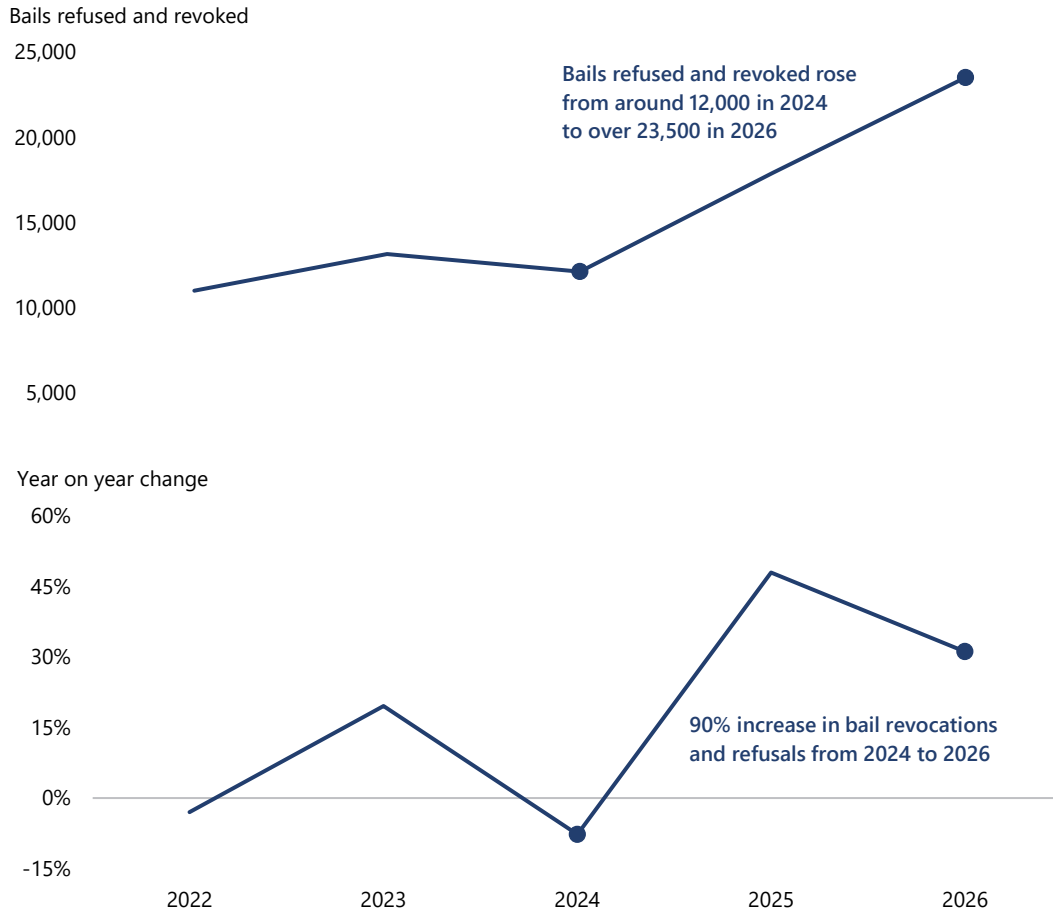
For example, recent bail and youth crime reforms place greater weight on community safety, strengthen bail tests for serious and repeat offending, reintroduce bail-related offences and may expose children charged with serious violent offences to adult courts and more severe custodial outcomes.

Financial resources are required to deliver reforms

The bail reforms affect demand across the justice system, including Victoria Police, courts, prosecutors, legal assistance providers, corrections, youth justice, forensic mental health and rehabilitation services.

As Figure 36 shows, early evidence indicates demand has increased. Bail revocations and refusals in the Magistrates’ Court rose by over 90 per cent from 2024 to 2026, increasing from around 12,000 to over 23,500.

Figure 36: Magistrates’ Court bail refusals and revocations



Source: VAGO, based on Magistrates’ Court bail refusals and revocations, extracted 1 October 2026.

Corrections evidence also shows the prison population increased by around 21 per cent after the March 2025 bail changes, requiring 1,808 additional prison beds across the private and public prison systems and 728 additional prison officers across the public prison system.

Limited fiscal capacity increases risks to reform delivery and budget repair

Successive budgets already show the financial impact of these reforms.

The 2025–26 Budget committed \$1.6 billion to support new bail laws and strengthen the justice system, including \$727 million for prison and youth justice capacity. The 2026–27 Budget provides further funding for tougher bail laws, corrections capacity, forensic mental health beds, reoffending programs, courts, prosecution support and legal assistance.

Other reforms also create ongoing obligations. Family violence reforms require continued funding for courts, specialist services, police, housing, child protection and legal assistance, with about \$100 million in additional funding in the 2026–27 Budget. Mental health, child protection and youth justice reforms also require ongoing service delivery, compliance, administration or compensation funding.

These reforms are necessary to meet community needs and improve safety, justice, mental health and social support outcomes. However, they add recurrent expenditure in a fiscally constrained environment, increasing pressure on other essential services, budget repair and the government's capacity to absorb new and emerging risks.

If demand is structural rather than temporary, the government may need additional funding, increased borrowing, or reprioritised spending, adding to existing financial sustainability challenges.

4.3 Risks beyond the GGS

Risk 8. Financial sustainability pressures in public corporations may increase the state's fiscal exposure

Why financial sustainability of public corporations is important for the GGS and Victorians

Public corporations sit outside the GGS. They play a crucial role in Victoria, delivering services to Victorians and supporting the government's economic, social and public policy objectives. They provide services in essential or strategic sectors, such as transport, utilities and public financial services.

The financial sustainability of public corporations is critical to the state's overall fiscal sustainability. It enables them to continue providing essential services without disruption and investing in service quality, innovation and new development.

Sustainable public corporations contribute significantly to the GGS through dividends, statutory fees and charges, the financial accommodation levy, the environmental contribution levy, grants and income tax–equivalent receipts. GGS income and revenue from public corporations have varied over time. Between 2015–16 and 2022–23, they averaged approximately \$1.1 billion per year. The annual average increased to around \$2.2 billion across 2023–24 and 2024–25, before declining to \$1.1 billion in 2025–26. Higher contributions improve the GGS operating result and operating cashflows.

Conversely, financially unsustainable corporations can add financial strain on the GGS because taxpayers' money is often used to support the financial health of these corporations. Fees and levies charged by these corporations may also increase, placing additional costs on the public.

Transactions with public corporations can have a significant impact on GGS costs and cashflows. Recent examples of taxpayer-funded support include:

- \$1.3 billion in government support provided to WorkSafe Victoria between 2020 and 2023 to address financial sustainability pressures
- \$590 million in capital contribution to the Victorian Managed Insurance Authority to support the transfer of domestic building insurance operations to the Building and Plumbing Commission on 1 July 2025, following accumulated deficits in the domestic building insurance portfolio
- \$535.5 million capital injection commitment to Greater Western Water to restore its financial viability after structural financial challenges, including high debt, debt-funded capital works, costs above regulatory allowances and lower than expected revenue.

The financial sustainability of public corporations is important to the GGS because it supports service continuity, reduces the need for government intervention and enables ongoing investment in service quality, innovation and infrastructure.

**Recent
examples of
public
corporations
facing financial
pressures**

Our 2025–26 audits identified several public corporations experiencing financial pressure and facing long-term financial sustainability risks. The examples below illustrate these pressures through deteriorating financial performance, increasing asset maintenance and renewal requirements, and reliance on government support:

- WorkSafe Victoria's scheme modernisation reforms were introduced in 2024 to improve the scheme's financial sustainability. Despite this, risks to its long-term financial sustainability remain elevated in 2025–26.
- GWW's financial outcomes deteriorated significantly in 2025–26. It moved from a \$58.9 million profit in 2024–25 to a \$141.8 million loss, while net operating cash outflows increased from \$191.7 million to \$205.7 million. Borrowings rose by \$350.6 million to \$3.7 billion at 30 June 2026 and its gearing ratio rose to 70.6 per cent (2025: 69.0 per cent). In response, the government approved up to \$535.5 million in equity support in May 2025 to strengthen GWW's financial position through to 30 June 2029. GWW drew down the first \$135 million of this equity support in June 2026.
- Homes Victoria's operating performance has deteriorated in recent years. After recording operating surpluses of \$96.4 million in 2020–21 and \$297.7 million in 2021–22, it recorded 4 consecutive deficits from 2022–23. The deficit increased from \$344.4 million in 2024–25 to \$446.7 million in 2025–26 bringing cumulative deficits since 2022–23 to \$1.4 billion. Depreciation associated with Homes Victoria's substantial asset base is a key contributor to these deficits. The continuing deficits indicate that it is not generating sufficient revenue to cover the full cost of its operations including the consumption of its assets. Homes Victoria's growing asset base will also require ongoing expenditure to maintain, renew and ultimately replace them, creating a long-term financial sustainability risk for Homes Victoria and the state.

The following section examines WorkSafe Victoria in more detail to show how financial sustainability pressures in public corporations can affect the state's fiscal position.

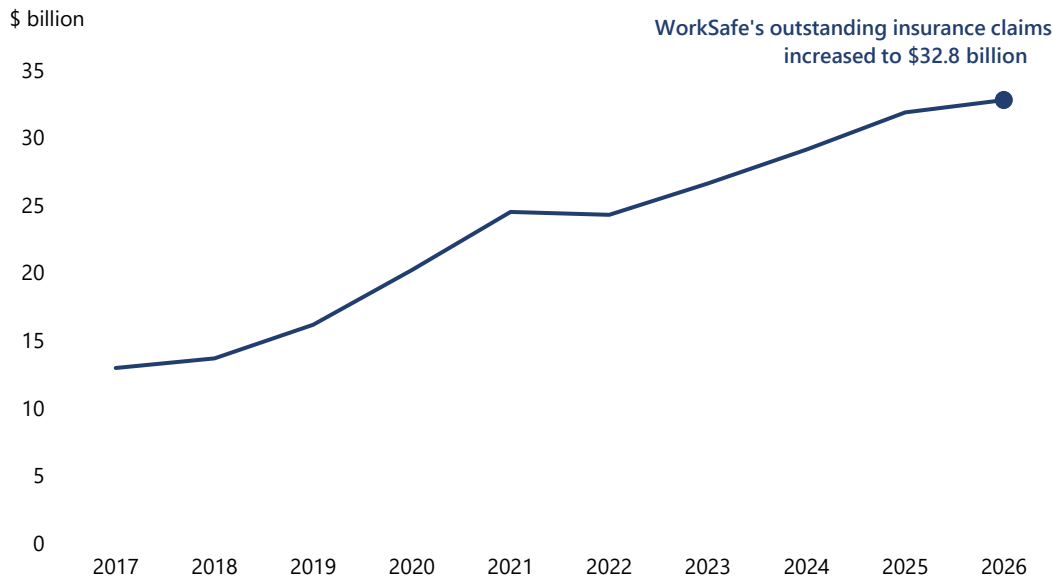
Example: WorkSafe Victoria

WorkSafe Victoria is Victoria's workplace health and safety regulator and manages the WorkCover insurance scheme. The scheme aims to reduce workplace harm, support injured workers and provide compensation, making its financial sustainability important to both workers and the state.

WorkSafe Victoria accounts for 58.8 per cent of the state's insurance liabilities and remains the main driver of their growth

Figure 37 shows that WorkSafe Victoria's gross outstanding insurance claims liability has more than doubled over the past 7 years, increasing from \$16.2 billion at 30 June 2019 to \$32.8 billion at 30 June 2026.

Figure 37: WorkSafe Victoria's gross outstanding insurance claim liabilities at 30 June



Source: VAGO, based on data from WorkSafe Victoria's financial reports.

Weekly benefits paid to injured workers and common law claims have been primary drivers of the significant growth in claim costs and outstanding insurance claims liabilities. Weekly benefits replace lost wages when workers cannot work because of mental or physical injuries, while common law claims arise when workers pursue compensation through the legal system.

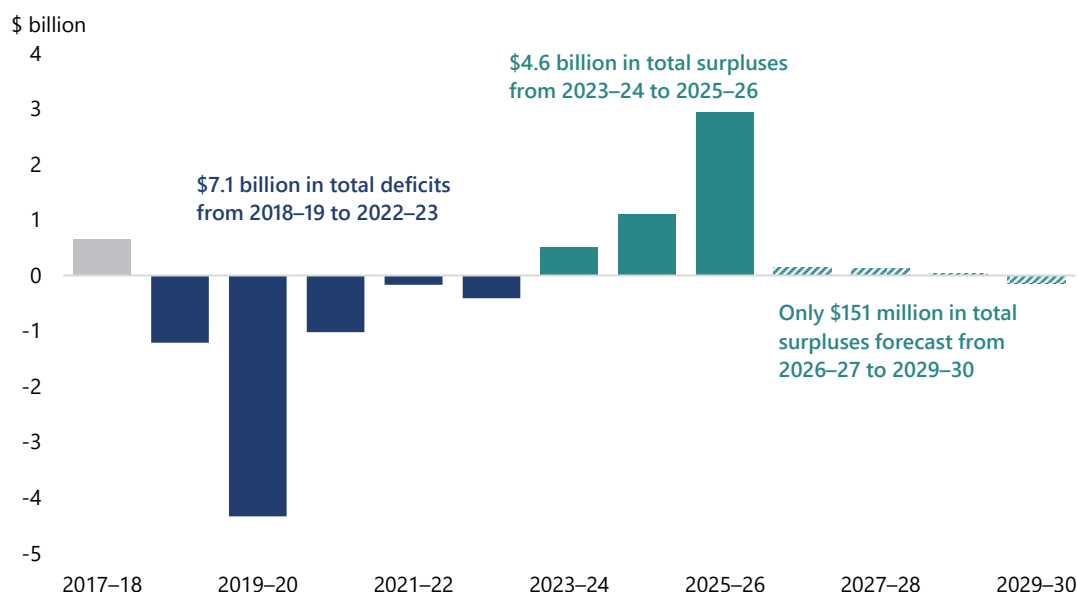
Although the liability continued to grow in 2025–26 by \$0.9 billion, the increase was materially lower than the increases of \$2.7 billion in 2024–25 and \$2.5 billion in 2023–24. This short-term moderation mainly reflected the higher discount rate used to value the liability, following increases in Australian Government bond yields, actual claims experience and revised claims experience assumptions, while underlying claims pressures remain. A higher discount rate reduces the present value of future claims payments, lowering the reported liability even though the expected future claim costs themselves may not have changed.

Financial deterioration of WorkSafe Victoria

WorkSafe Victoria's financial sustainability has been under pressure since 2018–19, when its net result before income tax deteriorated from a \$659 million surplus in 2017–18 to a \$4.3 billion deficit in 2019–20. As highlighted in our previous reports, rising claim volumes and costs, combined with premium income that did not keep pace with scheme costs, contributed to continuing deficits and the need for government support.

As Figure 38 shows, these pressures resulted in a cumulative net deficit of \$7.1 billion between 2018–19 and 2022–23. Financial results began to improve after the scheme modernisation reforms commenced.

Figure 38: WorkSafe Victoria net results before income tax



Source: VAGO, based on WorkSafe Victoria's financial information.

Note: Forecast results reflect WorkSafe's estimates based on the information and assumptions made at 30 June 2026. Actual results may differ materially due to claims experience, the long-term effects of the scheme reforms, economic and financial market conditions, and other factors that are difficult to predict.

WorkSafe Victoria's net result improved from a \$513 million surplus in 2023-24 to a \$3.0 billion surplus in 2025-26. However, this improvement was not solely attributable to enduring reform benefits. The 2025-26 result reflected several factors, including changes in claims experience and actuarial estimates, a 9.9 per cent investment return, which was around \$0.6 billion above budget, and a \$0.9 billion reduction in the reported claims liability due to higher discount rates.

The improvement is not forecast to continue. WorkSafe Victoria expects its surplus to fall sharply to \$145 million in 2026-27 and to \$30 million in 2028-29, before recording a \$149 million deficit in 2029-30.

This forecast suggests that the reforms may not be sufficient to restore the scheme's long-term financial sustainability because underlying pressures from rising claim volumes and costs remain.

Uncertainty over the long-term benefits of the reforms

Available claims data suggest the reforms have reduced mental injury claims and average claim costs in the short term. However, WorkSafe Victoria's own forecasts indicate that these improvements may not last.

WorkSafe forecasts a moderate cumulative surplus of \$151 million over the 4 years to 30 June 2030. However, claim volumes and costs continue to outpace premium income, indicating that the scheme's underlying financial sustainability challenges remain.

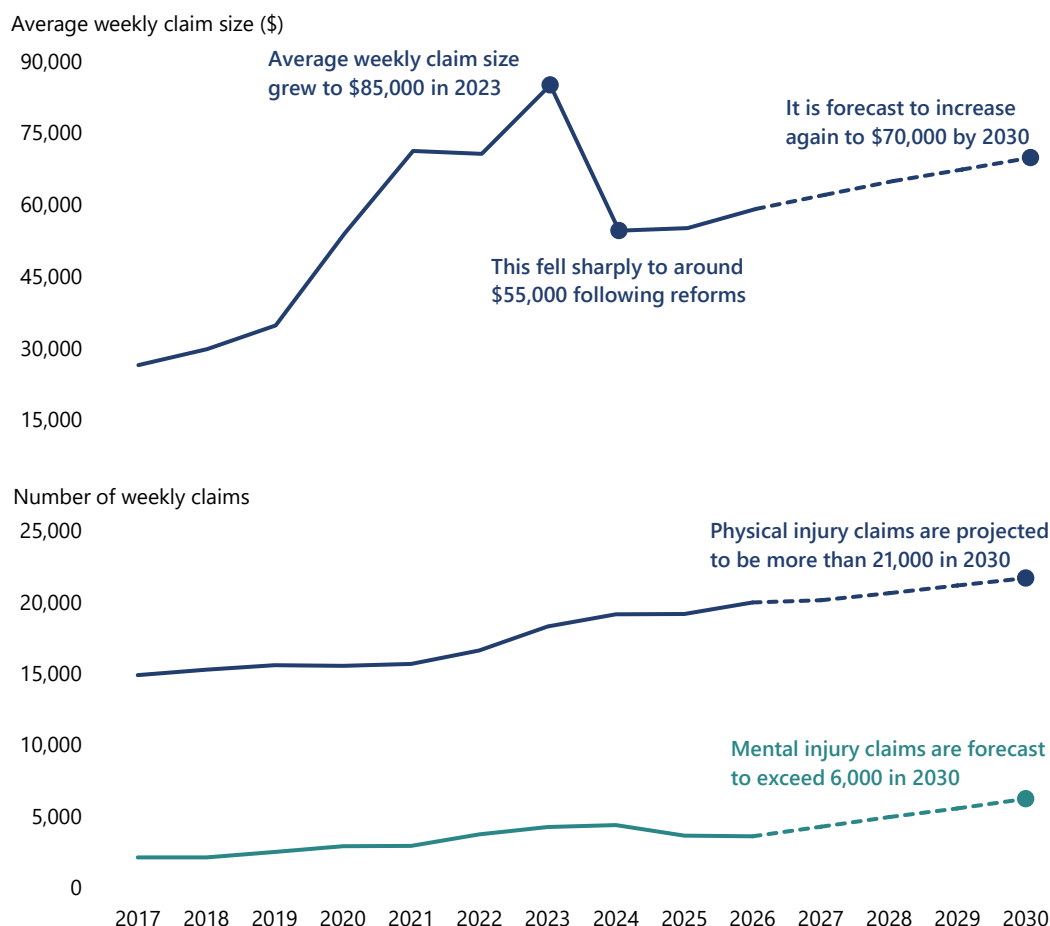
At 30 June 2026, WorkSafe wrote down a \$1.1 billion deferred tax asset from its balance sheet. A deferred tax asset represents tax benefits WorkSafe expects to use in the future, but only if management assume sufficient future profits. By writing down the deferred tax asset, WorkSafe has signalled that it no longer expects to generate enough future profits to realise those benefits, a further warning sign of the financial sustainability challenges.

The weekly claims forecasts reinforce this outlook. Figure 39 shows that mental injury claims more than doubled from 2,141 in 2017 to 4,399 in 2024, before declining to 3,656 in 2025 following the reforms. WorkSafe forecasts that they will resume growing and exceed 6,000 by 2030. Physical injury claims are also projected to rise from nearly 15,000 in 2017 to more than 21,000 in 2030.

Figure 39 shows that average weekly claim size shows a similar pattern. It rose from about \$26,500 in 2017 to \$85,000 in 2023, then fell sharply to around \$55,000 in 2024 following the reforms. However, it is forecast to increase again, from \$59,000 in 2026 to \$70,000 by 2030.

Taken together, these forecasts further suggest that the reforms may provide short-term relief but are unlikely, on their own, to resolve the broader pressures on the scheme.

Figure 39: Physical and mental injury weekly payment claims and average weekly claim size – actual and forecast



Source: VAGO, based on WorkSafe Victoria.

There is still significant uncertainty about the reforms' long-term effect and the scheme's long-term financial sustainability. WorkCover is a long-tail insurance scheme, so the full impact of changes in eligibility, claims management, the second entitlement review and its flow on effects to common law claims, and return-to-work outcomes may not become clear for several years. Forecast savings are also sensitive to claim behaviour, legal outcomes and assessment processes.

Several pressures could offset the anticipated benefits, including rising physical and mental injury claims, lower return-to-work rates, increasing attendant care costs and growing asbestos-related liabilities. The *Occupational Health and Safety (Psychological Health) Regulations 2025* add a further uncertainty because they may place upward pressure on mental injury claims.

Continued monitoring of claim volumes and costs, return-to-work outcomes, premium adequacy and the accuracy of forecast savings will be necessary to determine whether the early benefits can be sustained.

Risk 9. Meeting the unfunded superannuation target may constrain future budget priorities

The government needs to contribute \$17.0 billion to fully fund the liability by 2035

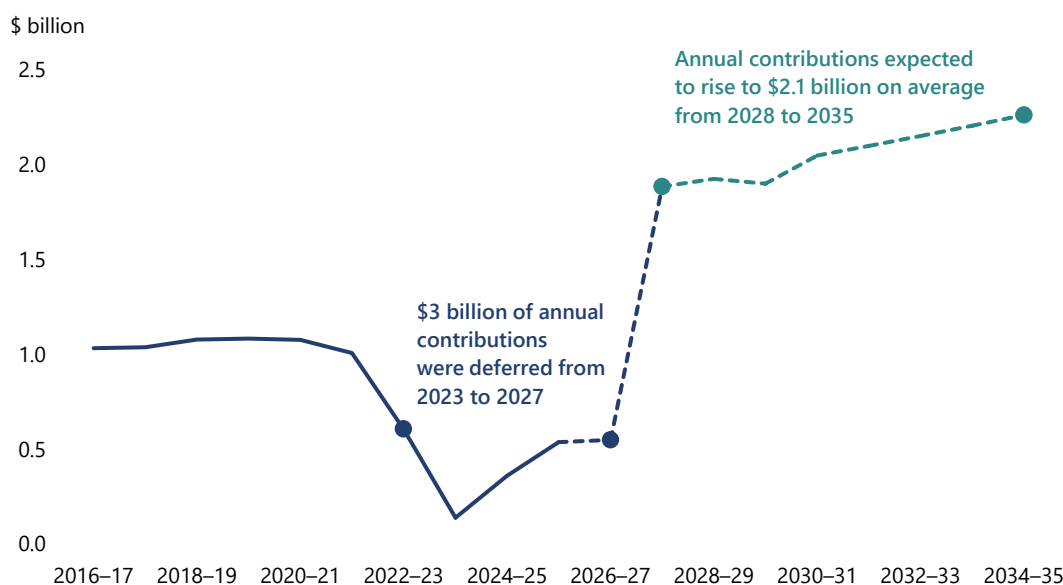
As discussed in Part 3, fully funding the unfunded superannuation liability by 2035 remains a key financial target of the government.

Over the last decade, the government contributed \$8.0 billion towards reducing this liability. Following the 2022 Victorian election, it deferred \$3.0 billion of annual contributions from 2023 to 2027, as outlined in *Labor's Financial Statement 2022*. The government did not explain why these contribution payments were varied and deferred. However, it maintained its commitment to fully fund the liability by 2035.

To meet this commitment, the government will need to contribute \$17.0 billion in nominal terms between 2026 and 2035. This is more than double the amount it contributed over the last decade. The estimate is based on the current assumptions used to determine funding requirements.

Figure 40 shows that under its revised contribution plan, the government plans to contribute approximately \$0.5 billion in 2026–27 before increasing annual contributions to approximately \$2.1 billion from 2028 to fully fund the liability by 2035.

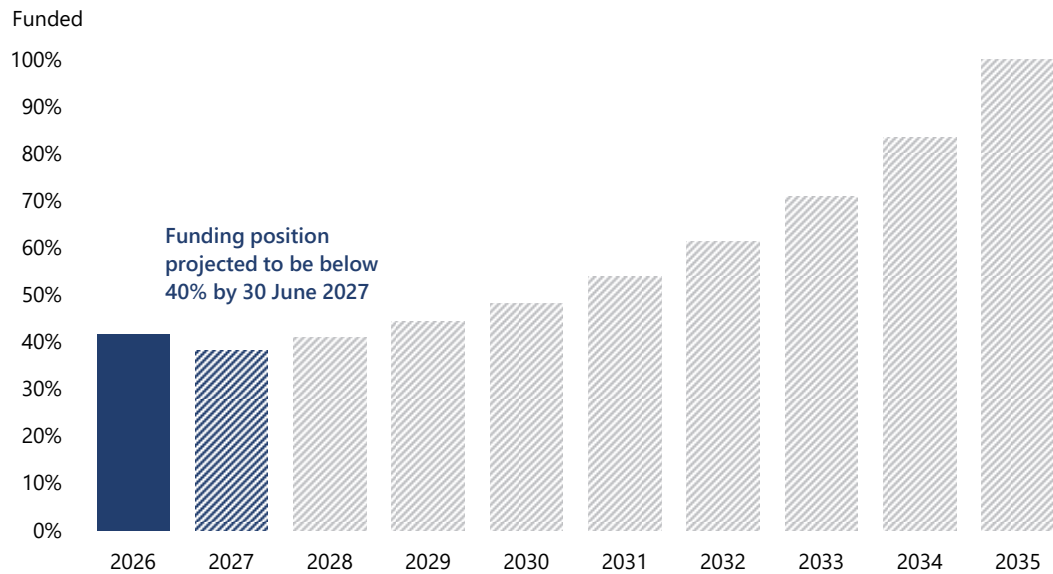
Figure 40: Actual and projected annual superannuation contributions



Source: VAGO, based on DTF.

The contribution deferral is expected to reduce the funding position to below 40 per cent on the funding basis by 30 June 2027, as shown in Figure 41.

Figure 41: Projected funding position of superannuation liability on funding basis



Source: VAGO, based on DTF.

The emerging fiscal risks outlined in this report may make it more challenging for the government to maintain the level of contributions needed to achieve the 2035 funding target.

The current liability estimate is also sensitive to external factors, including the fund's investment performance and future salary and pension increases. For example, if investment returns are lower than expected, the government may need to make higher contributions to fully fund the liability by 2035.

Nominal value

Nominal value is the value measured in terms of an absolute dollar amount without adjusting for inflation.

Funding position

Funding position shows the proportion of a superannuation fund's liability covered by the fund's assets. It is a measure of whether the fund has enough assets to pay out future benefits to its members.

Risk 10. Natural disasters and climate-related events may create significant unbudgeted costs

Natural disasters and climate-related risks pose a growing threat to the fiscal sustainability of the GGS and the state. More frequent and severe weather events are expected to increase expenditure on disaster response, infrastructure repairs, asset renewal, and health and community services. They may also reduce revenue, disrupt economic activity or damage government-owned assets. Collectively, these pressures could create significant and unpredictable funding requirements. At a time when the state faces limited fiscal resilience, additional costs would further reduce its capacity to absorb the shock, maintain services and respond to emerging priorities.

Rising climate-related risks increase funding requirements

Victoria's emergency management funding needs are increasing as natural disasters and climate-related hazards become more frequent and severe.

Recent disasters demonstrate the scale of unplanned expenditure that climate and natural disaster events can create:

- Over the past 3 financial years, the government provided Treasurer's Advance emergency funding of \$373.7 million in 2023–24, \$260.5 million in 2024–25 and \$531.4 million in 2025–26 for responses to bushfires, floods and drought. This was in addition to funding allocated to emergency response agencies.
- The 2026–27 state Budget includes \$422 million for recovery from the January 2026 bushfires.

Infrastructure Victoria's independent analysis report, *Warning signs: Climate change risks to Victoria's infrastructure*, found that more than \$57 billion of Victorian Government-owned or regulated infrastructure could be exposed to material climate-related risks by 2030, rising to more than \$71 billion by 2070 under a higher-emissions scenario.

Transport, energy and health assets face the greatest exposure. By 2030, the analysis estimates that about:

- \$20.2 billion of road assets are at risk
- \$10.3 billion of rail assets are at risk
- \$7.2 billion of energy assets are at risk
- \$5.3 billion of health assets are at risk.

Road and rail networks are particularly vulnerable to floods, bushfires and extreme heat, while energy infrastructure faces growing exposure to bushfires and heatwaves. Health facilities face similar hazards and may also experience higher demand during climate-related events.

Climate risks are yet to be transparently integrated into long-term financial planning

The government has committed to reaching net zero emissions by 2045. It has also introduced climate legislation, whole-of-state climate-risk reporting, strategies and adaptation plans.

The *Climate Action Act 2017* requires the government to consider climate change when making decisions. The state Budget forecasts also consider climate policy settings and the economic and financial impacts from natural disasters.

However, public reporting provides limited insight into the climate and natural disaster scenarios considered, their potential fiscal impacts, and the government's planned responses.

Greater transparency would show how these risks inform the state's fiscal strategy and outlook.

The long-term financial planning recommendation in this report would address this gap.

Incorporating climate and natural disaster scenarios, and planned responses, would help Parliament and the public understand the state's financial preparedness and the potential impacts to long-term sustainability.

Risk 11. Macroeconomic and geopolitical uncertainty may weaken financial outcomes and impede fiscal repair

The 2026–27 Budget was prepared in an environment of ongoing macroeconomic and geopolitical uncertainty. It forecasts a \$1.0 billion operating surplus in 2026–27, supported by real GSP growth of 1.5 per cent, employment growth of 1.25 per cent, inflation of 3.5 per cent and unemployment averaging 4.75 per cent.

The forecasts assume that inflation and energy prices moderate over the short term, interest rates stabilise, and household consumption and private investment support economic growth. They also assume that recent

disruptions to global energy markets and supply chains are temporary and do not materially worsen over the forecast period.

Risks to achieving forecast outcomes remain elevated

Information available since the Budget does not yet indicate a significant departure from these forecast assumptions. However, risks to their achievement remain elevated.

Victoria's monthly unemployment rate so far in 2026–27 has been above forecast, at 5.1 per cent in July and 5.2 per cent in August, inflation remains above levels consistent with the Budget's longer-term assumptions, and interest rates continue to constrain household and business activity. Geopolitical tensions also continue and create ongoing uncertainty for energy markets, supply chains and global economic conditions.

The Budget identifies higher fuel and energy prices as a key channel through which geopolitical events may affect the Victorian economy. Prolonged disruption to energy markets, shipping routes or global supply chains could keep fuel, freight and other input costs elevated. This could increase inflation and operating costs, while reducing household consumption, business investment and economic activity. It could also weaken state taxation revenue and increase interest expenses.

Implications for fiscal repair

The government's fiscal strategy depends on containing expenditure growth while maintaining service delivery and progressing its infrastructure program.

Lower employment, wages growth, consumption or property market activity would reduce payroll tax, land transfer duty and other own-source revenues. Persistent inflation and ongoing supply constraints could increase salaries and wages, and service and infrastructure costs, while higher interest rates could increase borrowing and refinancing costs.

Revenue and expenditure are projected to grow at broadly similar rates over the forward estimates, leaving limited capacity to absorb these pressures. Weaker revenue growth and higher expenditure or borrowing costs could reduce operating surpluses and increase debt requirements.

Macroeconomic and geopolitical uncertainty therefore remains an underlying risk to fiscal repair and long-term financial sustainability.

5.

Common problems in financial reporting and controls

Snapshot

Material entities maintain proper accounts and records and have adequate controls to prepare reliable financial reports



VicTrack has resolved its longstanding asset accounting and record-keeping issues



Persistent IT control deficiencies continue to be identified, with remediation efforts not keeping pace with risk



Oversight of, and assurance over, outsourced service providers remains an area requiring greater attention from agencies



System implementations continue to face weak governance and assurance challenges



Conclusion

DTF implemented effective controls to support the preparation of a complete and accurate AFR.

Material entities generally maintained adequate records and controls for reliable financial reporting. However, recurring weaknesses in governance, record keeping, asset management, outsourced service oversight and IT controls exposed entities to operational, reporting, fraud and information security risks. These weaknesses also affected financial reporting processes and increased audit effort.

The VicGov People payroll system migration, major infrastructure projects and the BioNTech arrangement show the consequences of not establishing or addressing project governance, asset management and information requirements early. Entities need to establish clear accountabilities, evidence and reporting requirements from the outset of major system changes, projects and contracts.

Entities remain accountable for outsourced functions, yet some have still not obtained appropriate independent assurance over service provider controls. Persistent weaknesses in access, monitoring, change management and authentication show known risks are not being addressed.

VicTrack's 7-year asset record remediation shows sustained management attention, clear ownership and cross-entity cooperation can resolve complex, longstanding weaknesses. Historical asset record uncertainty no longer affects asset values disclosed in its financial report.

Our prior-year recommendations on information system controls, service provider assurance, and key management personnel and related-party disclosures remain relevant. Material entities have not fully addressed these issues, highlighting the need for clear accountability, timely remediation and verification of the corrective action.

We assess internal controls at each material entity that ensure its financial report is complete, accurate and complies with relevant legislation. We report any significant issues to management and the audit committee as required under Australian Auditing Standards.

This section summarises significant control and financial reporting issues identified at material entities during 2025–26 and provides an update on prior-year matters raised.

Adequate records and controls support reliable financial reporting

Material entities' accounting records and controls are adequate, but need improvement	<p>We found that material entities generally maintained accounting records and internal controls that supported the preparation of complete, accurate and reliable financial reports. These arrangements provided a sound basis for financial reporting.</p> <p>However, adequate overall arrangements do not remove the need for continued improvement. We identified weaknesses in the design and operation of some controls, as well as opportunities to strengthen management review and governance oversight.</p> <p>If entities do not address these matters promptly, they remain exposed to operational and financial risks and are more likely to experience errors, delays and inconsistent financial information, particularly during periods of significant organisational or system change.</p>
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5.1 Recurring financial management weaknesses require sustained focus

Recurring weaknesses demand clearer accountability, stronger governance and more effective oversight	<p>We continue to identify recurring weaknesses and issues in financial management frameworks of material entities across 4 key areas:</p> <ul style="list-style-type: none">• Issue 1: Governance and record keeping for major system changes• Issue 2: Financial reporting and asset information for major projects and complex arrangements• Issue 3: Persistent IT control weaknesses that undermine control effectiveness and may expose entities to disruption, financial losses and fraud• Issue 4: Accountability and assurance over outsourced financial processes, raised in prior years. <p>These issues are not isolated administrative shortcomings.</p> <p>Material entities should use these findings to assess whether similar gaps exist in their own frameworks to address the risks they create.</p> <p>Where we have raised these issues, or they otherwise apply, governing bodies and accountable officers should assign clear ownership, set time-bound remediation actions and monitor whether improvements are operating effectively.</p> <p>We discuss the findings, their consequences and relevant examples in further detail below.</p>
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Issue 1: Governance and record keeping for major system changes

Weak project governance and record keeping in the VicGov People payroll system migration	<p>DGS owns VicGov People, which is progressively replacing individual departments' payroll systems. During 2025–26, DGS, DTF and Department of Premier and Cabinet (DPC), along with some of their portfolio agencies, migrated to this system. This major cross-government change affected payroll processing and information used in financial reporting.</p> <p>We found significant weaknesses in project management, governance, accountability and record keeping. There was limited evidence that DGS had established and maintained governance arrangements that provided clear accountability and oversight of the migration. It also could not</p>
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provide evidence that key migration checks, reconciliations and approvals had been completed and reviewed. Decisions and testing outcomes were not consistently documented, final records were not centrally retained and no formal handover to business-as-usual operations occurred. By the time we requested evidence, the project team had largely disbanded and no individual retained complete knowledge of the work performed.

We also identified weaknesses in user access and change management controls during the system migration. These weaknesses exposed departments and agencies using VicGov People to an increased risk of unauthorised access or system changes, payroll errors, incomplete or inaccurate financial information, and delays in identifying and resolving issues.

Although our audit testing identified no material errors in payroll amounts or disclosures at 30 June 2026, similar weaknesses in future migrations could disrupt payroll processing, compromise information integrity and result in non-compliance with financial reporting framework timelines.

Before further system implementations or rollouts, DGS should complete a post-implementation review to identify the causes of the governance failures, capture lessons learned and assign responsibility and timeframes for corrective action. Future migrations should include clear accountability, documented review and approval points, central retention of evidence and a structured handover before project teams disband.

We have raised this matter, together with associated recommendations, in our reporting to DGS.

Issue 2: Financial reporting and asset information for major projects and complex arrangements

Major projects and complex commercial arrangements heighten financial reporting risks

Victorian public sector entities increasingly rely on third-party providers to deliver services, manage systems and undertake major projects. These arrangements can create significant financial reporting risks when entities do not identify and assess the accounting implications early and clearly establish information and assurance requirements upfront in associated contracts.

Although delivery may involve other public entities, private contractors and specialist providers, the responsible entity remains accountable for complete and reliable financial reporting.

Our 2025–26 audits identified 2 recurring weaknesses. Entities did not:

- establish information requirements early to ensure sufficiently detailed asset information was captured during construction
- resolve ownership, control and accounting implications before entering complex arrangements.

These weaknesses delayed asset transfers, created uncertainty over recognition and measurement, and required substantial year-end remediation by management and auditors.

The Metro Tunnel, Footscray Hospital and BioNTech arrangements illustrate why accounting, asset record and reporting requirements need to be built into project planning, procurement, contracts and governance arrangements from the outset.

Asset information was not captured during construction

Entities need detailed records of an asset's components, cost, ownership and attribution to support its transfer, valuation, depreciation and ongoing management. For both the Metro Tunnel and new Footscray Hospital, this information was not sufficiently developed during construction and had to be assembled as completion approached.

The \$17.0 billion Metro Tunnel went live in November 2025 and was transferred to VicTrack by DTP. However, DTP's contract with the main builder did not require the builder to provide the component information needed to support part of the transfer. DTP therefore had to compile it from other sources.

The \$2.2 billion new Footscray Hospital opened in February 2026 and was intended to transfer from the Department of Health (DH) to Western Health. The transfer did not proceed in 2025–26 because DH could not provide sufficient building componentisation, IT asset records, or asset attribution and ownership information. Western Health therefore could not reliably recognise and classify the assets, estimate depreciation or meet its future reporting and asset management obligations.

DH retained the hospital's assets and liabilities in its report, so the delay did not affect the state's overall reported financial position. It committed to obtaining the necessary information, including through quantity surveyors and valuers where required, to support transfer in 2026–27 requiring additional effort and resources.

Accounting treatment was resolved after contract execution

DJSIR entered a service concession and lease arrangement with BioNTech to establish a clinical-scale mRNA manufacturing facility, research hub and associated infrastructure in Victoria. The arrangement involves significant government funding, complex governance and several asset classes, including land, buildings and specialised manufacturing equipment.

DJSIR had not fully resolved the financial reporting implications before entering the agreement. As construction progressed, it had to reassess which assets it controlled, when they should be recognised and how they should be measured, requiring extensive specialist accounting advice and valuation work.

The assessment appropriately treated the manufacturing equipment as a service concession asset and the facility building as a separate lease arrangement. However, resolving the accounting treatment after the agreement commenced created uncertainty and made it more difficult to obtain information needed for accurate financial reporting, resulting in additional effort at year-end.

Contracts did not specify the information entities required

These issues arose from different projects but point to the same underlying weakness: financial reporting requirements were addressed after key delivery and contracting decisions had been made.

For major projects and complex arrangements, entities should:

- identify accounting, ownership, control and asset-recognition implications during planning and procurement
- specify in contracts the financial and asset information that delivery partners must provide, including its timing, format and level of detail
- maintain component, cost, attribution and ownership records throughout construction rather than reconstructing them at completion
- establish governance and assurance processes that monitor whether information remains sufficient for financial reporting and asset transfer.

Embedding these requirements early reduces the risk of delayed transfers and costly remediation. It also helps entities meet their accountability and transparency obligations, by providing the information needed to demonstrate how public funds have been used, account for these assets created through those resources and provide reliable information to Parliament and the community.

We have made a recommendation for material entities to address this issue. See the recommendation table at the beginning of this report.

Issue 3: Persistent IT control weaknesses that undermine control effectiveness and may expose entities to disruption, financial losses and fraud

Why IT controls are important

Effective IT controls are fundamental to protecting the integrity, confidentiality and availability of government information and services.

Weak controls can allow inappropriate access, unauthorised changes and suspicious transactions to go undetected. This exposes entities to fraud, financial loss, data breaches and service disruption, and can undermine the reliability of information used for financial reporting and operational decisions.

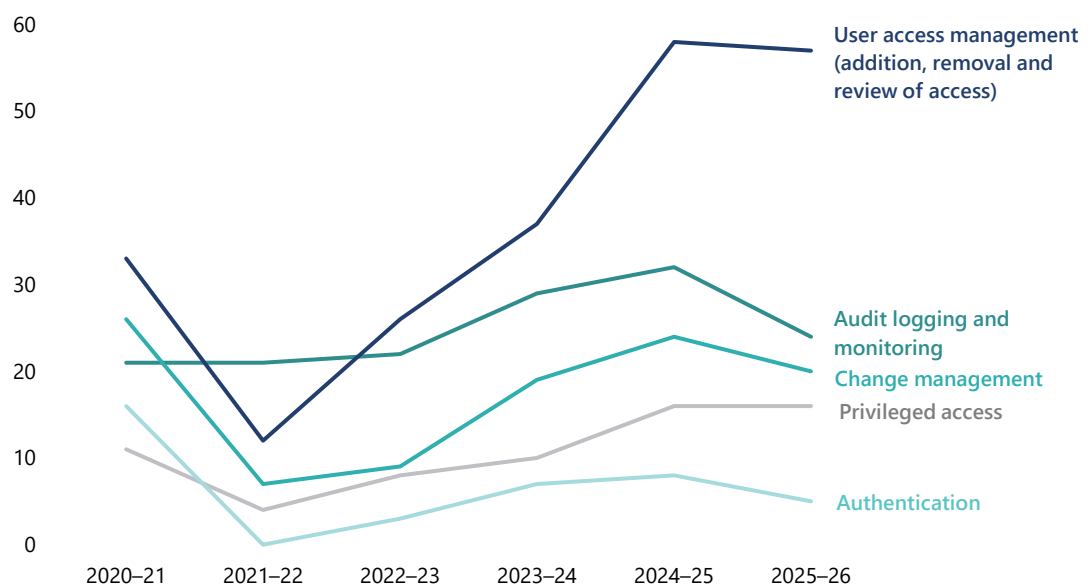
These risks are real. Public sector fraud, cyber incidents and failed system implementations have disrupted essential operations, exposed sensitive personal information, caused financial losses and required costly, prolonged remediation.

Little improvement in recurring IT weaknesses

Our audits continue to identify weaknesses in foundational IT controls across many material entities. There has been little sustained improvement. Entities still do not consistently restrict user and privileged access, monitor high-risk activity, or control changes to critical systems.

As shown in Figure 42, deficiencies increased between 2021–22 and 2025–26, with user access management remaining a major contributor. Our increased audit focus on information systems in the past 6 years partly explains the increase, but not why longstanding weaknesses remain unresolved or why foundational controls continue to operate ineffectively.

Figure 42: New and unresolved IT control deficiencies



Source: VAGO.

Higher staff turnover, complex access arrangements and greater reliance on interconnected systems make these controls harder to administer, but also more important to remediate promptly.

The recurring weaknesses, and their exposure, are summarised in Figure 43.

Figure 43: Recurring IT control weaknesses

Control weakness	What we continue to see	Operational and fraud risk exposures
User and privileged access	Access is not always approved, aligned with job responsibilities, periodically reviewed or removed promptly when staff leave or change roles. Some users retain privileges beyond those required for their work.	Excessive or dormant access can be used to alter supplier or payroll details, create fictitious records, process unauthorised payments or conceal transactions. Privileged access can also allow users to override controls and remove evidence of their activity.
Audit logging and monitoring	Logs of sensitive activity are not always enabled, retained or actively reviewed, including logs of changes to access, system configurations, reports and master data.	Suspicious activity can remain undetected, limiting an entity's ability to prevent or investigate fraud, identify compromised accounts and demonstrate the integrity of financial information.
Change management	System changes are not consistently supported by formal approval, appropriate segregation of duties, adequate testing, rollback planning or staged deployment.	Poorly controlled changes can introduce errors, bypass established controls or disrupt critical services. The 2010 Queensland Health payroll implementation illustrates the scale of harm when governance, testing and implementation controls fail: thousands of employees were affected, and substantial, prolonged remediation followed. ⁽¹⁾
Authentication	Weak password settings, incomplete multi-factor authentication and continued reliance on legacy systems reduce resistance to compromised credentials and malicious access.	Compromised credentials can enable malicious access to systems and data, leading to disrupted operations, altered records, redirected payments or identity fraud. Weak authentication can also make it harder to identify those responsible and increase the time and cost needed to resolve a security incident.

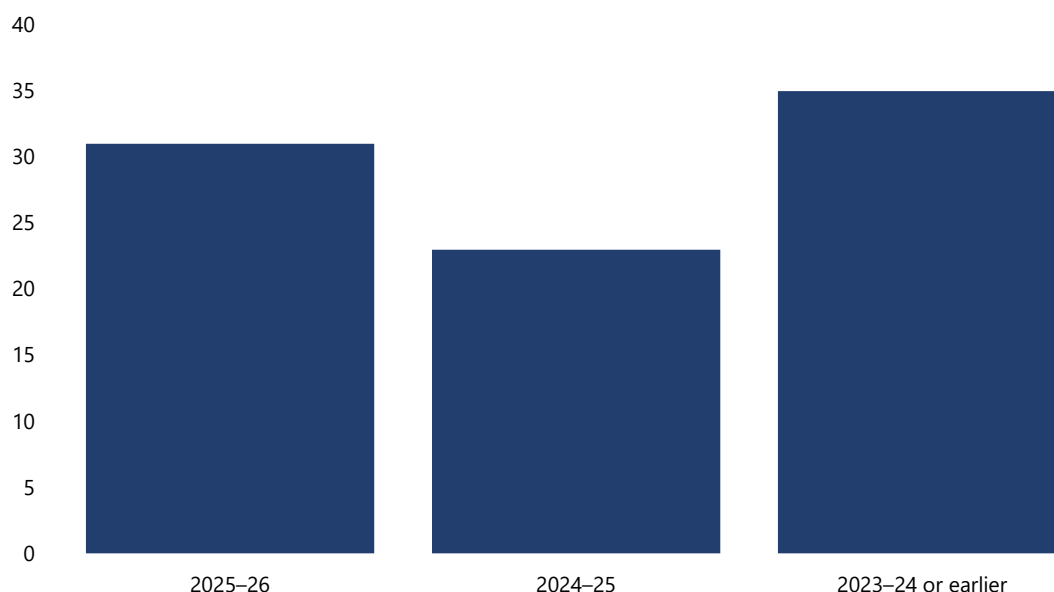
Source: VAGO. ⁽¹⁾Queensland Audit Office, *Information systems governance and control, including the Queensland Health Implementation of Continuity Project*, Report to Parliament No. 7 for 2010, June 2010.

Remediation requires stronger governance

Management and those charged with governance should ensure control weakness remediation is clearly assigned, prioritised and actioned within realistic timeframes, with verification that completed actions are effective. Where high-risk findings remain unresolved, entities should implement and monitor interim controls and actively monitor the residual risk.

As Figure 44 shows, 89 high and medium-risk IT control findings remained open at 30 June 2026 at material entities. Of these, 35 (39 per cent) were first identified in 2023–24 or earlier, more than the 23 open findings raised in 2024–25 and the 31 raised in 2025–26. This age profile shows that some entities are not addressing known weaknesses with sufficient urgency.

Figure 44: Open IT observations by year they were identified



Source: VAGO.

Entities commonly attribute delays to competing priorities, unsecured funding for ageing systems, staff turnover, limited specialist or in-house capability, and legacy-system dependencies. These barriers may complicate remediation, but they do not reduce the exposure or remove the need for escalation.

Our recommendation from last year remains relevant. See Appendix E.

Issue 4: Accountability and assurance over outsourced financial processes

Why assurance over service providers matters

Public sector entities increasingly rely on external parties to perform key functions, manage information and process transactions on their behalf, impacting financial reporting.

Outsourcing an entity's financial management activities does not transfer accountability. The accountable officer remains responsible for these activities, including obtaining appropriate assurance over outsourced and shared services and sufficient evidence that service providers' controls operated effectively throughout the period.

Entities lack sufficient assurance over the outsourced services

We continue to find that entities relying on service providers often do not:

- obtain a controls assurance report covering the services used and for the full financial year
- assess and address reported control exceptions or perform the complementary controls for which they remain responsible
- set clear contractual requirements for the assurance that service providers must supply, including when it is due and the consequences if it is not provided.

Where assurance over a provider's controls is unavailable, entities must establish an alternative assurance program to gain comfort. Several entities did neither and therefore could not demonstrate effective control over material financial reporting processes for which they remained accountable, as required by the *Standing Directions 2018 under the Financial Management Act 1994*, specifically Standing Direction 3.4 – Internal control system and Instruction 10 – Managing shared services and outsourcing arrangements.

Entities should define their information and assurance needs before entering a service arrangement, include these requirements in the contract and confirm annually that the assurance obtained covers the services and period relied upon.

Our recommendation from last year remains relevant. See Appendix E.

The following example illustrates the risks that can arise from outsourced service arrangements and the importance of effective oversight and assurance by entities.

ESSSuper highlights broader financial reporting and business risks from outsourced services

ESSSuper illustrates the broader risks that entities face when they rely on outsourced service organisations. It outsourced core member administration and fund accounting services to Iress and its subsidiary, Financial Synergy. Iress's superannuation business was subsequently acquired by Apex Group in June 2025.

Independent assurance reporting identified weakness in controls at the service organisation. In November 2024, ESSSuper commenced Federal Court proceedings against Iress and its subsidiary, Financial Synergy, alleging contractual breaches and pre-contractual misrepresentations in the delivery of administration and technology services that affected members. Management has also identified issues with the service organisation fund accounting services.

The claims against Iress and Financial Synergy currently remain before the court. The dispute illustrates the potential consequences for internal controls and member services.

Although ESSSuper is not a material entity to the AFR, its membership data is important to the state because DTF relies on complete and accurate ESSSuper membership data to value the state's unfunded defined benefit liability and determine the future funding contributions. At 30 June 2026, ESSSuper funds accounted for \$16.4 billion, or 95.4 per cent, of this liability. Victorian public sector employees also depend on ESSSuper to administer and report their benefits accurately.

These issues demonstrate the need for entities to maintain strong oversight of outsourced services and obtain reliable assurance that key controls are operating effectively.

Updates on our recommendations from previous reports

We made several recommendations to material entities in our previous reports in relation to accounts, records and internal controls. Refer to Appendix E for the list of prior period recommendations and agencies' updates.

5.2 Past reporting and progress – agency specific

VicTrack resolved longstanding weaknesses in its asset records

A 7-year remediation resolved a longstanding issue

Since 2019 we have reported significant weaknesses in VicTrack's accounting records for property, infrastructure, plant and equipment.

Its fixed asset register did not consistently identify individual assets, recognise assets promptly, or accurately record capitalisation, work in progress, disposals and replacements. At the peak of the issue, VicTrack could not adequately identify assets with a carrying value of \$9.6 billion.

VicTrack and DTP have worked together since then to resolve these issues. From 2022–23 they implemented an asset collection and attribution framework. We confirmed that it operated effectively for most assets added since 2019, meaning newly acquired assets are now recorded completely and accurately. The remediation program reduced inadequately identified assets from \$9.6 billion in 2019–20 to \$1.4 billion at 30 June 2025.

VicTrack completed the final stage of the program in 2025–26. It reviewed and corrected existing records, matched assets to information in VicTrack's and DTP's asset management systems, and wrote off assets that could not be substantiated or were no longer in use. It identified sufficient

information for 2,130 assets worth \$1.3 billion, 93 per cent by value of the remaining \$1.4 billion population under review. Our testing found no material deficiencies.

Across the program, VicTrack remediated records for \$14.1 billion of assets and wrote off or disposed of \$3.5 billion.

Figure 45 shows VicTrack's asset write-offs and disposals by financial year.

Figure 45: Assets written off and disposed of by VicTrack

Financial year	Opening issue pool (\$ billion)	Corrections / validated movements (\$ billion)	Write-offs / disposals (\$ billion)	New additions / findings (\$ billion)
FY20	9.6	-0.4	-2.4	-
FY21	6.8	-5.1	-0.7	6.9
FY22	7.9	-5.9	-0.2	-
FY23	1.8	-0.2	-0.0	-
FY24	1.6	-0.0	-0.0	-
FY25	1.6	-1.3	-0.0	1.2
FY26	1.4	-1.3	-0.1	-
Cumulative impact		-14.1	-3.5	

Note: Numbers may not add up due to rounding.
Source: VAGO.

This outcome shows what sustained management attention can achieve on a complex financial management problem. It required a dedicated multi-year program, collaboration across the transport portfolio, access to asset information held in separate systems, and a willingness to write off balances that could not be supported.

VicTrack's financial report is no longer affected by historical issues over its underlying asset records, of which we now no longer include as a basis in our modified audit report. As discussed in Part 2, our modification relating to how VicTrack accounts for its lease arrangement with DTP remains.

Enduring asset management practices

The remediation involved more than correcting VicTrack's fixed asset register. VicTrack and DTP also strengthened the capability, accountability, processes and oversight needed to maintain accurate asset records and prevent the weaknesses from occurring.

VicTrack established dedicated asset accounting capability and clearer ownership of asset information. It also clarified responsibilities between its finance and operational asset teams and DTP.

VicTrack and DTP have introduced processes to:

- confirm that the required asset information is available before an asset is recognised or capitalised
- review asset additions, transfers, disposals and replacements
- periodically review asset useful lives, condition and valuation information
- review and challenge information that DTP provides and escalate incomplete information.

Management also established ongoing oversight of these processes, including reporting to those charged with governance and maintaining sufficient capability to operate these processes. Sustaining these arrangements will be critical to keeping the fixed asset register accurate, and supporting VicTrack and DTP to meet the requirements of DTF's Asset Management Accountability Framework.

6.

Appendices

[Appendix A: Submissions and comments](#)

[Appendix B: Our audit approach](#)

[Appendix C: Audit report on the AFR](#)

[Appendix D: Results of material entity audits](#)

[Appendix E: Follow-up on other prior-year recommendations](#)

[Appendix F: Financial measures and targets](#)

[Appendix G: Unadjusted audit differences](#)

[Appendix H: Internal control and financial reporting issues risk ratings](#)

[Appendix I: Acronyms and glossary](#)

Appendix A:

Submissions and comments

We have consulted with agencies named in this report, and we considered their views when reaching our audit conclusions. As required by the *Audit Act 1994*, we gave a draft copy of this report, or relevant extracts, to those agencies and asked for their submissions and comments.

Responsibility for the accuracy, fairness and balance of those comments rest solely with the relevant agency head.

Responses received

Agency	Page
Treasurer of Victoria	A-2
Department of Government Services	A-5
Department of Energy, Environment and Climate Action	A-6
Department of Health	A-7
VicTrack	A-8
Department of Transport and Planning	A-9
Homes Victoria	A-11



Treasurer of Victoria

Minister for Industrial Relations

1 Treasury Place
GPO Box 4379
Melbourne Victoria 3001
Telephone: +61 3 7005 9474

Andrew Greaves
Auditor-General
Victorian Auditor-General's Office (VAGO)

Dear Mr Greaves,

RESPONSE TO THE AUDITOR-GENERAL'S REPORT ON THE ANNUAL FINANCIAL REPORT OF THE STATE OF VICTORIA, 2025-26

Thank you for your letter on 8 October 2026, seeking my responses to your report on the Annual Financial Report (AFR) of the State of Victoria 2025-26 (the report) before its finalisation and transmission to Parliament.

The report confirms the issuance of a clear audit opinion on the financial statements of the State of Victoria and the General Government Sector (GGS) for the financial year ended 30 June 2026. This provides reasonable assurance that the financial performance and position of the State of Victoria and the GGS as presented in the AFR is reliable and can be depended upon by Parliament and the Victorian community to inform their understanding of the State's finances, and to inform decision-making.

As highlighted in the 2026-27 State Budget, Victoria's economy has navigated challenging periods in recent years and enters this current period of uncertainty with the labour market healthy, and economic activity, business investment and employment all growing. In response to the COVID-19 pandemic, the Government developed, and has since maintained, a comprehensive fiscal strategy to protect Victorian households and businesses and provide a strong foundation for recovery. The Government has consistently reported on its progress over the last five years. This strategy provides a clear framework:

- Step 1: Creating jobs, reducing unemployment and restoring economic growth.
- Step 2: Returning to an operating cash surplus.
- Step 3: Returning to operating surpluses.
- Step 4: Stabilising net debt levels as a proportion of gross state product (GSP).
- Step 5: Reducing net debt as a proportion of GSP

The report notes the continuing impacts of challenging local and international economic conditions on the State's finances, while also acknowledging the progress against the Government's fiscal strategy, including achieving the first operating surplus in seven years, reporting operating cash surpluses since 2022-23, and progressing various initiatives designed to strengthen the State's financial position.

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Having delivered an operating surplus in 2025-26 and therefore achieving step 3 of the fiscal strategy, the Government remains committed to the long-term financial management objectives set out in the State Budget. Net debt for the GGS was \$160.7 billion at 30 June 2026, \$4.7 billion lower than forecast in the 2026–27 State Budget, and the State Budget continues to forecast that net debt will reduce as a proportion of GSP over the forward estimates, in line with step 4 and 5 of the fiscal strategy.

The Government notes the broader observations in the report regarding financial reporting processes, fiscal risks and longer-term planning. These are matters that the Government continues to consider carefully as part of ongoing work to strengthen financial governance, reporting quality and accountability across the public sector.

Responses to recommendations

The Government's responses to the recommendations directed to the Department of Treasury and Finance are set out below.

Recommendation	Response
<p>DTF to work with government as a matter of priority to:</p> <ul style="list-style-type: none"> • address our previous recommendations to strengthen fiscal management, debt management, long-term planning and transparency • progress work on addressing the fiscal management and strategy recommendation of the Independent Review of the Victorian Public Service. <p>In doing so, consider how transparency can be enhanced to help Parliament and the community understand the state's underlying financial performance, progress against its fiscal strategy and exposure to existing and emerging fiscal risks.</p>	<p>Noted</p> <p>The five-step fiscal strategy provides a clear anchor for the State's long-term financial plan. DTF continues to work to further strengthen financial performance, accountability and transparency across Government. In doing so, DTF will continue to support reporting and advice that improves understanding of the State's fiscal position, while ensuring that complex matters are presented with appropriate context and in a manner consistent with existing budget, financial reporting and policy frameworks. Updates on the delivery of the government's fiscal strategy are provided multiple times a year in the Budget, Annual Financial Report, the Budget Update, the Pre-Election Budget Update (where relevant) and any other fiscal updates that might be released over the course of a given year.</p>
<p>DTF to work with the Department of Transport and Planning and VicTrack to assess whether the current accounting treatment for operational transport assets:</p> <ul style="list-style-type: none"> • appropriately reflects the economic substance of the underlying arrangement • use a measurement basis that appropriately reflects the economic benefits obtained from using the 	<p>Not Supported</p> <p>The accounting treatment of operational transport assets is consistent with Australian Accounting Standard AASB 16 <i>Leases</i> and Victorian Government policy, including Financial Reporting Direction 104 <i>Leases</i>. The Australian Accounting Standards Board, at its August 2026 meeting, decided to retain the current</p>

<p>assets and the cost of consuming those benefits in the general government sector</p> <ul style="list-style-type: none">• clearly identifies and considers the effect on reported and forecast general government sector financial outcomes• provides users with a transparent understanding of the economic substance of the arrangements and the cost of delivering public transport services within the general government sector.	<p>policy choice in AASB 16 for not-for-profit public sector lessees to initially measure concessionary lease right-of-use assets at either cost or fair value on an ongoing basis.</p> <p>The treatment adopted in Victoria is also consistent with the general practice across other Australian jurisdictions. Deviating from the practice generally used in other jurisdictions could result Victoria's financial reporting being misinterpreted when compared to the financial reporting of other jurisdictions, which would not serve the public interest.</p>
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Thank you again for the opportunity to comment on the proposed report prior to its finalisation.

Yours sincerely



The Hon. Colin Brooks MP
Treasurer

22/10/2026



Department of Government Services

Level 5
1 Macarthur Street
East Melbourne Victoria 3002
Telephone: (03) 9651 5111
dgs.vic.gov.au

Mr Andrew Greaves
Auditor-General
Victorian Auditor-General's Office
Level 31, 35 Collins Street
Melbourne VIC 3000

By email: [REDACTED]

Dear Auditor-General

Proposed report: Auditor-General's Report on the Annual Financial Report of the State of Victoria: 2025–26 (ref 34068–26)

Thank you for the opportunity to respond to the proposed report. The Department of Government Services (DGS) accepts the findings that relate to it.

Assurance over shared services

DGS will provide the departments of Treasury and Finance (DTF), Premier and Cabinet (DPC) and Transport and Planning with an independent ASAE 3402 Type II report over financial management activities for 2026–27.

VicGov People payroll migration

DGS is pleased to acknowledge that the audit identified no material errors in payroll amounts or disclosures at 30 June 2026 following the migration of payroll for DGS, DTF and DPC, as well as several portfolio agencies, from EduPay to VicGov People, providing further assurance of VicGov People's successful implementation.

DGS accepts that the evidence retained to demonstrate governance, approvals and migration checks was not provided in a timely manner to fully meet audit requirements for a transition of this scale. DGS recognises post-implementation reviews as an element of good project governance and will continue to undertake them as a matter of course to capture lessons learned, address identified issues, strengthen governance and support continuous improvement.

Yours sincerely

Jo de Morton
Secretary

20/10/2026

Your details will be dealt with in accordance with the *Public Records Act 1973* and the *Privacy and Data Protection Act 2014*. Should you have any queries or wish to gain access to your personal information held by this department please contact our Privacy Officer at the above address.



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Department of Energy, Environment
and Climate Action

PO Box 500, East Melbourne,
Victoria 8002 Australia

SEC-261000139

Mr Andrew Greaves
Auditor-General

Dear Mr Greaves

Thank you for your letter of 8 October 2026 regarding your Office's proposed *Report on the Annual Financial Report of the State of Victoria: 2025-26* (Report) and for the opportunity to provide a formal response.

The proposed Report refers to the Department of Energy, Environment and Climate Action (DEECA) in relation to the administration of the Sustainability Trust Fund and the timing of the resolution of a complex accounting matter. DEECA's formal responses are set out below.

Growing Trust Account balances

Consistent with the department's 2024-25 response, the department incurs expenditure from the Sustainability Trust Fund in accordance with the *Environment Protection Act 2017* and subject to the approval of the Victorian Government. Each year, the department submits funding proposals for the Government's consideration through the annual budget process. Assessing whether current spending patterns are effectively achieving the Fund's purpose, as recommended in the Report, is a matter for the Government when setting its priorities through the annual State Budget.

Timing of the resolution of a complex accounting matter

The department provided VAGO its initial accounting position paper on the referenced contract in early July 2026, before the scheduled final audit visit commenced. The matter was resolved and reported on within the agreed timeframes.

If you would like further information about this matter, please contact Etienne Gouws, Executive Director/Chief Finance Officer via email at [REDACTED]

Thank you again for the opportunity to comment on the proposed Report.

Yours sincerely

Kate Houghton PSM
Secretary



Official - Sensitive



Secretary

Department of Health

50 Lonsdale Street
Melbourne Victoria 3000
Telephone: 1300 650 172
GPO Box 4057
Melbourne Victoria 3001
www.health.vic.gov.au
DX 210081
SCO-261000016

Mr Andrew Greaves
Auditor-General
Victorian Auditor-General's Office

Via e-mail: [REDACTED]

Dear Mr Greaves

Response to Draft Auditor-General's Report on the 2025-26 Annual Financial Report of the State of Victoria

Thank you for your letter dated 8 October 2026, inviting the Department of Health (the department) to provide comments on the draft *Auditor-General's Report on the 2025-26 Annual Financial Report of the State of Victoria*.

The Department has reviewed the draft report and considers its findings and observations to be fair and accurate. This includes findings that incomplete information prevented the transfer of the new Footscray Hospital from the Department to Western Health in 2025-26.

The department is currently working with the Victorian Infrastructure Delivery Authority (VIDA) Health and Western Health to ensure the full and proper transfer of the new Footscray Hospital to Western Health in 2026-27. The Department will also work with VIDA Health to clarify accountability, documentation and assurance requirements for timely and accurate future asset transfers.

The department also notes that the draft report should be amended to reflect the approved New Footscray Hospital project cost of \$2.15 billion, rather than \$1.50 billion as discussed and agreed with your officers.

Thank you for the opportunity to comment on the draft report. The department remains committed to working with the relevant parties to address the matters identified.

If you require further information please contact Bernard Rohan, Chief Finance Officer, at [REDACTED]

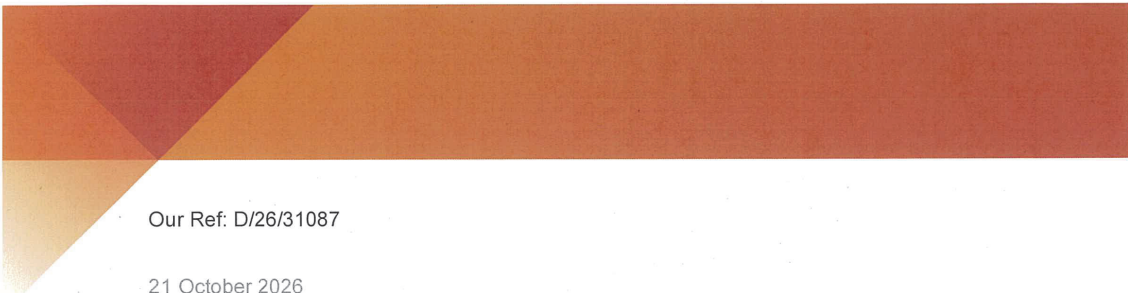
Yours sincerely

Jenny Atta PSM

Secretary

20/10/2026





Our Ref: D/26/31087

21 October 2026

██████████
Director - Financial Audit
VAGO
Level 31/35 Collins Street
Melbourne VIC
3000

Dear Mr ██████████

Re: Auditor-General's Report on the 2025-26 Annual Financial Report of the State of Victoria

Thank you for the opportunity for Victorian Rail Track (VicTrack) to provide comments on the *Auditor-General's Report on the 2025-26 Annual Financial Report of the State of Victoria*.

VicTrack has a long-standing difference of opinion with the Victorian Auditor-General's Office (VAGO) on the classification of its lease arrangements, which resulted in the adverse qualification first issued in 2019-20 for VicTrack and its consolidated entities.

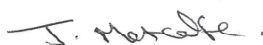
VicTrack's position as lessor in relation to these arrangements has been informed by comprehensive accounting and legal advice, and the Consolidated Entity's view remains that the leasing arrangements are substantially unchanged from a lessor perspective.

Further, VicTrack's position remains consistent with the Department of Transport and Planning's (DTP) current policy in relation to the management of rail operations and associated leases. As such, VicTrack and its consolidated entities continue to classify the lease arrangements as operating leases in the 2025-26 Financial Statements, consistent with the approach taken in previous years.

In addition, VicTrack welcomes VAGO's recognition of the significant progress achieved in asset accounting and asset record management. The removal of the qualification relating to historical asset record uncertainty reflects the sustained effort undertaken by VicTrack and DTP over several years to strengthen asset records, governance and financial reporting practices.

VicTrack remains committed to maintaining strong financial reporting practices, and looks forward to continuing to work constructively with VAGO, DTP and the Department of Treasury and Finance (DTF) on such matters.

Yours sincerely



Jonathan Metcalfe
Chief Executive
VicTrack

VicTrack
Level 8, 1010 La Trobe St Docklands VIC 3008
GPO Box 1681 Melbourne VIC 3001
T 1300 VICTRACK (1300 842 872)
victrack.com.au





Department of Transport and Planning

GPO Box 2392
Melbourne, Victoria 3001 Australia

Ref: BSEC-1-26-5307

Mr Andrew Greaves
Auditor-General
Victorian Auditor-General's Office
Level 31, 35 Collins Street
MELBOURNE VIC 3000
E: [REDACTED]

Dear Mr Greaves,

DTP Response to the Auditor-General's Report on the 2025–26 Annual Financial Report of the State of Victoria

Thank you for your letter dated 8 October 2026, inviting the Department of Transport and Planning (the Department) to provide a submission to the proposed Auditor-General's Report on the Annual Financial Report of the State of Victoria: 2025–26.

The Department is appreciative of the opportunity to contribute to the VAGO consultation process. Please find below the formal submission from the Department in response to this invitation.

VicTrack adverse audit opinion

VicTrack and the Department have assessed and accounted for the arrangement in accordance with current Australian Accounting Standards. The Department's election to apply the fair value measurement relief for its concessionary leases with VicTrack is a valid option permitted under the standards. The appropriateness of this accounting treatment at the General Government Sector level is a matter for the Department of Treasury and Finance.

Metro Tunnel asset transfer to VicTrack

The Department commenced coordination with relevant stakeholders regarding the Metro Tunnel asset transfer early in the 2025–26 financial year. While proactive engagement began promptly, the unprecedented scale and inherent complexity of the transaction ultimately extended the required reporting and audit timeframes to ensure accuracy. Noting the significant impact of delays, the Department will build additional lead time into the planning phases for future complex accounting matters.

Growing Trust Fund balance

The Department notes the finding regarding growing trust fund balances, including the Growth Areas Public Transport Fund. The Department continuously monitors the trust balance and advises the Department of Treasury and Finance and the Minister for Planning on available funding. This informs resource allocation decisions that align with the fund's objectives.



Major project cost escalation

The Department notes the significant impact of macroeconomic factors, including sector-wide cost escalation and supply chain constraints, on the delivery of major infrastructure. Strong governance arrangements are in place across projects that include clearly defined accountabilities, independent assurance processes, regular reporting, executive and ministerial oversight, and mechanisms to identify, escalate and manage emerging risks.

Asset maintenance and future service costs and disruptions

The Department notes the continuing increase on demands placed on the road network. In response to these challenges the Department has undertaken significant reforms in recent years. The establishment of the Victorian Road Maintenance Contract model has been central to this work, strengthening accountability, improving oversight of contractor performance and supporting a data-driven approach to maintenance planning. These reforms provide a stronger foundation for maximising the benefits of maintenance activities to the network.

The Department acknowledges the opportunities for further improvement and has established an action plan to address the recommendations in VAGO's report, *Maintaining State Roads*. The action plan will build on the reforms already underway.

Asset information collection for major projects

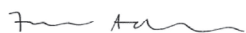
The Department notes that implementing a progressive collection approach during active construction would present significant operational challenges. However, VAGO's recommendation to embed information requirements (including asset attributes) into project planning aligns with the procurement enhancements currently being explored by the Department.

Shared service assurance

The Department acknowledges its assurance requirements for outsourced services under the Standing Directions and is working with the Department of Government Services (DGS) on a resolution. In the absence of DGS providing an ASAE 3402 assurance report, the Department has leveraged its internal processes to provide assurance over the financial information presented in the financial statements.

Should you require any further information, please contact Xavier Hinckson, Chief Financial Officer, at [REDACTED].

Yours sincerely



Fiona Adamson
Secretary

23 October 2026





50 Lonsdale Street,
Melbourne Victoria 3000
Telephone: 1300 650 172
GPO Box 4057, Melbourne Victoria 3001
DX 210081

CORG-261000020

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Andrew Greaves
Auditor-General
Victorian Auditor-General's Office
Level 31, 35 Collins Street
Melbourne, Victoria 3000

Dear Mr. Greaves,

VAGO Proposed Report: Auditor General's Report on the Annual Financial Report of the State of Victoria 2025-26

Thank you for your letter dated 8 October 2026 inviting Homes Victoria to provide a formal submission to the proposed Auditor-General's Report on the Annual Financial Report of the State of Victoria: 2025-26.

We believe that statements made about Homes Victoria's operating performance do not accurately portray the underlying Public Non Financial Corporation (PNFC) results, nor the financial discipline and governance that is in place.

- Homes Victoria's underlying result is a modest surplus, after removing non-cash depreciation and net interest, which demonstrates sound day-to-day cashflow management and financial discipline. Increased depreciation does not indicate a deterioration in operating performance.
- Homes Victoria's net result before transactions is negative entirely because of:
 - non cash depreciation expense which reflects growth in the number and value of public housing homes as well as accelerated depreciation from the high-rise towers redevelopment
 - timing differences between receipt of government funding for multi-year capital programs whereby revenue is recognised on receipt and expenditure on acquittal. These fluctuations in the net result, which balance out over the life of each program, have no relevance to underlying operating performance.
- We are investing significantly more in our properties than the value being lost each year through wear and ageing and are putting a program in place to continue maintaining capital expenditure in line with depreciation. Ensuring that capital expenditure keeps pace or exceeds depreciation is a leading indicator of a healthy operation.

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@homesvic



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- There continues to be close and detailed management of housing revenue and expenditure, most notably repairs and maintenance and staff costs, both of which are running to budget.

There has been strong progress towards the goal of growing social housing stock by 10% by the end of the Big Housing Build, where we are currently at 8% with two years to go. Whilst a proportion of this growth has come from investment in community housing, Homes Victoria owned or managed stock has also grown. As at 30 June 2026, this stood at 74,260 social housing homes, which is an increase of more than 2,400 new homes over the past five years. This will provide more comfortable places to live and help take pressure off our long-term maintenance costs.

We will continue to manage our revenue and expenditure very closely, to ensure we can provide more and better homes for Victorians into the future.

Yours sincerely



Simon Newport
Chief Executive Officer
Homes Victoria

23/10/2026

www.homes.vic.gov.au



@homesvic

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Appendix B:

Our audit approach

Our financial audits

We conduct our financial audits in accordance with the *Audit Act 1994* and the Australian Auditing Standards.

For each financial report, we evaluate the ...	and design and perform audit procedures that ...	and form an opinion ...
risks of material misstatement – whether due to fraud or error	respond to these material risks	based on audit evidence that is sufficient and appropriate.
internal controls relevant to the audit	are appropriate in the circumstances	on the appropriateness of using the going-concern basis of accounting.
<ul style="list-style-type: none"> appropriateness of accounting policies used and the reasonableness of accounting estimates and disclosures overall presentation, structure and content of the financial report 		on whether the report fairly represents the underlying transactions and events.

Our audit of the AFR

As part of our audit of the AFR, we also obtain:

- evidence about the completeness and accuracy of the financial information of the 31 material entities within the AFR
- an understanding of the consolidation process and evaluate the appropriateness, completeness and accuracy of consolidation adjustments, such as intra-agency and intra-sector eliminations.

Our independence

The Auditor-General is:

- an independent officer of the Parliament of Victoria
- appointed under legislation to examine, on behalf of Parliament and taxpayers, how the public sector manages resources
- not subject to control or direction of either Parliament or the government.

Our ethical obligations

The Auditor-General and VAGO must meet the ethical requirements of the:

- Australian Auditing Standards
- Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants*
- *Code of Conduct for Victorian Public Sector Employees of Special Bodies*
- *Public Administration Act 2004*
- *Standing Directions 2018 under the Financial Management Act 1994*, which provides policies on accepting and provisioning gifts, benefits and hospitality.

Use of artificial intelligence and safeguards

We used approved artificial intelligence (AI) tools to help prepare this report and the supporting data dashboard (for example, data capture, supporting analysis, research and drafting). These tools were used in a manner consistent with the [Victorian Auditor-General's Office AI Policy](#) and its principles for safe, ethical and responsible AI use. AI outputs were not used without human review, and were checked against source documents or other reliable, authoritative sources.

AI did not replace audit evidence, professional judgement or human oversight of quality assurance. The analysis, conclusions and recommendations in this report were made by VAGO in accordance with established review processes.

We do not enter personal information into non-approved generative AI tools. Where any publicly available tool was used, it was limited to information that was already publicly known or approved for public release. Specific safeguards applied included:

- human review of data captured back to source documentation (that is, audited financial statements and performance statements)
- confirmation of accuracy was sought from all audited agencies regarding their financial and non-financial data that has been used in this report
- re-computation of ratios and key trends identified by AI.

Our costs

The cost of ...	was ...	which is funded by ...
our audit of the AFR	\$511,000	DTF.
our audits of the 31 material entities	Approximately \$12.3 million	audited agencies.
preparing this report and its supporting dashboard	\$460,000	parliamentary appropriation.

We do not provide any non-assurance services to our clients.

Persons or entities named in this report

Unless otherwise indicated, any individuals or third-party providers named in this report are not the subject of adverse comment or opinion.

Appendix C:

Audit report on the AFR

Independent Auditor’s Report



To the Treasurer of the State of Victoria

Opinion	<p>I have audited the consolidated financial report of the State of Victoria (State) and the Victorian General Government Sector (General Government Sector), which comprises the:</p> <ul style="list-style-type: none">consolidated State and General Government Sector balance sheets as at 30 June 2026consolidated State and General Government Sector comprehensive operating statements for the year then endedconsolidated State and General Government Sector statements of changes in equity for the year then endedconsolidated State and General Government Sector cash flow statements for the year then endednotes to the consolidated financial statements, including material accounting policy informationcertification by the Treasurer and the Secretary of the Department of Treasury and Finance. <p>In my opinion, the consolidated financial report presents fairly, in all material respects, the financial positions of the State and the General Government Sector as at 30 June 2026 and their financial performance and cash flows for the year then ended in accordance with the financial reporting requirements of Section 24 of the <i>Financial Management Act 1994</i> and applicable Australian Accounting Standards.</p>
Basis for opinion	<p>I have conducted my audit in accordance with the <i>Audit Act 1994</i>, which incorporates the Australian Auditing Standards. I further describe my responsibilities under that Act and those standards in the <i>Auditor’s responsibilities for the audit of the consolidated financial report</i> section of my report.</p> <p>My independence is established by the <i>Constitution Act 1975</i>. My staff and I are independent of the State and the General Government Sector in accordance with the ethical requirements of the Accounting Professional and Ethical Standards Board’s APES 110 <i>Code of Ethics for Professional Accountants (including Independence Standards)</i> (the Code) that are relevant to my audit of the consolidated financial report in Victoria. My staff and I have also fulfilled our other ethical responsibilities in accordance with the Code.</p> <p>I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.</p>
Key audit matters	<p>Key audit matters are those matters that, in my professional judgement, were of most significance in my audit of the consolidated financial report of the current period. These matters were addressed in the context of my audit of the consolidated financial report as a whole and in forming my opinion thereon, and I do not provide a separate opinion on these matters.</p>

Key audit matter	How I addressed the matter
Financial reporting risks arising from progress towards key financial targets <i>Refer to the consolidated comprehensive operating statement, the consolidated cash flow statement and Note 7.1 which explains material variances between the budgeted and actual outcomes</i>	
<p>Net operating surplus: \$2.4 billion (2025–26 Budget: \$0.6 billion)</p> <p>Net cash flows from operating activities: \$9.8 billion (2025–26 Budget: \$6.2 billion)</p> <p>The Government continues to operate in a fiscally constrained environment characterised by increasing service delivery costs, rising debt and interest expenses, and ongoing economic uncertainty.</p> <p>In the 2025–26 State Budget, the Government forecast that the GGS would return to a net operating surplus after six consecutive years of deficits and maintain operating cash surpluses over the budget and forward estimates period. To support those outcomes, the Government is implementing savings initiatives, including workforce changes, efficiency measures and some recommendations from the Independent Review of the Victorian Public Service.</p> <p>I considered this to be a key audit matter because the challenging fiscal environment, the Government's focus on achieving financial targets, and the implementation of savings initiatives increased the risk of material misstatement in the financial report arising from:</p> <ul style="list-style-type: none"> • pressure to achieve financial targets and deliver savings, which may increase the risk of management bias in accounting judgements, estimates and classifications • incentives to manage reported outcomes, including through the timing, recognition and classification of revenue, expenditure and cash flow transactions • economic conditions, including inflation, wage growth, higher interest rates and geopolitical uncertainty • the implementation of savings initiatives including whether their financial impacts have been completely and accurately reflected in the financial report • resource constraints and workforce changes that may affect the effectiveness of internal controls over financial reporting. 	<p>My key audit procedures included:</p> <ul style="list-style-type: none"> • obtaining an understanding of, evaluating and testing controls relevant to the preparation of the consolidated financial report, including financial reporting controls at entities and business activities within the State and General Government Sector • gaining an understanding of the Government's key financial measures and targets, the savings initiatives and implementation steps planned to achieve them, and considering their implications for the risks of material misstatement in the financial report • considering the impact of economic conditions, including inflation, wage growth, interest rates and geopolitical uncertainty on significant accounting estimates, judgements and material transactions • assessing the accounting treatment of significant or complex transactions and applying heightened professional scepticism where those transactions affected reported financial outcomes or progress against financial targets • testing material journal entries and other adjustments recorded in preparing the financial report, with particular attention to unusual, non-routine or higher-risk entries • performing audit procedures over material revenue, income and expenditure transactions and operating cash flows, and investigating significant or unusual movements • assessing significant accounting estimates and judgements for indicators of management bias, including those associated with savings initiatives, workforce reforms and related liabilities • evaluating the recognition and classification of material cash receipts and payments including compliance with AASB 107 <i>Statement of Cash Flows</i> • evaluating whether the related disclosures were complete, accurate and appropriate in the context of the financial report and in accordance with the Australian Accounting Standards.

Key audit matter	How I addressed the matter
<p>Recognition of transport assets</p> <p><i>Refer to Note 4.1 Land, buildings, infrastructure, plant and equipment</i></p> <p>The State continues to invest heavily in transport infrastructure, adding materially to its asset base each year.</p> <p>As at 30 June 2026, it reported \$51.1 billion in construction in progress, down from \$75.9 billion in 2025. The decrease primarily reflects the capitalisation of major transport projects this year.</p> <p>The State is responsible for maintaining proper accounts and records that clearly explain the financial impact of these assets on its financial performance and financial position.</p> <p>I considered the recognition of transport assets to be a key audit matter because:</p> <ul style="list-style-type: none"> • transport assets under construction are financially significant • transport asset capital projects are complex and typically result in a broad range of asset types being constructed • a significant degree of judgement is required by management to: <ul style="list-style-type: none"> ○ identify individual assets within each project ○ determine which expenses should be capitalised ○ allocate capital costs to individual assets • multiple agencies are involved in managing and delivering the transport projects, which complicates timely recognition and derecognition of assets. 	<p>My key audit procedures included:</p> <ul style="list-style-type: none"> • assessing management's process to identify individual assets within a project, and the costs directly attributable to those assets • assessing the results of the work undertaken by management to review construction in progress balances and completed projects capitalised • evaluating management's assessment of the existence of assets, and the completeness and accuracy of asset records • evaluating the accounting treatment for asset additions, disposals and replacements against the requirements of Australian Accounting Standards • assessing the completeness and adequacy of the financial report disclosures against the requirements of Australian Accounting Standards.

Key audit matter	How I addressed the matter
<p>Valuation of non-financial physical assets</p> <p><i>Refer to Note 4.1 Land, buildings, infrastructure, plant and equipment and Note 6.5 Fair value determination of non-financial assets</i></p> <p>Financial Reporting Direction 103 <i>Non-financial physical assets</i> required entities within the environmental protection, economic affairs, housing and community amenities and recreation, culture and religion function groups to undertake a full revaluation of their non-financial physical assets as at 30 June 2026.</p> <p>This year, the State reported significant growth in the value of its non-financial physical asset base, including:</p> <ul style="list-style-type: none"> • an increase in the fair value of non-financial physical assets (excluding construction in progress) to \$491.6 billion, from \$424.8 billion in 2025 • an increase of \$28.3 billion in the physical asset revaluation surplus. <p>I considered the valuation of non-financial physical assets to be a key audit matter because:</p> <ul style="list-style-type: none"> • the balances of non-financial physical assets and related fair value changes are financially significant • management engaged external valuation experts to assist in estimating fair value • this year marked the initial application of amendments to AASB 13 <i>Fair Value Measurement</i> to assets within the environmental protection, economic affairs, housing and community amenities and recreation, culture and religion function groups. The amendments affected the current replacement cost approach used to determine fair value and required significant judgement by management and their external valuation experts • the fair value estimates were derived using current replacement cost valuation models, which are inherently complex and involve significant judgements and assumptions • AASB 13 requires extensive financial report disclosures, which are important to users' understanding of the valuation basis and assumptions applied. 	<p>My key audit procedures included:</p> <ul style="list-style-type: none"> • obtaining an understanding of the approach to estimating the fair value of non-financial physical assets • evaluating management's assessment of the impact of the AASB 13 amendments and the reasonableness of changes to valuation approaches • assessing the competence, capabilities and objectivity of management's external valuation experts • obtaining and evaluating the reports prepared by management's external valuation experts, including: <ul style="list-style-type: none"> ○ testing the completeness and accuracy of data provided to the external valuation experts ○ assessing the reasonableness and consistency of data, significant unobservable inputs and key assumptions used ○ evaluating the appropriateness of the current replacement cost models used to value the non-financial physical assets ○ verifying the computational accuracy of the fair value estimates. • verifying the accounting treatment of the revaluation adjustments against the applicable Australian Accounting Standards • assessing the completeness and adequacy of the financial report disclosures against the requirements of Australian Accounting Standards.

Key audit matter	How I addressed the matter
Recognition and measurement of service concession assets, liabilities and commitments <i>Refer to Note 2.8 Other liabilities, Note 4.1 Land, buildings, infrastructure, plant and equipment, Note 4.2 Other non-financial assets, Note 5.1 Borrowings and Note 5.7 Service concession arrangements</i>	
<p>Service concession assets - land, buildings, infrastructure, plant and equipment: \$63.4 billion</p> <p>Service concession assets - intangible produced assets: \$4.0 billion</p> <p>Service concession arrangement liabilities: \$9.9 billion</p> <p>Grant of a right to the operator liabilities: \$19.8 billion</p> <p>Service concession arrangement commitments: \$54.2 billion (nominal value)</p> <p>There are three types of service concession arrangements:</p> <ul style="list-style-type: none"> • arrangements where the State has contractual obligations to make payments and other contributions to the operators for constructing and operating assets • arrangements where the State has granted operators the right to charge the public directly for using assets • hybrid arrangements where the State has granted operators the right to charge the public for using assets and also makes contractual payments and other contributions to operators. <p>During 2025–26, the Metro Tunnel and West Gate Tunnel commenced operations, and the Suburban Rail Loop East was assessed as a service concession arrangement following the execution of the Linewide Franchise Agreement.</p> <p>I considered this to be a key audit matter because:</p> <ul style="list-style-type: none"> • service concession assets, liabilities and commitments are financially significant • the requirements of AASB 1059 <i>Service Concession Arrangements: Grantors</i> are complex, and their application requires significant management judgement • determining whether new or changed arrangements are within the scope of AASB 1059, and identifying the appropriate type of service concession arrangement are complex • the financial models used to measure assets, liabilities and commitments are complex and rely on significant assumptions and estimates • commissioning and reclassification of major projects require complete and accurate recognition, measurement and presentation of the related assets and liabilities • extensive disclosures are required by Australian Accounting Standards and are important to users' understanding of the nature, financial effects and future commitments associated with service concession arrangements. 	<p>My key audit procedures included:</p> <ul style="list-style-type: none"> • reviewing material contracts and contract amendments, supporting schedules, financial models and technical accounting papers including professional accounting advice obtained by the State where applicable • assessing whether new and changed arrangements were completely identified, appropriately assessed as being within the scope of AASB 1059 and correctly classified by type of service concession arrangement • evaluating the accounting for projects commissioned during the year, including whether related assets and liabilities were recognised, measured, classified and presented completely and accurately when the projects commenced operations • assessing the accounting treatment against the requirements of AASB 1059 and the reasonableness of management's significant judgements • engaging appropriately qualified independent subject matter experts to assess selected valuation methodologies and financial models, including the: <ul style="list-style-type: none"> ○ appropriateness of fair value methodologies ○ reasonableness and consistency of assumptions ○ reasonableness of inputs against underlying data, supporting documentation and, where applicable, actual costs incurred ○ accuracy of models • assessing the completeness and accuracy of recognised service concession assets, liabilities and commitments by reconciling them to the relevant contracts and underlying financial models • assessing the adequacy of the financial report disclosures against the requirements of Australian Accounting Standards.

Key audit matter	How I addressed the matter
<p>Valuation of defined benefit superannuation liability</p> <p><i>Refer to Note 3.3 Superannuation</i></p> <p>Defined benefit superannuation liability: \$17.1 billion</p> <p>The Emergency Services and State Super funds account for \$16.4 billion (95.9 per cent) of the State's defined benefit superannuation liability (the liability). The Emergency Services Superannuation Board (ESSB) manages these funds.</p> <p>I considered this to be a key audit matter because:</p> <ul style="list-style-type: none"> the liability is financially significant the underlying model used to value the liability is complex a significant degree of management judgement is required to determine the method, model and key assumptions used in valuing the liability a small adjustment to an assumption may have a significant effect on the total value of the liability ESSB has outsourced core member administration and fund accounting to an outsourced service provider. An independent assurance auditor was engaged by ESSB to report on the design, implementation and operating effectiveness of controls at the service provider extensive disclosures are required by Australian Accounting Standards, which are critical to users' understanding of the valuation of the liability management engaged an actuary to value the liability as at 30 April, then adjusted the value of the liability to account for actual market performance and movements in other inputs and key assumptions up to 30 June. 	<p>My key audit procedures included:</p> <ul style="list-style-type: none"> gaining an understanding and evaluating the design and implementation of key controls over the outsourced arrangement, and then testing their operating effectiveness, including those: <ul style="list-style-type: none"> supporting the completeness and accuracy of membership data assisting with the management and oversight of the arrangement obtaining the independent assurance auditor's report over the outsourced service provider's controls and: <ul style="list-style-type: none"> assessing the adequacy of the scope of work agreed between management and the assurance auditor assessing the professional competence and independence of the assurance auditor considering the relevance of the stated control objectives and controls covered by the assurance report assessing the testing performed by the assurance auditor and the results of the tests assessing the sufficiency and appropriateness of the audit evidence provided by the assurance report assessing the professional competence and independence of management's actuary obtaining the actuarial report and year-end adjustments, and engaging an appropriately qualified independent actuary to assist in obtaining sufficient appropriate audit evidence for the liability and disclosures, including to: <ul style="list-style-type: none"> assess the appropriateness of the model used to value the liability review the reasonableness of membership data in the model by comparing it to the data in the service provider's system assess the appropriateness of management's selection and application of the method, significant assumptions and data used to value the liability challenge the reasonableness of key assumptions by comparing against accepted industry benchmarks assess the reasonableness of the reported liability value assessing the adequacy of financial report disclosures against the requirements of Australian Accounting Standards.

Key audit matter	How I addressed the matter
<p>Valuation of provision for insurance claims</p> <p><i>Refer to Note 3.7 Other provisions</i></p> <p>Provision for insurance claims: \$55.8 billion</p> <p>Victoria's major insurance agencies, the Victorian WorkCover Authority (WorkSafe), Transport Accident Commission (TAC) and Victorian Managed Insurance Authority (VMIA), collectively hold \$54.8 billion in provisions to cover future general insurance claims. These provisions represent the estimated future costs of claims arising from workplace injuries, transport accidents, and public sector liabilities.</p> <p>I considered these provisions to be a key audit matter because:</p> <ul style="list-style-type: none"> the provision for insurance claims is financially significant, representing a substantial portion of the State's liabilities the provision comprises several insurance claim categories across the WorkSafe, TAC and VMIA. Each category requires estimation and valuation, adding complexity to the overall provision the underlying models used to value the provision are complex the valuation of the provision is subject to significant management assumptions and estimation uncertainty a small adjustment to an assumption may have a significant effect on the total value of the provision the WorkSafe scheme reforms under the <i>Workplace Injury Rehabilitation and Compensation Amendment (WorkCover Scheme Modernisation) Act 2024</i> affect key assumptions and judgements used by management to value the provision, resulting in significant estimation uncertainty extensive disclosures are required by Australian Accounting Standards, which are critical to users' understanding of the valuation of the provision management of each respective agency engaged actuaries to value the provision as at 30 June. 	<p>My key audit procedures included:</p> <ul style="list-style-type: none"> gaining an understanding of the systems, processes and models that affect claims data and the provision valuation testing the design, implementation and operating effectiveness of key controls supporting the underlying claims data used in the models assessing the completeness and accuracy of the claims data used in the model by reconciling this data to underlying claims data in the insurers' systems assessing the professional competence and independence of management's actuaries obtaining management's actuarial reports and engaging an appropriately qualified independent actuary to: <ul style="list-style-type: none"> assess the appropriateness of management's selection and application of the methods and significant assumptions assess the reasonableness of data and other inputs used in valuing the provision evaluate the appropriateness of the models used to value the provision challenge the reasonableness of key assumptions by comparing against claims history and accepted industry benchmarks assess the reasonableness of the reported provision value. assessing the adequacy of financial report disclosures against the requirements of Australian Accounting Standards.
<p>Other information</p>	<p>The Treasurer of Victoria is responsible for the Other Information, which comprises the information in chapters 1–3 and 5 of the 2025–26 Financial Report but does not include the consolidated financial report in chapter 4 and my auditor's report thereon.</p> <p>My opinion on the consolidated financial report does not cover the Other Information and accordingly, I do not express any form of assurance conclusion on the Other Information. However, in connection with my audit of the consolidated financial report, my responsibility is to read the Other Information and in doing so, consider whether it is materially inconsistent with the consolidated financial report or the knowledge I obtained during the audit, or otherwise appears to be materially misstated. If, based on the work I have performed, I conclude there is a material misstatement of the Other Information, I am required to report that fact. I have nothing to report in this regard.</p>

The Treasurer's responsibilities for the consolidated financial report	<p>The Treasurer of Victoria is responsible for the preparation and fair presentation of the consolidated financial report in accordance with Australian Accounting Standards and the <i>Financial Management Act 1994</i>, and for such internal control as the Treasurer determines is necessary to enable the preparation of a consolidated financial report that is free from material misstatement, whether due to fraud or error.</p> <p>In preparing the consolidated financial report, the Treasurer is responsible for assessing the State and the General Government Sector's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless it is inappropriate to do so.</p>
Auditor's responsibilities for the audit of the consolidated financial report	<p>As required by the <i>Audit Act 1994</i>, my responsibility is to express an opinion on the consolidated financial report based on the audit. My objectives for the audit are to obtain reasonable assurance about whether the consolidated financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this consolidated financial report.</p> <p>As part of an audit in accordance with the Australian Auditing Standards, I exercise professional judgement and maintain professional scepticism throughout the audit. I also:</p> <ul style="list-style-type: none"> • identify and assess the risks of material misstatement of the consolidated financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. • obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the State and the General Government Sector's internal control. • evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Treasurer. • conclude on the appropriateness of the Treasurer's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the State and the General Government Sector's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the consolidated financial report or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the State and the General Government Sector to cease to continue as a going concern. • evaluate the overall presentation, structure and content of the consolidated financial report, including the disclosures, and whether the consolidated financial report represents the underlying transactions and events in a manner that achieves fair presentation. • obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the State and the General Government Sector to express an opinion on the consolidated financial report. I remain responsible for the direction, supervision and performance of the audit of the consolidated financial report. I remain solely responsible for my audit opinion.

**Auditor's
responsibilities
for the audit of
the
consolidated
financial report
(continued)**

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

From the matters communicated with the Treasurer, I determine those matters that were of most significance in the audit of the consolidated financial report of the current period and are therefore key audit matters. I describe these matters in the auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, I determine that a matter should not be communicated in the auditor's report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

MELBOURNE
1 October 2026



Dave Barry
Deputy of the Auditor-General

Appendix D:

Results of material entity audits

Figure D1: Audit opinions issued and key financial information for material entities

Entity	Benefit	Revenue (\$ million)	Expenses (\$ million)	Assets (\$ million)	Liabilities (\$ million)	Financial report certified	Audit opinion issued	Type
General government sector (GGS)								
Department of Education	Controlled	18,310	18,300	51,893	3,661	31/8/2026	7/9/2026	Unmodified
	Administered	5,875	5,808	148	0			
Department of Energy, Environment and Climate Action	Controlled	3,514	3,405	17,029	1,170	21/9/2026	24/9/2026	Unmodified
	Administered	1,940	1,936	5,456	3,118			
Department of Government Services	Controlled	1,324	1,086	2,590	1,336	24/9/2026	2/10/2026	Unmodified
	Administered	1,257	1,256	724	722			
Department of Families, Fairness and Housing	Controlled	7,063	7,561	41,987	2,595	8/9/2026	11/9/2026	Unmodified
	Administered	3,181	3,181	3	3			
Department of Health	Controlled	22,797	22,116	10,075	4,554	7/9/2026	10/9/2026	Unmodified
	Administered	20,695	20,671	635	635			
Department of Jobs, Skills, Industry and Regions	Controlled	3,973	3,949	1,337	346	16/10/2026	20/10/2026	Unmodified
	Administered	46	105	21	0			
Department of Justice and Community Safety	Controlled	11,153	11,343	8,813	3,865	23/9/2026	30/9/2026	Unmodified
	Administered	1,441	1,344	2,828	514			
Department of Premier and Cabinet	Controlled	579	581	385	77	18/9/2026	28/9/2026	Unmodified
	Administered	18	18	12	12			
Department of Transport and Planning	Controlled	10,092	10,938	145,072	18,668	24/9/2026	30/9/2026	Unmodified
	Administered	5,325	5,019	83,984	12,539			
Department of Treasury and Finance	Controlled	471	471	226	142	24/9/2026	29/9/2026	Unmodified
	Administered	111,079	108,979	292,524	222,268			
Eastern Health	Controlled	1,845	1,865	2,037	712	31/8/2026	2/9/2026	Unmodified

Entity	Benefit	Revenue (\$ million)	Expenses (\$ million)	Assets (\$ million)	Liabilities (\$ million)	Financial report certified	Audit opinion issued	Type
Melbourne Health	Controlled	1,792	1,844	1,544	650	26/8/2026	27/8/2026	Unmodified
Monash Health	Controlled	3,688	3,748	4,407	1,235	22/9/2026	24/9/2026	Unmodified
Bayside Health	Controlled	2,539	2,538	4,765	2,365	2/9/2026	4/9/2026	Unmodified
National Gallery of Victoria	Controlled	227	145	6,020	49	19/10/2026	19/10/2026	Qualified
Office of the Chief Commissioner of Police	Controlled	4,850	4,846	5,192	2,950	10/9/2026	21/9/2026	Unmodified
	Administered	82	87	71	73			
Suburban Rail Loop Authority	Controlled	137	137	6,972	363	15/9/2026	18/9/2026	Unmodified
The Royal Children's Hospital	Controlled	1,250	1,236	1,888	1,016	31/8/2026	2/9/2026	Unmodified
Victorian Gambling and Casino Control Commission	Controlled	40	44	23	10	16/9/2026	22/9/2026	Unmodified
	Administered	2,382	2,494	366	1,388			
Total GGS*		248,964	247,049	699,024	287,033			
Public non-financial corporations (PNFCs)								
Goulburn–Murray Rural Water Corporation	Controlled	164	233	11,231	2,513	26/8/2026	31/8/2026	Unmodified
Greater Western Water	Controlled	1,057	1,260	5,192	3,960	15/10/2026	16/10/2026	Unmodified
Melbourne Port Lessor Pty Ltd	Controlled	199	135	11,819	8,156	17/9/2026	18/9/2026	Unmodified
Melbourne Water Corporation	Controlled	2,223	2,044	21,776	11,658	28/8/2026	8/9/2026	Unmodified
North East Link State Tolling Corporation	Controlled	3	35	11,217	6,643	7/9/2026	9/9/2026	Unmodified
South East Water Corporation	Controlled	1,252	1,198	6,424	4,280	11/9/2026	18/9/2026	Unmodified

Entity	Benefit	Revenue (\$ million)	Expenses (\$ million)	Assets (\$ million)	Liabilities (\$ million)	Financial report certified	Audit opinion issued	Type
VicTrack	Controlled	182	2,984	108,709	14,741	3/9/2026	18/9/2026	Adverse
Yarra Valley Water Corporation	Controlled	1,268	1,239	7,817	5,570	31/8/2026	8/9/2026	Unmodified
Total PNFCs*		6,350	9,129	184,186	57,520			
Public financial corporations (PFCs)								
Transport Accident Commission	Controlled	4,414	2,864	23,120	20,088	27/8/2026	31/8/2026	Unmodified
Treasury Corporation of Victoria	Controlled	259	215	222,664	222,337	18/8/2026	24/8/2026	Unmodified
Victorian Managed Insurance Authority	Controlled	1,294	947	5,069	4,605	4/9/2026	15/9/2026	Unmodified
WorkSafe Victoria	Controlled	9,016	6,063	34,388	33,460	26/8/2026	28/8/2026	Unmodified
Total PFCs*		14,983	10,088	285,241	280,489			

Note: *Amounts include transactions between entities. These transactions are eliminated on consolidation in the AFR. Totals may not add due to rounding.
Source: VAGO.

Appendix E:

Follow-up on other prior-year recommendations

Recommendation to the Department of Treasury and Finance

Recommendation	DTF response	Year raised	Status in 2025–26
1 Consider why quality issues with information provided by material entities arise and determine whether further training and guidance are required.	Accepted	2022–23	Actioned We did not identify any material data integrity issues this year. DTF continued their training and support of material entities in the compilation of their data feeds.

Recommendations to the Department of Premier and Cabinet

Recommendation	DPC response	Year raised	Status in 2025–26
1 Work with the government, departments and state-controlled entities to reconsider the tabling schedule of annual reports, to reduce the information burden on parliamentarians and the Victorian community, of tabling high volumes at the same time.	Not accepted	2022–23	<p>The August 2025 amendments to the <i>Financial Management Act 1994</i> changed how annual reports are provided to Parliament. Reports may now be transmitted on non-sitting days from 15 October, after publication of the AFR, to 31 October. Ministers must disclose when they received each report and cannot direct entities to submit reports on a particular date.</p> <p>Where an entity's expenses and obligations do not exceed \$5 million, the Minister only needs to notify Parliament of receipt and is only to transmit in Parliament if a member requests it.</p> <p>As a result of these changes, many entities that complete their financial reporting and audits before this date must wait until the transmission window opens before providing their annual report to Parliament. As we have prepared this report before the transmission window in 2026, we are unable to see whether these changes have had any impact on the timeliness of annual reporting or the concentration of reports being provided to Parliament.</p>
2 Undertake a post-implementation review of the 2022 machinery of government changes, including: <ul style="list-style-type: none"> working together with impacted departments to understand collective experiences sharing findings and lessons learnt with the government to improve planning, implementing and operationalising future machinery of government changes. 	Accepted	2023–24	Actioned DPC completed a post-implementation review of the 2022 machinery of government changes, involving consultation with central agencies and affected departments to understand their experiences and identify lessons learned. The review identified strengths and challenges in the planning, implementation and operationalisation of the changes and made 11 recommendations to improve future machinery of government processes. DPC shared the review findings and proposed actions with the Public Service Administration Committee (PSAC) to inform future whole-of-government planning and implementation arrangements. We consider this recommendation implemented.

Recommendations to material entities

	Recommendation	Year raised	Status in 2025–26
1	Material entities responsible for administering trust accounts assess whether the current spending patterns are effectively achieving the purposes for which these funds were established.	2024–25	Not implemented Trust account balances continue to grow.
2	<ul style="list-style-type: none"> Consider the requirements relating to <i>Standing Directions 2018 under the Financial Management Act 1994</i>, Standing Direction 3.4: Internal control system and Instruction 10 – managing shared services and outsourcing arrangements when entering into such arrangements and outline those requirements clearly in the service level agreements. Obtain an appropriate level of assurance annually, as required by the <i>Standing Directions 2018 under the Financial Management Act 1994</i> over the outsourced service providers and shared services, and document it. 	2024–25	Not implemented We continue to see material entities that do not have the appropriate assurance over their shared and outsourced service providers. DTP, DTF and DPC did not obtain independent assurance from DGS as their shared service provider. DGS plans to provide this as a 3402 Type II report in 2026–27 for financial management activities.
3	Strengthen transparency by delivering targeted training and practical guidance to staff responsible for preparing key management personnel and related party disclosures.	2024–25	Not implemented We continue to find errors in the compilation and calculation of these notes in material entity financial statements.
4	<p>We recommend relevant material entity chief financial officers:</p> <ul style="list-style-type: none"> develop and implement robust quality assurance processes over the financial information provided to the Department of Treasury and Finance ensure: <ul style="list-style-type: none"> internal processes are documented well enough to enable a new starter to understand what submission processes and obligations are required by the Department of Treasury and Finance, how these processes are to be done and by when adequate training and knowledge transfer occurs for all key finance staff to support the process. 	2023–24	Actioned We did not identify significant issues in the data transmitted.
5	Prioritise the resolution of information technology control deficiencies that pose a risk to achieving complete and accurate financial reporting, business objectives or compliance with legislation.	2022–23	Not implemented IT control deficiencies continue to emerge on new system implementations, and current issues are not being addressed as a priority.

Appendix F:

Financial measures and targets

Financial targets becoming more qualitative and less specific

Changes to financial targets during the pandemic

The government has changed its approach to setting measures and targets over the last 13 years. In 2020–21, the government's focus on economic recovery after the COVID-19 pandemic led to the removal of the 'operating surplus' target and the introduction of the 'operating cash surplus' and 'interest expense to revenue' targets.

Targets have become less specific

Figure F1 shows the various measures the government has used and how they vary from specifically quantifiable targets to ones that allow for flexibility in response to economic conditions.

Figure F1: Changes to Victoria's financial targets over the last 13 years

Year	Operating cash surplus	Net debt to GSP	Superannuation liabilities	Interest expense to revenue	Operating surplus	Infrastructure investment
2026–27	A net operating cash surplus consistent with maintaining general government net debt at a sustainable level	General government net debt as a percentage of GSP to stabilise and reduce in the medium term	Fully fund the unfunded superannuation liability by 2035	General government interest expense as a percentage of revenue to stabilise in the medium term		
2025–26						
2024–25						
2023–24						
2022–23	A net operating cash surplus consistent with maintaining general government net debt at a sustainable level after the economy has recovered from the COVID-19 pandemic	General government net debt as a percentage of GSP to stabilise in the medium term				
2021–22						
2020–21						
2019–20		General government net debt as a percentage of GSP to be maintained at a sustainable level over the medium term			A net operating surplus consistent with maintaining general government net debt at a sustainable	
2018–19						
2017–18						
2016–17						
2015–16						

Year	Operating cash surplus	Net debt to GSP	Superannuation liabilities	Interest expense to revenue	Operating surplus	Infrastructure investment
					level over the medium term	
2014–15		General			A net operating surplus of at least	Infrastructure investment of
2013–14		government net debt reduced as a percentage of GSP over the decade to 2022			\$100 million and consistent with the infrastructure and debt parameters	1.3% of GSP (calculated as a rolling 5-year average)

Source: VAGO, based on the state Budget.

Challenges understanding these targets

Parliamentarians and the community may find it challenging to measure the financial performance of the government when the measures are more qualitative and less specific. Quantitative and specific measures help Parliament and the public to hold the government accountable and improve transparency.

Appendix G:

Unadjusted audit differences

Figure G1 summarises the unadjusted audit differences identified in our audits of material entities' financial reports and the AFR. Unadjusted differences were not material, individually or in aggregate, to the respective financial reports or the AFR.

Figure G1: Unadjusted audit differences more than \$25 million

Entity	Affected line items	Amount \$ m	Nature of the audit difference
Department of Treasury and Finance – Annual Financial Report of the State of Victoria	Property, plant and equipment and revaluation reserve	968.0	Data integrity issues at Barwon Water Corporation's scheduled asset revaluation resulted in an overstatement of asset values. The error was corrected in the corporation's financial report but not adjusted in the AFR, as DTF considered it immaterial at the AFR level.
Bayside Health	Property, plant and equipment and contributed equity	61.3	The Phillip Island Community Hospital was in use and controlled by Bayside Health from early 2026 but remained recorded by the Department of Health because ministerial approval to legally enact transfer was delayed.
Department of Health	Grant expenses and property, plant and equipment	151.0	Completed assets that were open, operating and controlled by health services remained recorded by the department. This overstated the department's net result and net assets.
Department of Families, Fairness and Housing	Redress scheme provisions	136.1	The redress scheme liability was overprovided for at 30 June 2026.
Department of Jobs, Skills, Industry and Regions	Fair value of assets and services received free of charge and retained earnings	63.2	Assets received free of charge were omitted from a 2022–23 Machinery of Government allocation statement and not designated as equity under Financial Reporting Direction 119 <i>Transfers through contributed capital</i> . They should have been recognised as income when control was obtained in 2022–23, rather than in 2025–26.
Department of Transport and Planning	Estimated net gain or loss arising from revaluation of the rail operators' long service leave liability and net result from transactions	28.6	The reported revaluation gain was entirely attributed to the change in bond rate. DTP could not determine how much was an other economic flow due to insufficient information from the rail operators.
	Commitments for expenditure – disclosure	161.5	A contingency amount was included in error, partly offset by ongoing expenditure contracts from 2024–25, which were omitted from the 2025–26 commitments disclosure.
North East Link State Tolling Corporation	Revenue from assets received free of charge and service concession assets (work in progress)	63.0	The estimated portion of additional construction costs under contractual arrangements were not recognised.
	Administered grant expenses and administered payables	31.4	Two months of Victorian Racing Industry payments were omitted from payables at 30 June 2026, as payments are based

Entity	Affected line items	Amount \$ m	Nature of the audit difference
Department of Treasury and Finance			on wagering and betting tax liabilities and invoices received 2 months in arrears.
	Administered superannuation liability and remeasurement of superannuation defined benefit plans	64.0	The estimated ESSSuper investment assets rolled forward from 30 April differed from their actual value at 30 June 2026.
	Administered contributed capital and administered investment in VicTrack	75.0	VicTrack's contributed capital recorded in GGS differed from the amount disclosed in its financial report.
Department of Justice and Community Safety	Redress expenses and provisions	75.0	Estimated understatement of the Financial Assistance Scheme liability arising from inherent data limitations and assumptions used in the current provision model.
Source: VAGO.			

Appendix H:

Internal control and financial reporting issues risk ratings

Figure H1 defines the risk ratings that we apply to internal control and financial reporting issues. It also details what the ratings represent and the expected timelines for the issue to be resolved.

Figure H1: Risk rating definitions

Rating	Definition	Management action required
High	<p>The issue represents:</p> <ul style="list-style-type: none"> a material misstatement in the financial report that has occurred, or an issue that could potentially result in a modified audit opinion if not addressed as a matter of urgency by the entity <p>or</p> <ul style="list-style-type: none"> a control weakness that is or could majorly disrupt a process or an entity's ability to achieve a process's objectives in relation to financial reporting and comply with relevant legislation. 	<p>High-risk issues require an entity's executive management to correct the misstatement in its financial report or address the issue as a matter of urgency to avoid a modified audit opinion.</p> <p>High-risk issues require management to immediately intervene with a detailed action plan and implement it within one month.</p>
Medium	<p>The issue represents:</p> <ul style="list-style-type: none"> a misstatement in a financial report that has occurred, or may occur, and has the possibility to become material <p>or</p> <ul style="list-style-type: none"> a control weakness that could have or is having a moderate adverse effect on an entity's ability to achieve process objectives and comply with relevant legislation. 	<p>Medium-risk issues require management to intervene with a detailed action plan and implement it within 3 to 6 months.</p>
Low	<p>The issue represents:</p> <ul style="list-style-type: none"> a misstatement in a financial report that is likely to occur but is not expected to be material <p>or</p> <ul style="list-style-type: none"> a minor control weakness with minimal but reportable impact on an entity's ability to achieve process objectives and comply with relevant legislation <p>or</p> <ul style="list-style-type: none"> an opportunity to improve an existing process or internal control. 	<p>Low-risk issues require management to intervene with a detailed action plan and implement it within 6 to 12 months.</p>

Source: VAGO.

Appendix I:

Acronyms and glossary

Acronyms

We use the following acronyms in this report:

Acronym	Full spelling
AASB	Australian Accounting Standards Board
AFR	Annual Financial Report of the State of Victoria
DGS	Department of Government Services
DH	Department of Health
DJSIR	Department of Jobs, Skills, Industry and Regions
DPC	Department of Premier and Cabinet
DTF	Department of Treasury and Finance
DTP	Department of Transport and Planning
GGS	general government sector
GSP	gross state product
GST	goods and services tax
GWW	Greater Western Water
NGV	National Gallery of Victoria
PFC	public financial corporation
PNFC	public non-financial corporation
TCV	Treasury Corporation of Victoria
TEI	total estimated investment
VAGO	Victorian Auditor-General's Office

Glossary

The following terms are included in or relevant to this report:

Term	Explanation
Accountability	Accountability refers to the responsibility of public sector entities to achieve their objectives in the reliability of financial reporting, effectiveness and efficiency of operations, compliance with applicable laws and reporting to interested parties.
Adverse opinion	We make an adverse opinion when an entity's financial reports are misrepresented, misstated or do not accurately reflect the entity's financial health.
Asset	An asset is an item or resource controlled by an entity that will be used to generate future economic benefits.

Term	Explanation
Clear audit opinion	A clear audit opinion adds credibility to the financial report by providing reasonable assurance that reported information is reliable and accurate and complies with the requirements of relevant Australian Accounting Standards and applicable legislation.
Fiscal cash surplus/deficit	<p>The cash surplus/deficit is calculated by:</p> <ul style="list-style-type: none"> net cashflows received from operating activities, which are the sum of cash received from sources, such as taxes and government grants, offset by cash spent on operating expenses, such as employee costs plus net cashflows from investment in non-financial assets, being the sum of cash earned from investment activities, such as the sale of land and buildings, offset by cash spent on capital projects.
Fiscal strategy	A fiscal strategy is a clear statement of the government's fiscal objectives and targets over a defined period. It sets out the government's short term and long-term fiscal strategies and objectives for managing its finances and existing and emerging risks. It also demonstrates how planned government policies will contribute to fiscal sustainability and macroeconomic stability.
Fiscal sustainability	Fiscal sustainability is the ability of the government to maintain public finances at a credible and serviceable position now and into the future. Ensuring long-term fiscal sustainability requires governments to engage in ongoing monitoring and strategic forecasting of future revenue and expenditure, environmental factors and socioeconomic trends to remain financially resilient.
Funding position	Funding position shows the proportion of a superannuation fund's liability covered by the fund's assets. It is a measure of whether the fund has enough assets to pay out future benefits to its members.
Government bond	A government bond is a loan for a specified period with regular interest payments with repayment of face value in full at the maturity.
Insurance funding ratio	Insurance funding ratio is a funding ratio of available assets to estimated liabilities used to monitor the long-term financial sustainability of an insurance scheme.
Intergenerational equity	Intergenerational equity means fairly sharing economic costs and benefits of the government's fiscal policy decisions, such as taxation, public spending and borrowing across different generations.
Inter-sector or inter-agency transactions	Inter-sector or inter-agency transactions are financial transactions that occur between 2 entities in the same sector, or between 2 sectors of government. When an annual financial report is prepared, the accounts are adjusted so these transactions are not counted twice.
Key audit matters	<p>Auditors may include a description of key audit matters in the auditor's report, as described in Auditing Standard ASA 701 <i>Communicating Key Audit Matters in the Independent Auditor's Report</i>.</p> <p>Key audit matters are determined by the auditor as the matters of most significance to the audit. We voluntarily adopt key audit matter reporting for the AFR and material entities to enhance the value of our audit reports by providing greater transparency and insights about our audit process. Key audit matters are not opinions and are not necessarily adverse findings.</p>
Limited assurance	We obtain less assurance when we rely primarily on an agency's representations and other evidence generated by that agency. However, we aim to have enough confidence in our conclusion for it to be meaningful. We call these types of engagements assurance reviews and typically express our opinions in negative terms. For example, that nothing has come to our attention to indicate there is a problem. See our assurance services fact sheet for more information.
Material	Omissions or misstatements of items are material if they could individually or collectively influence the economic decisions that users make on the basis of the financial report.

Term	Explanation
	Materiality depends on the size and nature of the omission or misstatement judged in the surrounding circumstances. The size or nature of the item, or a combination of both, could be the determining factor.
Material entities	Material entities are the entities that account for most of the state's assets, liabilities, revenue and expenses. In forming our opinion on the AFR, we focus on the financial transactions and balances of these entities.
Net operating balance	Net operating balance is revenue from transactions minus expenses from transactions. It is the part of the change in net worth that can directly be attributed to government policies and is a key measure of GGS financial performance and operating sustainability. It is also known as net result from transactions.
Nominal value	Nominal value is the value measured in terms of absolute money amount without taking inflation or other factors into account.
Outstanding insurance claim	An outstanding insurance claim is a claim that the insuring entity is responsible for paying in the future where the claim arises from an event that occurred on or before the valuation date. The liability includes an allowance for claims that have occurred but have not yet been reported to the insuring entity.
Public sector	The overall public sector comprises around 1,750 organisations, including 1,500 schools and 270 entities, such as hospitals, emergency services, water authorities, cemetery trusts, creative industry agencies and sport and recreation organisations. These agencies fall within the GGS and public corporation sectors.
Public corporations	Public corporations are state-owned entities or statutory authorities established under legislation. They include: <ul style="list-style-type: none"> public non-financial corporations that provide a wide range of goods and services while meeting commercial principles through cost recovery via user fees and charges public financial corporations that deal with financial aspects of the state. They have the power to borrow, accept deposits and acquire financial assets.
Qualified opinion	We express a qualified opinion when we: <ul style="list-style-type: none"> have obtained sufficient evidence that misstatements are material but not pervasive to the financial report are unable to obtain sufficient evidence that the possible effects of undetected errors could be material but not pervasive to the financial report.
Reasonable assurance	We achieve reasonable assurance by obtaining and verifying direct evidence from a variety of internal and external sources about an agency's performance. This enables us to express an opinion or draw a conclusion against an audit objective with a high level of assurance. We call these audit engagements. See our assurance services fact sheet for more information.

Auditor-General's reports tabled in 2026–27

Report title	Tabled
<i>Delivering the Suburban Rail Loop</i> (2026–27: 1)	August 2026
<i>Maintaining State Roads</i> (2026–27: 2)	September 2026
<i>Public Lottery Licence Extension</i> (2026–27: 3)	September 2026
<i>Preventing Youth Crime</i> (2026–27: 4)	September 2026
<i>Managing Victoria's Firefighting Fleet</i> (2026–27: 5)	October 2026
<i>Government Advertising and Communications</i> (2026–27: 6)	October 2026
<i>Follow-up: Management of Spending in Response to COVID-19</i> (2026–27: 7)	October 2026
<i>Auditor-General's Report on the Annual Financial Report of the State of Victoria: 2025–26</i> (2026–27)	October 2026

All reports are available for download in PDF and HTML format on our website at www.audit.vic.gov.au

Our role and contact details

The Auditor-General's role

For information about the Auditor-General's role and VAGO's work, please see our online fact sheet [About VAGO](#).

Our assurance services

Our online fact sheet [Our assurance services](#) details the nature and levels of assurance that we provide to Parliament and public sector agencies through our work program.

Contact details

Victorian Auditor-General's Office
Level 31, 35 Collins Street
Melbourne Vic 3000
AUSTRALIA

Phone +61 3 8601 7000
Email enquiries@audit.vic.gov.au
