

## Overview

This chapter provides an overview of the public and private finance sectors in Victoria. Areas analysed include government finance statistics, State and local government finance, Commonwealth and State financial relations, the Australian financial system, banks, and non-bank financial institutions.

## Public finance

The public finance statistics in this chapter measure activity of State and local government components of the Victorian public sector, classified according to the government finance statistics framework. A series of summary tables show, on a consolidated basis, revenue, outlays and financing transactions, financial assets and liabilities, and the purposes that are being served by government expenditure programs.

The Victorian Government and local government enterprises include the central Government of Victoria, statutory bodies created by or under State legislation to carry out activities on behalf of the central government, incorporated organisations in which the central Government has a controlling interest, and local government authorities.

## Government finance statistics

The system of government finance statistics is designed to provide statistics about all public sector authorities, such as government departments, statutory authorities, and local government authorities; with the exception of those regarded as financial institutions (e.g. government banks and insurance offices). The system is based on international standards set out in the International Monetary Fund's *A Manual of Government Finance Statistics* and the United Nations' *A System of National Accounts*. The statistics in this chapter cover public trading enterprises and general government bodies owned or controlled by State and local governments.

Public trading enterprises are undertakings which aim to recover a substantial proportion of their expenses by revenue from sale of goods and services. General government bodies are all the agencies of government not classified as either public trading or financial enterprises; i.e. all government departments, offices and other bodies engaged in providing services free of charge or at prices significantly below their cost of production.

In this issue, the previous measure of 'deficit adjusted for net advances' has been replaced with 'deficit or surplus', as net advances paid have been reclassified from capital outlays to financing. This has removed, from the

deficit, the effect of net injections/acquisitions or sales of equity (or privatisation), as well as repayment of other government lending for policy purposes.

To assist users in understanding government finance statistics, the publications *Classifications Manual for Government Finance Statistics, Australia, 1989* (Cat. no. 1217.0) and *Government Finance Statistics—Concepts, Sources and Methods, 1994* (Cat. no. 5514.0) outline the major concepts, provide definitions of statistical units, and contain the main classifications employed.

### State government finance

In 1996–97, the overall financial outcome of the Victorian Government was reflected in a surplus of \$2,214 million, an increase from the 1995–96 surplus of \$1,104 million (table 12.1). The drop in outlays of \$537 million, from \$17,512 million in 1995–96 to \$16,975 million in 1996–97, was offset by a rise in revenue of \$627 million, from \$17,860 million to \$18,487 million in 1996–97.

#### 12.1 ECONOMIC TRANSACTIONS OF VICTORIAN STATE GOVERNMENT

Item	1991–92	1992–93	1993–94	1994–95	1995–96	1996–97
	\$m	\$m	\$m	\$m	\$m	\$m
Total current outlays	16 328	16 550	15 616	15 418	15 432	15 210
Total capital outlays	2 372	1 479	1 826	2 664	2 080	1 765
<i>Total outlays</i>	18 700	18 029	17 442	18 083	17 512	16 975
<i>Total revenue</i>	15 317	15 808	16 625	17 101	17 860	18 487
<b>Total financing(a)</b>	<b>3 383</b>	<b>2 221</b>	<b>817</b>	<b>982</b>	<b>-348</b>	<b>-1 512</b>
Less increase in provisions (net)	928	909	798	1 149	756	702
<b>Equals deficit or surplus(-)</b>	<b>2 455</b>	<b>1 312</b>	<b>19</b>	<b>-167</b>	<b>-1 104</b>	<b>-2 214</b>
of which	—	—	—	—	—	—
Current deficit	1 099	974	-918	-1 991	-2 476	-2 783
Capital deficit	1 356	338	937	1 824	1 372	568

(a) The sum of transactions by which governments finance their deficits or invest their surpluses. Financing represents the difference between total revenue and total outlays.

Source: *Government Finance Statistics, Australia* (Cat. no. 5512.0).

#### 12.2 DEFICIT/SURPLUS OF VICTORIAN GOVERNMENT



Source: *Government Finance Statistics, Australia* (Cat. no. 5512.0).

**Outlays and revenue** Table 12.3 illustrates expenditure allocated by purpose. Total outlays fell by \$537 million (3.1%) in 1996–97 to \$16,975 million, mainly due to a 79.1% drop in fuel and energy outlays related to the sale of state-owned electricity enterprises. The major components of total outlays were education (\$4,073 million, 24.0% of total) and health (\$3,261 million, 19.2%).

### 12.3 STATE GOVERNMENT TOTAL OUTLAYS

	1991–92	1992–93	1993–94	1994–95	1995–96	1996–97
Purpose	\$m	\$m	\$m	\$m	\$m	\$m
General public services	1 271	1 625	1 664	1 620	1 407	1 658
Public order and safety	1 017	1 041	1 056	1 133	1 183	1 367
Education	4 612	4 164	3 557	3 588	3 828	4 073
Health	2 961	2 932	2 778	2 876	3 073	3 261
Social security and welfare	749	859	861	972	978	1 019
Housing and community amenities	965	853	732	1 030	877	787
Recreation and culture	407	441	195	361	340	365
Fuel and energy	553	-75	549	795	506	106
Agriculture, forestry, fishing and hunting	232	224	231	251	273	277
Mining, manufacturing, construction etc.	48	-120	28	52	84	45
Transport and communications	1 599	1 647	1 616	1 507	1 453	1 273
Other economic affairs	324	289	192	212	139	122
Other purposes	3 961	4 148	3 983	3 686	3 369	2 622
<b>Total</b>	<b>18 700</b>	<b>18 029</b>	<b>17 442</b>	<b>18 083</b>	<b>17 512</b>	<b>16 975</b>

Source: Government Finance Statistics, Australia (Cat. no. 5512.0).

**Taxes, fees, and fines** Taxes, fees, and fines increased by 6.7% from \$8,616 million in 1995–96 to \$9,189 million in 1996–97 (table 12.4). The largest components of taxation revenue were property taxes (28.1% of total), taxes on use of goods and performance of activities (25.4%), and employers' payroll taxes \$2,111 million (23.0%).

### 12.4 STATE GOVERNMENT TAXES, FEES, AND FINES

	1991–92	1992–93	1993–94	1994–95	1995–96	1996–97
Item	\$m	\$m	\$m	\$m	\$m	\$m
Employers' payroll taxes	1 758	1 660	1 698	1 844	1 995	2 111
Taxes on property	1 679	1 962	2 208	2 155	2 254	2 584
Government borrowing guarantee levies	—	—	—	—	13	16
Taxes on provision of goods and services						
Excises and levies	258	284	287	309	328	317
Taxes on gambling	513	601	761	908	1 051	1 157
Taxes on insurance	308	348	453	464	485	502
Total	1 080	1 233	1 501	1 681	1 864	1 976
Taxes on use of goods and performance of activities						
Motor vehicle taxes	506	618	735	802	826	833
Franchise taxes	793	851	1 060	1 069	1 258	1 331
Other taxes on use of goods etc.	5	7	9	13	r229	169
Total	1 304	1 475	1 805	1 884	2 313	2 332
Fees and fines	178	169	181	194	190	185
<b>Total r</b>	<b>5 998</b>	<b>6 498</b>	<b>7 394</b>	<b>7 759</b>	<b>8 616</b>	<b>9 189</b>

Source: Taxation Revenue, Australia (Cat. no. 5506.0).

**Local government finance**

Between 1995–96 and 1996–97, the local government deficit increased 93.1% from \$58 million to \$112 million (table 12.5). Total current and capital outlays rose by 4.2% from \$2,011 million in 1995–96 to \$2,096 million in 1996–97, whilst revenue increased by 1.6% from \$1,953 million to \$1,984 million.

**12.5 ECONOMIC TRANSACTIONS OF LOCAL GOVERNMENT**

	1991–92	1992–93	1993–94	1994–95	1995–96	1996–97
Item	\$m	\$m	\$m	\$m	\$m	\$m
Total current outlays	1 627	1 723	1 650	1 552	1 718	1 733
Total capital outlays	358	577	526	492	293	363
<i>Total outlays</i>	1 985	2 300	2 176	2 044	2 011	2 096
<i>Total revenue</i>	2 045	2 263	2 260	2 107	1 953	1 984
<b>Total financing(a)</b>	<b>-60</b>	<b>37</b>	<b>-84</b>	<b>-63</b>	<b>58</b>	<b>112</b>
Less increase in provisions (net)	11	11	9	1	—	—
<b>Equals deficit or surplus (-)</b>	<b>-71</b>	<b>26</b>	<b>-93</b>	<b>-64</b>	<b>58</b>	<b>112</b>
of which	—	—	—	—	—	—
Current deficit	-362	-424	-568	-505	-220	-200
Capital deficit	291	450	475	441	278	312

(a) The sum of transactions by which governments finance their deficits or invest their surpluses. Financing represents the difference between total revenue and total outlays.

Source: Government Finance Statistics, Australia (Cat. no. 5512.0).

The most significant local government outlays were on transport and communications \$463 million (22.1% of total), recreation and culture \$423 million (20.2%), and housing and community amenities \$350 million (16.7%) (table 12.6).

**12.6 LOCAL GOVERNMENT TOTAL OUTLAYS**

	1991–92	1992–93	1993–94	1994–95	1995–96	1996–97
Purpose	\$m	\$m	\$m	\$m	\$m	\$m
General public services	421	364	385	364	268	228
Public order and safety	43	44	31	30	51	51
Education	30	36	27	26	25	29
Health	72	63	59	56	61	66
Social security and welfare	226	261	256	244	295	313
Housing and community amenities	252	298	295	283	317	350
Recreation and culture	327	414	422	407	416	423
Fuel and energy	20	25	30	3	—	—
Agriculture, forestry, fishing and hunting	2	1	—	—	1	—
Mining, manufacturing, construction etc.	32	35	35	33	25	28
Transport and communications	465	593	522	504	452	463
Other economic affairs	49	46	48	47	60	90
Other purposes	45	119	65	46	39	55
<b>Total</b>	<b>1 985</b>	<b>2 300</b>	<b>2 176</b>	<b>2 044</b>	<b>2 011</b>	<b>2 096</b>

Source: Government Finance Statistics, Australia (Cat. no. 5512.0).

**Public sector  
financial assets  
and liabilities**

Public sector financial asset and liability statistics show the stock of financial assets and liabilities of the public sector at end of the fiscal year, whereas government finance statistics show the transactions (flows) undertaken by the public sector during the year. The statistics encompass deposits made or held by the Victorian State Government and local governments, equity and non-equity assets and liabilities, and all lending and borrowing undertaken by those governments.

The financial liabilities of the Victorian State Government and local governments were \$21,218 million at 30 June 1997 (table 12.7). Offset against this amount were financial assets of \$8,779 million, resulting in a net debt of \$12,439 million. A reduction in net debt of \$7,308 million, during the year ended 30 June 1997, was mainly due to debt retirement from asset sales in the electricity industry.

Financial assets cover financial claims of the public sector on other organisations (including other government authorities and overseas organisations) and households. They exclude shares and other equity, and financial assets related to trade credit and accounts receivable. Financial assets are shown before deduction of provisions for doubtful debts.

Liabilities include all financial claims on the public sector, except contingent liabilities, liabilities related to trade credit and other accounts payable. They include lease liabilities under finance leases or similar arrangements, and repayable amounts held as security deposits.

Monies held on trust (excluding employee superannuation contributions) are included both as assets and liabilities of government. Coin on issue is not included as a liability of government.

Liabilities for unfunded employee entitlements are the accrued liability of employers to pay future benefits to employees including superannuation, sick leave paid on resignation or retirement, recreation leave, long service leave, workers compensation (where the benefits are paid by the employer and not a separate insurer) and accrued salaries and wages. Liabilities are 'unfunded' if money has not been paid into a separately constituted fund to provide for their future payment.

### 12.7 FINANCIAL ASSETS AND LIABILITIES OF STATE AND LOCAL GOVERNMENTS—30 June 1997

Item	1992	1993	1994	1995	1996	1997
	\$m	\$m	\$m	\$m	\$m	\$m
<b>Liabilities</b>						
Deposits held	92	75	252	230	150	954
Advances received	4 717	4 188	3 590	2 779	1 241	1 130
Other borrowings	30 291	34 592	33 460	32 898	25 377	19 134
Gross debt	35 101	38 854	37 301	35 907	26 767	21 218
<b>Financial assets</b>						
Cash and deposits	602	1 631	2 114	843	1 458	2 756
Advances paid	606	734	517	419	462	1 036
Other lending	1 576	4 122	2 037	2 314	5 100	4 987
Total cash, deposits, and lending	2 783	6 487	4 668	3 576	7 021	8 779
<b>Net debt</b>	<b>32 318</b>	<b>32 367</b>	<b>32 633</b>	<b>32 331</b>	<b>19 747</b>	<b>12 439</b>
Unfunded employee entitlements	n.a.	20 630	16 594	17 488	18 021	17 922

Source: *Public Sector Financial Assets and Liabilities, Australia* (Cat. no. 5513.0).

### Commonwealth financial assistance

In 1997–98, Commonwealth payments to Victoria totalled \$6,882 million, a 19% decrease on 1996–97 (table 12.8). General purpose funds totalled \$3,634 million, a 2% increase on 1996–97. Specific purpose grants totalled \$2,964 million, a 36% decrease on 1996–97.

### 12.8 COMMONWEALTH GOVERNMENT PAYMENTS TO VICTORIAN STATE GOVERNMENT AND LOCAL GOVERNMENTS

Nature of payment	1992–93	1993–94	1994–95	1995–96	1996–97	1997–98
	\$m	\$m	\$m	\$m	\$m	\$m
General Revenue Assistance	2 780	2 957	3 113	3 328	3 553	3 634
General Purpose Capital Assistance	105	137	40	35	11	0
Specific Purpose Payments	3 989	3 735	3 784	3 869	4 602	2 964
Financial Assistance Local Government	259	260	260	276	287	284
<b>Total Commonwealth payments</b>	<b>7 133</b>	<b>7 089</b>	<b>7 197</b>	<b>7 508</b>	<b>8 453</b>	<b>6 882</b>

Source: *Commonwealth Budget Paper Number 3: Federal Financial Relations; Final Budget Outcome*.

### Private finance

The Australian financial system includes banks and a range of non-bank financial institutions, such as building societies, credit cooperatives, money market corporations, finance companies, insurance companies, superannuation funds and various forms of fund managers such as unit trusts.

### Reserve Bank of Australia

The Reserve Bank of Australia acts as Australia's central bank. As well as formulating and implementing monetary policy, it maintains prudential supervision of banks in relation to large credit exposure. Its responsibilities include preserving confidence in the banking system as a whole, and promoting the stability and integrity of the banking system and the payments system protecting bank deposits.

### Banks

At the end of June 1998, there were 50 banks operating in Australia. All are authorised to operate by the Banking Act 1959. Thirty-two banks have branches in Victoria (table 12.9).

#### 12.9 BANKS, BRANCHES AND AGENCIES

Banks	At 30 June 1997		At 30 June 1998	
	Branches	Agencies	Branches	Agencies
Commonwealth Bank of Australia	450	1 060	385	1 026
National Australia Bank	317	49	295	41
ANZ Banking Group	277	17	204	18
Westpac Banking Corporation	212	4	325	102
Bank of Melbourne(a)	125	109	—	—
Bendigo Bank	68	78	69	74
St. George Bank	36	5	32	6
Colonial State Bank(b)	22	29	38	1
Suncorp-Metway Bank	7	—	4	—
Citibank	4	434	3	434
Other banks	28	—	33	2
<b>Total banks</b>	<b>1 546</b>	<b>1 785</b>	<b>1 388</b>	<b>1 704</b>
Metropolitan area	996	1 001	892	938
Remainder of Victoria	550	784	496	766
GiroPost Network(c)	—	649	—	658

(a) Bank of Melbourne and Westpac Banking Corporation merged to form Westpac Banking Corporation during 1997–98. (b) Colonial State Bank was formed from the merger of Challenge Bank and State Bank of New South Wales in 1996–97. (c) Citibank and Challenge Bank linked with Australia Post's GiroPost Network in 1995–96.

Source: Australian Prudential Regulation Authority (APRA).

### Deposits and loans

In the two years to June 1998, deposits held in Victorian customers' accounts at banks increased 18% to a total of \$84,102 million (table 12.10). Loans to customers' accounts grew by 22% to a total of \$89,420 million over the same period. Term and at call accounts represented 56% of total deposits held in customers' accounts in June 1998.

**12.10 BANK DEPOSITS AND LOANS TO VICTORIAN CUSTOMERS' ACCOUNTS**

As at June(a)	Deposits repayable in Australia					Other lending
	Current bearing interest	Current not bearing interest	Term and at call	Other	Total	
	\$m	\$m	\$m	\$m	\$m	\$m
1996	13 374	3 184	41 209	13 518	71 285	73 304
1997	15 721	3 297	45 603	14 862	79 483	80 783
1998	17 132	3 922	47 076	15 972	84 102	89 420

(a) Average of weekly figures for month of June.

Source: Australian Prudential Regulation Authority.

**Non-bank financial institutions**

There are a number of financial institution categories, such as: building societies, credit cooperatives, money market corporations and other; which in addition to banks, play an important part in financial activities in Australia.

**Permanent building societies**

The number of permanent building societies in Victoria declined from six in 1993–94 to four at the end of 1996–97, reflecting recent trends such as amalgamation between building societies and the conversion of some into banks (table 12.11). The assets of permanent building societies in Victoria at the end of 1996–97 totalled \$1,519 million, an increase of 17% over 1995–96. Total income of building societies exceeded total expenditure in 1996–97 by \$4 million.

**12.11 PERMANENT BUILDING SOCIETIES**

Particulars	Unit	1993–94	1994–95	1995–96	1996–97
Societies	no.	6	6	4	4
Income and expenditure					
Total income	\$m	212.9	255.8	119.3	126.9
Total expenditure	\$m	193.3	240.9	114.2	123.1
Assets and liabilities(a)					
Total assets	\$m	2 557.6	2 831.8	1 301.3	1 518.3
Total liabilities	\$m	2 557.6	2 831.8	1 301.3	1 518.5

(a) At the balance dates of societies within financial year shown.

Source: Australian Financial Institutions Commission.

**Credit co-operatives**

There were 68 credit cooperatives in Victoria at the end of 1996–97, down from 76 in 1993–94 (table 12.12). The assets of credit cooperatives increased by 23% from 1993–94 to \$2,840 million in 1996–97. Income exceeded expenditure by \$24 million in 1996–97.

**12.12 CREDIT COOPERATIVES**

Particulars	Unit	1993–94	1994–95	1995–96	1996–97
Cooperatives	no.	76	72	70	68
Income and expenditure					
Total income	\$m	202.6	233.7	264.4	262.8
Total expenditure	\$m	183.0	209.8	238.4	239.3
Assets and liabilities(a)					
Total assets	\$m	2 311.3	2 459.3	2 667.2	2 839.5
Total liabilities	\$m	2 311.3	2 459.3	2 667.2	2 839.5

(a) At the balance dates of societies within financial year shown.

Source: Australian Financial Institutions Commission.



### Lending activity of financial institutions

Housing finance for owner occupation increased 13.2% from 1995-96 to \$10,652 million in 1996-97, and a further 18.2% to \$12,588 million in 1997-98 (table 12.13). In the two years 1995-96 to 1997-98, personal finance increased 36.7%, commercial finance decreased 14.7%, and lease finance increased 22.3%.

Banks increased their housing finance for owner occupation commitments by 28.1% from 1995-96 to 1997-98, and were the dominant lender in all areas except lease finance. 'Other' lenders lifted their share of housing finance for owner occupation from 8.3% in 1995-96 to 12.2% in 1997-98.

#### 12.13 TYPE OF FINANCIAL COMMITMENT

Lender	Housing finance for owner occupation	Personal finance	Commercial finance	Lease finance
	\$m	\$m	\$m	\$m
At 30 June 1996				
Banks	8 443.0	5 767.8	39 720.2	538.6
Finance companies	—	1 098.2	3 185.6	554.9
Permanent building societies	175.0	—	—	—
Credit cooperatives	—	409.1	—	—
Money market corporations	—	—	5 237.1	349.9
Other	784.0	309.0	3 386.7	130.0
<i>Total</i>	<i>9 406.0</i>	<i>7 584.1</i>	<i>51 529.6</i>	<i>1 573.4</i>
At 30 June 1997				
Banks	9 332.0	6 090.7	29 404.8	537.4
Finance companies	—	1 271.7	1 618.1	593.4
Permanent building societies	209.0	—	—	—
Credit cooperatives	—	408.7	—	—
Money market corporations	—	—	4 778.2	333.7
Other	1 110.0	309.6	1 847.3	159.4
<i>Total</i>	<i>10 652.0</i>	<i>8 080.7</i>	<i>37 648.4</i>	<i>1 623.9</i>
At 30 June 1998				
Banks	10 818.0	7 748.3	35 722.5	595.7
Finance companies	—	1 704.9	1 196.3	649.6
Permanent building societies	238.0	—	—	—
Credit cooperatives	—	487.9	—	—
Money market corporations	—	—	4 848.1	520.0
Other	1 537.0	424.0	2 175.5	158.8
<i>Total</i>	<i>12 588.0</i>	<i>10 365.1</i>	<i>43 942.4</i>	<i>1 924.0</i>

Source: *Housing Finance for Owner Occupation, Australia* (Cat. no. 5609.0); *Personal Finance, Australia* (Cat. no. 5642.0); *Commercial Finance, Australia* (Cat. no. 5643.0); *Lease Finance, Australia* (Cat. no. 5644.0).

## References

### Data sources

Financial transactions of the Victorian Government are itemised in the accounts of the State Consolidated Fund and in Trust Funds. A detailed analysis and classification is made of these accounts as published in the annual budget papers, Finance Statement, and report of the Auditor-General. The remaining statutory bodies and other publicly owned or controlled organisations maintain accounts entirely, or largely, separate from the public accounts, although there may be transactions between them and State Governments (such as advances and capital contributions, interest and dividends, and votes for running expenses and capital works) which affect the public accounts. The annual reports of government

departments and authorities are collected and analysed in order to present a complete statement of the transactions of State government enterprises.

The statistics on government financial assets and liabilities are based on data supplied by the Victorian Government and used by them in compiling financial asset and liability statistics for inclusion in their budget documentation. Estimates of local government debt were derived from data compiled for the Australian Bureau of Statistics's local government finance statistics series.

Local government finance statistics for Victoria are collected jointly by the ABS and Victorian Grants Commission.

### **ABS sources**

*Classification Manual for Government Finance Statistics, Australia 1989*, (Cat. no. 1217.0)

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### **Non-ABS sources**

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