

Chapter 12

Finance

Photo:

ANZ Bank building

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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 the 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 the State and local governments.

Public trading enterprises are undertakings which aim to recover a substantial proportion of their expenses by revenue from the 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. Central borrowing authorities of State Governments (e.g. Treasury Corporation of Victoria) are also classified as general government. Public financial enterprises are excluded from the scope of government finance statistics.

The transactions of government are classified according to an economic transactions framework and to purpose. The former classification is designed to categorise the economic character of a transaction to facilitate the study of the macro-economic impact of government activity on the economy, and to provide the basic building blocks for grouping transactions to be incorporated into the Australian National Accounts. The purpose classification groups transactions with similar functions to facilitate the study of the broad purposes of public sector spending and the assessment of the effectiveness of outlays in meeting government policy objectives.

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

State government finance

In 1995–96, the overall financial outcome of the Victorian Government was reflected in a surplus of \$11,168 million, an increase from the 1994–95 surplus of \$702 million. Total current and capital outlays decreased by \$9,955 million to \$8,613 million, whereas total revenue increased by \$904 million to \$19,026 million. The deficit adjusted for net advances was –\$1,103 million, compared with –\$197 million for 1994–95.

12.1 ECONOMIC TRANSACTIONS OF VICTORIAN STATE GOVERNMENT

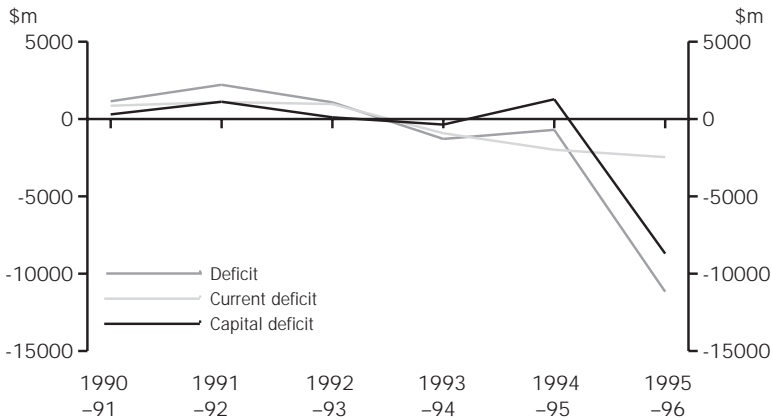
Item	1990-91 \$m	1991-92 \$m	1992-93 \$m	1993-94 \$m	1994-95 \$m	1995-96 \$m
Current expenditure	10 253	10 922	11 347	11 142	11 403	11 906
<i>less</i> Sales of goods and services(a)	1 239	1 316	1 384	1 464	1 414	1 522
<i>equals</i> Final consumption expenditure	9 015	9 606	9 963	9 678	9 989	10 384
Interest payments	3 645	3 760	3 717	3 524	3 330	3 205
Subsidies paid to public trading enterprises	977	968	1 011	905	564	359
Current grants to other governments	343	416	426	412	457	458
Other transfer payments	1 261	1 576	1 866	1 985	2 095	2 199
<i>Total current outlays</i>	15 240	16 325	16 982	16 505	16 435	16 606
Expenditure on new fixed assets	2 709	2 453	2 475	2 362	2 613	2 281
<i>plus</i> Expenditure on secondhand assets (net)	-281	-162	-1 002	-240	58	-201
<i>equals</i> Gross fixed capital expenditure	2 428	2 290	1 472	2 122	2 671	2 079
Expenditure on land and intangible assets (net)	-7	-21	-30	-324	-115	-69
Capital grants to other governments	57	22	27	36	23	13
Advances paid (net)	-784	-240	-221	-1 295	-505	-10 065
Other capital outlays	20	85	29	28	59	50
<i>Total capital outlays</i>	1 715	2 137	1 277	567	2 133	-7 992
Total outlays	16 955	18 462	18 259	17 072	18 568	8 613
Taxes fees and fines	5 634	6 001	6 502	7 397	7 756	8 615
Net operating surplus of public trading enterprises	1 728	1 920	2 106	2 389	2 158	1 814
Interest received	281	215	206	201	218	322
Grants received						
for own use	5 481	5 202	5 403	5 449	5 634	5 947
for onpassing	1 357	1 525	1 600	1 679	1 818	1 868
Total grants received	6 838	6 727	7 003	7 128	7 452	7 815
Other revenue	347	456	451	440	539	460
Total revenue	14 828	15 320	16 269	17 556	18 122	19 026
Increase in provisions						
for depreciation	828	893	992	1 003	991	797
other	147	36	-83	-205	158	-42
Total increase in provisions	975	928	909	798	1 149	756
Advances received (net)	-731	-689	-583	-303	-476	-2 100
Borrowing (net)	2 378	3 025	3 219	-2 521	-786	-7 562
Other financing transactions	-495	-121	-1 556	1 542	560	-1 506
Total financing(b)	2 127	3 143	1 991	-485	446	-10 413
Deficit(c)	1 152	2 215	1 081	-1 283	-702	-11 168
Current deficit	856	1 094	968	-922	-1 985	-2 469
Capital deficit	296	1 121	113	-361	1 282	-8 699
Deficit adjusted for net advances(d)	1 935	2 454	1 302	13	-197	-1 103

(a) Sales of goods and services: The value of current general government output sold to other public and private bodies.

(b) Financing: The sum of transactions by which governments finance their deficits or invest their surpluses. Financing represents the difference between total revenue and total outlays. (c) Deficit: The sum of all outlays less revenue, less increases (decreases) in provisions. (d) Deficit adjusted for net advances: This measure is the deficit less net advances paid (which includes net injections/acquisitions or sales of equity, as well as other government lending for policy purposes).

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

DEFICIT OF VICTORIAN GOVERNMENT



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

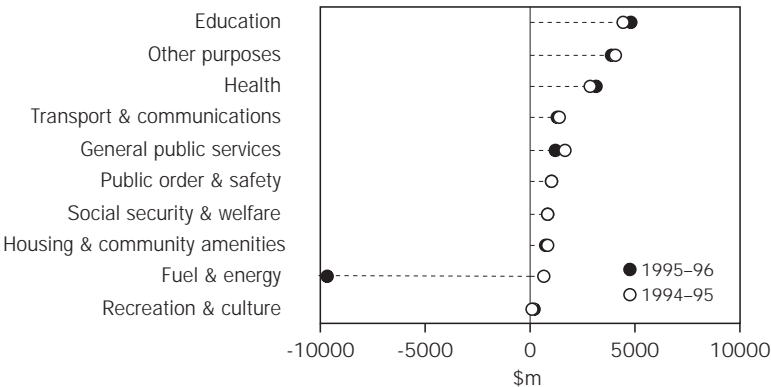
Outlays

Total current and capital outlays by the Victorian Government in 1995-96 were \$8,613 million, down from \$18,568 million in 1994-95. The major reason for the decrease was the privatisation of a number of Victorian Government State-owned businesses. Proceeds from these sales are treated as 'negative outlays' when compiling government finance statistics. Consequently 'outlays' on Fuel and energy fell from \$794 million in 1994-95 to -\$9,537 million in 1995-96, a decrease of \$10,331 million. Other main components were Education, \$4,844 million (56%), Health, \$3,271 million (38%) and Public debt, \$3,170 million (37%).

Current outlays in 1995-96 were \$16,606 million, which was an increase of 1% over the previous year. The largest component of this outlay was final consumption expenditure of \$10,384 million (63%), followed by interest payments \$3,205 million (19%).

Capital outlays in 1995-96 were -\$7,992 million, a decrease of 475% over 1994-95, due to the impact of the privatisation of the electricity industry. Gross fixed capital expenditure was \$2,079 million, a decrease of 22%.

VICTORIAN GOVERNMENT - OUTLAYS BY PURPOSE



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

12.2 VICTORIAN STATE GOVERNMENT — TOTAL OUTLAYS BY PURPOSE

Purpose	1990-91 \$m	1991-92 \$m	1992-93 \$m	1993-94 \$m	1994-95 \$m	1995-96 \$m
General public services	1 037	1 266	1 625	1 658	1 774	1 358
Public order and safety	992	1 017	1 041	1 056	1 134	1 183
Education						
Primary and secondary education	2 698	2 891	2 848	2 691	2 691	2 930
Tertiary education						
University education	813	896	943	962	1 005	1 031
Technical and further education	471	500	515	512	519	528
Total tertiary education	1 284	1 396	1 458	1 473	1 524	1 559
Other education	330	327	309	318	343	356
Total education	4 312	4 614	4 615	4 481	4 557	4 844
Health						
Hospital and other institutional services	2 497	2 572	2 547	2 408	2 531	2 762
Clinics and other non-institutional services	142	152	181	181	206	245
Other health	238	239	206	196	236	264
Total health	2 877	2 963	2 933	2 785	2 973	3 271
Social security and welfare						
Welfare services	564	614	710	668	709	721
Other social security and welfare	106	135	149	187	222	216
Total social security and welfare	670	749	859	854	931	937
Housing and community amenities						
Housing and community development	463	463	423	312	516	483
Water supply	157	148	85	74	288	356
Sanitation and protection of the environment	322	270	239	268	126	45
Other community amenities	1	15	26	25	21	30
Total housing and community amenities	944	896	774	678	951	913
Recreation and culture						
Recreational facilities and services	266	283	322	51	-472	129
Cultural facilities and services	102	120	117	140	225	220
Other recreation and culture	3	4	4	4	6	-22
Total recreation and culture	370	407	443	194	-240	328
Fuel and energy	614	553	-75	548	794	-9 537
Agriculture, forestry, fishing and hunting	228	222	219	227	247	265
Mining, manufacturing, construction etc.	34	48	-121	26	50	84
Transport and communications						
Road transport	743	746	834	-379	988	981
Water transport	45	27	-1	14	19	-10
Rail and multi-mode transport	775	810	810	775	492	389
Other transport and communications	11	16	4	6	7	19
Total transport and communications	1 574	1 600	1 647	417	1 506	1 380
Other economic affairs	120	320	152	187	199	144
Other purposes						
Public debt	3 796	3 604	3 709	3 514	3 312	3 170
Other	-612	206	439	445	380	273
Total other purposes	3 184	3 810	4 148	3 960	3 692	3 443
Total	16 955	18 462	18 259	17 072	18 568	8 613

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

Revenue

Revenue and grants received by the State government in 1995-96 was \$19,026 million, a 5% increase on 1994-95. The main components were taxes, fees, and fines \$8,615 million (45%), and grants received from the Commonwealth Government \$7,815 million (41%).

Taxes, fees, and fines

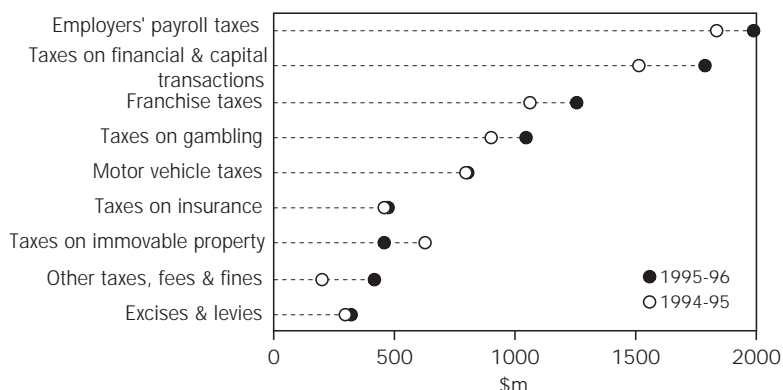
Taxes, fees, and fines increased 11% on 1994–95. The largest components were taxes on use of goods and performance of activities \$2,312 million (27%), and taxes on property \$2,253 million (26%). Casino taxes increased 62% on 1994–95, and poker machine taxes increased by 33%. Tobacco franchise taxes increased by 35%. Other taxes increased by \$239 million with the introduction of electricity industry franchise fees.

12.3 VICTORIAN STATE GOVERNMENT — TAXES, FEES, AND FINES

Item	1990–91 \$m	1991–92 \$m	1992–93 \$m	1993–94 \$m	1994–95 \$m	1995–96 \$m
<i>Employers' payroll taxes</i>	1 742	1 761	1 664	1 702	1 841	1 994
<i>Taxes on property</i>						
Taxes on immovable property						
Land taxes	416	465	481	409	396	393
Metropolitan improvement rates	43	50	51	58	61	62
Taxes on immovable property n.e.c.	—	—	173	181	180	7
Total taxes on immovable property	459	515	705	648	637	463
Taxes on financial and capital transactions						
Stamp duties	787	754	847	1 020	960	1 208
Financial institutions' taxes	325	409	410	540	557	570
Total taxes on financial and capital transactions	1 111	1 163	1 256	1 560	1 518	1 791
<i>Total taxes on property</i>	1 571	1 679	1 962	2 208	2 155	2 254
Government borrowing guarantee levies	—	—	—	—	—	13
<i>Taxes on provision of goods and services</i>						
Excises and levies						
Levies on statutory corporations	243	258	284	287	309	328
Total excises and levies	243	258	284	287	309	328
Taxes on gambling						
Taxes on private lotteries	300	300	290	286	297	298
Poker machine taxes	—	—	95	259	384	509
Casino taxes	—	—	—	—	68	110
Race betting taxes	180	192	198	202	144	122
Taxes on gambling n.e.c.	22	21	17	14	15	12
Total taxes on gambling	502	513	601	761	908	1 051
Taxes on insurance						
Insurance company contributions to fire brigades	149	160	164	162	162	164
Third party insurance taxes	—	—	4	59	65	67
Taxes on insurance n.e.c.	147	148	181	232	238	254
Total taxes on insurance	295	308	348	453	464	485
<i>Total taxes on provision of goods and services</i>	1 040	1 080	1 233	1 501	1 681	1 864
<i>Taxes on use of goods and performance of activities</i>						
Motor vehicle taxes						
Vehicle registration fees and taxes	122	229	311	375	383	387
Stamp duty on vehicle registration	206	196	223	260	305	331
Drivers' licences	64	76	77	93	106	92
Road transport and maintenance taxes	5	5	6	8	8	6
Total motor vehicle taxes	396	506	618	735	802	815
Franchise taxes						
Petroleum products franchise taxes	352	372	350	470	484	505
Tobacco franchise taxes	252	268	360	446	439	591
Liquor franchise taxes	149	153	140	144	147	162
Total franchise taxes	753	793	851	1 060	1 069	1 258
Other taxes on use of goods etc.	6	5	7	9	13	239
<i>Total taxes on use of goods and performance of activities</i>	1 154	1 304	1 475	1 805	1 884	2 312
<i>Fees and fines</i>						
Compulsory fees	49	50	50	59	65	66
Fines	78	127	119	122	130	124
<i>Total fees and fines</i>	127	178	169	181	194	190
Total	5 634	6 001	6 502	7 397	7 756	8 615

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

VICTORIAN GOVERNMENT – TAXES LEVIED



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

Local government finance

In 1995–96, the overall financial position of Victorian local government was reflected in a surplus of \$479 million, an increase from the surplus of \$47 million in 1994–95.

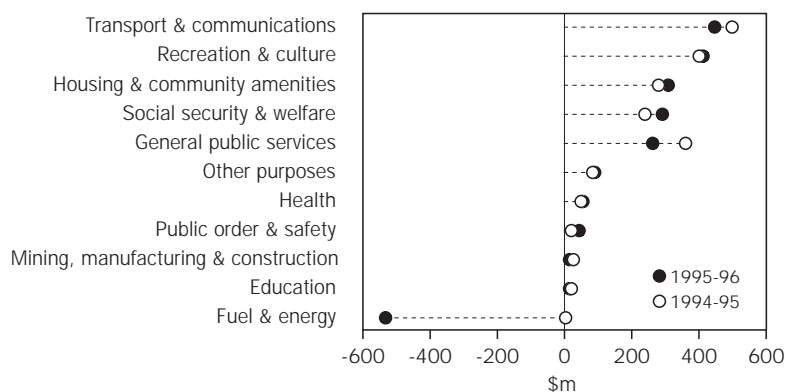
Total current and capital outlays for Victorian local government in 1995–96 were \$1,474 million, a 28% decrease on 1994–95. Final consumption expenditure was \$1,664 million, an increase of 12%. Gross fixed capital expenditure was \$326 million, a decrease of 31%.

The most significant outlays were on Transport and communications \$452 million (31%), Recreation and culture \$416 million (28%), and Housing and community amenities \$317 million (21%). Other areas of significant expenditure included Social security and welfare \$295 million (20%), and Administration \$268 million (18%).

Compensation received for the transfer of municipal electricity supply assets to the Victorian Government prior to privatisation resulted in a \$540 million decrease in Fuel and energy outlays between 1994–95 and 1995–96.

Local government revenue in 1995–96 was \$1,953 million, a 7% decrease over 1994–95. Taxes, fees, and fines made up 66% of total revenue.

VICTORIAN LOCAL GOVERNMENT – OUTLAYS BY PURPOSE



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

12.4 ECONOMIC TRANSACTIONS OF VICTORIAN LOCAL GOVERNMENT

Item	1990-91 \$m	1991-92 \$m	1992-93 \$m	1993-94 \$m	1994-95 \$m	1995-96 \$m
Current expenditure	2 020	2 064	2 211	2 315	2 200	2 344
<i>less</i> Sales of goods and services(a)	602	589	614	754	717	680
<i>equals</i> Final consumption expenditure	1 418	1 475	1 597	1 561	1 483	1 664
Interest payments	190	123	127	89	69	55
Other transfer payments	38	30	—	—	—	—
<i>Total current outlays</i>	1 647	1 627	1 723	1 650	1 552	1 718
Gross fixed capital expenditure	367	347	553	512	476	326
Expenditure on land and intangible assets (net)	8	10	24	14	15	-33
Other capital outlays	-4	-7	—	—	—	-537
<i>Total capital outlays</i>	371	351	577	526	492	-244
Total outlays	2 018	1 978	2 300	2 176	2 044	1 474
Taxes fees and fines	1 392	1 362	1 493	1 513	1 409	1 287
Net operating surplus of public trading enterprises	74	54	52	60	6	—
Interest received	112	84	111	107	95	74
Grants received	432	495	603	564	576	589
Other revenue	58	50	4	5	4	2
Total revenue	2 069	2 045	2 263	2 249	2 090	1 953
Increase in provisions	10	11	11	9	1	—
Advances received (net)	-1	—	5	13	14	4
Borrowing (net)	64	68	-99	-69	-74	-144
Other financing transactions	-124	-146	120	-25	13	-339
Total financing(b)	-51	-67	37	-72	-46	-479
Deficit(c)	-61	-78	26	-81	-47	-479
Current deficit	-322	-362	-423	-556	-487	-219
Capital deficit	262	284	450	475	440	-260
<i>Deficit adjusted for net advances(d)</i>	-57	-71	26	-81	-47	58

(a) Sales of goods and services: The value of current general government output sold to other public and private bodies.

(b) Financing: The sum of transactions by which governments finance their deficits or invest their surpluses. Financing represents the difference between total revenue and total outlays. (c) Deficit: The sum of all outlays less revenue, less increases (decreases) in provisions. (d) Deficit adjusted for net advances: This measure is the deficit less net advances paid (which includes net injections/acquisitions or sales of equity, as well as other government lending for policy purposes).

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

12.5 VICTORIAN LOCAL GOVERNMENT — TOTAL OUTLAYS BY PURPOSE

Item	1990-91 \$m	1991-92 \$m	1992-93 \$m	1993-94 \$m	1994-95 \$m	1995-96 \$m
General public services	407	421	364	385	364	268
Public order and safety	41	43	44	31	30	51
Education	29	30	36	27	26	25
Health	71	72	63	59	56	61
Social security and welfare	205	226	261	256	244	295
Housing and community amenities						
Housing and community development	55	53	67	62	60	85
Sanitation and protection of the environment	146	139	180	181	173	179
Other community amenities	54	59	50	52	49	54
Total housing and community amenities	254	252	298	295	283	317
Recreation and culture						
Recreational facilities and services	219	220	303	305	296	293
Cultural facilities and services	99	104	112	117	111	123
Other recreation and culture	4	4	—	—	—	—
Total recreation and culture	323	327	414	422	407	416
Fuel and energy	30	20	25	30	3	-537
Agriculture, forestry, fishing and hunting	2	2	1	—	—	1
Mining, manufacturing, construction etc.	35	32	35	35	33	25
Transport and communications	439	457	593	522	504	452
Other economic affairs	45	49	46	48	47	60
Other purposes	136	45	119	65	46	39
Total	2 018	1 978	2 300	2 176	2 044	1 474

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 the 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 Victorian State 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 and local governments were \$26,296 million at 30 June 1996. Offset against this amount were financial assets of \$5,809 million, resulting in a net debt of \$20,487 million. The substantial reduction in net debt of \$11,158 million, during the year ended 30 June 1996, was mainly due to debt retirement from asset sales in the electricity industry. The value of assets sold was approximately \$10,800 million.

Financial assets cover the 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 by 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.

12.6 FINANCIAL ASSETS AND LIABILITIES OF VICTORIAN STATE AND LOCAL GOVERNMENTS

Item	30 June 1995 \$m	30 June 1996 \$m
Liabilities		
Deposits held	278	206
Advances received	2 845	968
Other borrowings	32 932	25 123
Gross debt	36 056	26 296
Financial assets		
Cash and deposits	903	935
Advances paid	431	446
Other lending	3 076	4 429
Total cash, deposits, and lending	4 411	5 809
Net debt	31 645	20 487
Unfunded employee entitlements	17 668	17 685

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

Commonwealth-State financial relations

The major institutions that assist in the management of Commonwealth funding to State and Territory governments, and local government are: the Premiers' Conference, the Australian Loan Council, the Council of Australian Governments, the Commonwealth Grants Commission, and local government grants commissions.

Premiers' Conference

The annual Premiers' Conference determines the total amount of general revenue assistance, and the share for each State and the Territories. Although these payments are at the Commonwealth's discretion, they are subject to negotiation between the Commonwealth and States at the Conference.

The Premiers' Conference was held on 21 March 1997, prior to the Commonwealth Government bringing down its 1997-98 budget in May 1997. The Conference was assisted by the preparation and release of the National Fiscal Outlook (NFO) for 1997. The NFO presented medium-term projections of Commonwealth and State general government finances based on policy settings as at February 1997.

Australian Loan Council

The Loan Council has responsibility for determining the annual borrowing programmes of the Commonwealth and State Governments. In February 1994, a new Financial Agreement was signed by the Council of Australian Governments, which redefined the Loan Council's role. Under the new Agreement, the Loan Council has the power to make resolutions on the borrowings, raisings, and other financial arrangements of governments. At its meeting of 21 March 1997, the Loan Council considered the 1997-98 Loan Council Allocations nominated by the Commonwealth and each State.

**Commonwealth
Grants Commission**

The Commonwealth Grants Commission makes recommendations to the Commonwealth on the distribution of financial assistance grants and hospital grants across the States. The Grants Commission does this using per capita relativities, which it calculates after analysing each State's pattern of expenditure and revenues. Each State's relativity is expressed as its need for general revenue assistance relative to the Australian average.

**Victoria Grants
Commission**

The principal role of the Victoria Grants Commission is to determine the allocation of general revenue grants provided by the Commonwealth Government to the State for distribution to local government in Victoria. Commonwealth legislation sets out how the total allocations are to be determined and lays down a basic framework within which the local government grants commissions of the States make their determinations. The Victoria Grants Commission is established under State legislation.

**Commonwealth
financial
assistance**

Commonwealth payments to the State and Territory governments may be classified under two main headings—general purpose payments and specific purpose payments.

General purpose payments provide general budgetary assistance, and the State and Territory governments are free to determine the spending of these monies according to their own budgetary priorities.

Specific purpose payments are a means of meeting the objectives and priorities of Commonwealth Budget programmes. The payments are provided subject to certain conditions, for example—the Commonwealth may decide the purpose for which the funds are to be spent; or the States may be required to contribute some of their own funds to the programme to qualify for the assistance.

Further details of the Commonwealth Government relations with the States and local government are contained in *Commonwealth Budget Paper No 3: Federal Financial Relations 1997–98*, and *Final Budget Outcome 1996–97*.

In 1996–97, total Commonwealth payments to Victoria totalled \$8,453 million, a 13% increase on 1995–96. General purpose funds totalled \$3,564 million, a 6% increase on 1995–96. Specific purpose grants for current and capital purposes totalled \$4,889 million, an 18% increase on 1995–96. Education and health together comprised 62% of total specific purpose grants.

12.7 COMMONWEALTH GOVERNMENT PAYMENTS TO VICTORIAN STATE AND LOCAL GOVERNMENTS

Nature of Payment	1991-92 \$m	1992-93 \$m	1993-94 \$m	1994-95 \$m	1995-96 \$m	1996-97 \$m
General Revenue Assistance	2 649	2 780	2 957	3 113	3 328	3 553
General Purpose Capital Assistance	85	105	137	40	35	11
Specific Purpose Payments						
General public services	57	69	72	74	84	94
Public order and safety	31	34	34	34	38	140
Education	1 618	1 787	1 751	1 789	1 812	1 813
Health	1 066	1 142	1 159	1 173	1 233	1 235
Social security and welfare	117	174	207	223	241	237
Housing and community amenities	226	230	215	237	224	238
Agriculture, forestry and fishing	46	53	13	18	15	20
Mining, manufacturing and construction	63	4	4	5	4	6
Transport and communication	292	393	205	149	150	123
Other economic affairs and purposes	266	103	75	82	68	695
Total Specific Purpose Payments	4 035	4 248	3 995	4 044	4 145	4 889
Financial Assistance						
Local Government	253	259	260	260	276	287
Total Commonwealth Payments	6 769	7 133	7 089	7 197	7 508	8 453

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

Photo:

ATM queue

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PRIVATE FINANCE

The Australian financial system includes banks and a range of non-bank financial institutions such as building societies, credit co-operatives, 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.

Legislation

The major legislation relating to the operation and management of banks in Australia are the *Banking Act 1959*, the *Reserve Bank Act 1959*, and the *Commonwealth Banks Act 1959* (all Commonwealth Government Acts). Since 1980 there have been substantial changes in the Australian financial system, as a result of the recommendations of the Campbell Committee, and later of the Martin Review Committee. These reviews have led to substantial deregulation of the Australian financial system (particularly in respect to the relaxation of controls on most bank interest rates and the foreign exchange rate) and the entry of new banks into the system.

Significant amendments were made to the Banking Act in 1990. These formalised supervision requirements, and restructured the banking industry by abolishing the distinction between trading and savings banks.

In 1992 the Banking Act was further amended to permit new foreign banks to apply for a banking authority in Australia and to allow foreign banks (including those already in Australia) to operate with a branch structure, provided they are able to meet the Reserve Bank's prudential requirement.

In April 1997, the Financial System Inquiry (the Wallis Committee) made recommendations on competition in and regulation of the Australian financial system, including the establishment of a common regulatory framework for overlapping financial products.

Banks

At the end of June 1997, there were fifty banks operating in Australia. All are authorised to operate by the Banking Act 1959. Thirty-two banks have branches in Victoria.

12.8 BANKS, NUMBER OF BRANCHES AND AGENCIES, VICTORIA

Banks	At 30 June 1996		At 30 June 1997	
	Branches	Agencies	Branches	Agencies
Commonwealth Bank of Australia	486	1 053	450	1 060
National Australia Bank	342	40	317	49
ANZ Banking Group	325	10	277	17
Westpac Banking Corporation	232	11	212	4
Bank of Melbourne	121	109	125	109
Bendigo Bank	73	84	68	78
St. George Bank	29	5	36	5
Colonial State Bank(a)	—	—	22	29
Suncorp-Metway Bank	7	—	7	—
Citibank(b)	5	1 082	4	434
Challenge Bank(a)(b)	19	645	—	—
State Bank of New South Wales(a)	10	—	—	—
Other Banks	30	1	28	—
Total Banks	1 679	3 040	1 546	1 785
Metropolitan Area	1 116	1 666	996	1 001
Remainder of Victoria	563	1 374	550	784
GiroPost Network(b)	—	—	—	649

(a) Challenge Bank and the State Bank of New South Wales merged to form the Colonial State Bank during 1996–97. (b) The GiroPost Network is an electronic banking system which is available through Australia Post retail outlets and agencies. Citibank and Challenge Bank linked up with the GiroPost Network during 1995–96.

Source: Reserve Bank of Australia.

Deposits and loans

In the three years to June 1997 deposits held in customers accounts at banks increased 21% to a total of \$79,483 million. Loans to customers accounts grew by 23% to a total of \$80,783 million at June 1997. Term and at call accounts represented 57% of total deposits held in customers accounts in June 1997.

12.9 BANKS, DEPOSITS AND LOANS TO CUSTOMERS ACCOUNTS, VICTORIA

Period	Deposits repayable in Australia					Other lending \$m
	Current bearing interest \$m	Current not bearing interest \$m	Term and at call \$m	Other \$m	Total \$m	
As at June						
1995	10 834	3 165	37 460	14 043	65 510	65 400
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

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

Source: Reserve Bank of Australia.

Non-bank financial institutions There are a number of categories of financial institutions such as building societies, credit co-operatives, money market corporations and other types of institutions which, in addition to banks, play an important part in financial activities in Australia.

Both Commonwealth and State legislation regulate the activities of these institutions. The *Financial Corporations Act 1974* (Commonwealth) requires that financial corporations register with the Reserve Bank, and that they provide statistics to the Reserve Bank on a quarterly basis (for corporations with assets in excess of \$1 million) or monthly (for those with assets exceeding \$5 million).

Australian Financial Institutions Commission In July 1992 legislation was introduced to provide for a national regulatory body, the Australian Financial Institutions Commission, to coordinate standards for the prudential supervision of building societies and credit unions, although responsibility for the day to day supervision of such institutions remains with individual States.

Permanent building societies The operations of permanent building societies in Victoria are regulated by the *Financial Institutions (Victoria) Act 1992*, which is administered by the Victorian Financial Institutions Commission. All permanent building societies must be registered with the Commission.

The number of permanent building societies in Victoria declined from eight in 1992–93 to four at the end of 1995–96, reflecting recent trends such as amalgamation between building societies and the conversion of some into banks. The assets of permanent building societies in Victoria at the end of 1995–96 totalled \$1,301 million, a decrease of 54% over 1994–95. Total income of building societies exceeded total expenditure in 1995–96 by \$5 million.

12.10 PERMANENT BUILDING SOCIETIES, VICTORIA

Particulars	1992-93	1993-94	1994-95	1995-96
Number of societies	8	6	6	4
Income and expenditure(\$m)				
Income				
Interest from loans	168.4	169.6	207.3	97.4
Interest from investments	25.5	21.3	25.6	15.2
Other income	22.2	21.9	22.9	6.7
Total	216.1	212.9	255.8	119.3
Expenditure				
Interest on deposits	106.5	97.0	117.1	66.7
Interest on loans	9.8	12.6	27.0	14.0
Other expenditure	84.4	83.8	96.7	33.5
Total	200.6	193.3	240.9	114.2
Assets and liabilities(a)(\$m)				
Assets				
Amounts owing on loans	1 717.0	2 004.7	2 286.7	1 043.7
Cash on hand	10.2	10.4	8.2	2.2
Deposits with banks	80.9	136.7	161.4	61.0
Deposits with other institutions	48.5	37.7	26.1	40.3
Bills, bonds, and other securities	280.6	262.6	239.2	133.9
Physical and other assets	114.3	105.6	110.3	20.2
Total	2 251.5	2 557.6	2 831.8	1 301.3
Liabilities				
Share capital	89.4	101.8	105.8	77.2
Reserves(b)	86.7	87.0	106.3	-0.8
Deposits	1 969.4	2 054.9	2 199.4	934.9
Loans	49.8	256.0	336.9	264.3
Other liabilities	56.0	57.9	83.5	25.7
Total	2 251.5	2 557.6	2 831.8	1 301.3

(a) At the balance dates of societies within the financial year shown. (b) Includes accumulated surpluses and deficits.

Source: Australian Financial Institutions Commission.

Credit co-operatives

The operations of credit co-operatives are also governed by the *Financial Institutions (Victoria) Act 1992*, and likewise credit co-operatives have to register with the Victorian Financial Institutions Commission.

There were 70 credit co-operatives in Victoria at the end of 1995-96, down from 90 in 1992-93. The assets of credit co-operatives increased by 8% from 1994-95 to 1995-96. Income exceeded expenditure by \$26 million in 1995-96.

12.11 CREDIT CO-OPERATIVES, VICTORIA

Particulars	1992-93	1993-94	1994-95	1995-96
Number of credit co-operatives	90	76	72	70
Income and expenditure(\$m)				
Income				
Interest from loans	144.7	157.5	178.9	202.5
Interest from investments	23.8	25.4	30.9	39.1
Other income	14.0	19.8	23.9	22.8
Total	182.5	202.6	233.7	264.4
Expenditure				
Interest on deposits	70.6	68.6	84.2	106.6
Interest on loans	0.3	0.3	0.7	0.3
Other expenditure	95.9	114.1	124.9	131.5
Total	166.8	183.0	209.8	238.4
Assets and liabilities(a)(\$m)				
Assets				
Amounts owing on loans(b)	1 502.7	1 623.7	1 827.5	1 987.8
Cash on hand	14.0	11.5	11.1	12.0
Deposits with banks	46.5	60.1	46.0	54.1
Deposits with other institutions	25.2	23.0	9.8	2.3
Bills, bonds, and other securities	489.1	485.5	457.9	495.8
Physical and other assets	105.9	107.5	107.1	115.2
Total	2 183.4	2 311.3	2 459.3	2 667.2
Liabilities				
Reserves(c)	176.2	199.2	223.3	247.9
Deposits	1 960.9	2 053.4	2 174.9	2 346.2
Loans	9.7	18.9	10.3	17.4
Other liabilities	36.5	39.7	50.8	55.7
Total	2 183.4	2 311.3	2 459.3	2 667.2

(a) At the balance dates of societies within the financial year shown. (b) Includes finance lease receivables, also net of unearned interest and allowance for doubtful debts. (c) Includes accumulated surpluses and deficits.

Source: Australian Financial Institutions Commission.

Lending activity of financial institutions

Housing finance for owner occupation increased 5% to \$10,152 million in 1995-96, and increased a further 12% to \$11,345 million in 1996-97. Personal finance was 20% higher in 1996-97 than in 1994-95, whilst commercial finance increased by 51% over the same period. Lease finance showed an overall increase over the three-year period of 10%.

Banks increased their commercial finance commitments by 55% from 1994-95 to 1996-97. Banks were the dominant lender in all areas except lease finance. Other lenders lifted their share of housing finance for owner occupation from 2% in 1994-95 to 10% in 1995-96.

12.12 TYPE OF FINANCIAL COMMITMENT BY LENDER, VICTORIA

Lender	Housing finance for owner occupation \$m	Personal finance \$m	Commercial finance \$m	Lease finance \$m
At 30 June 1995				
Banks	9 127.0	4 901.6	19 003.0	417.2
Finance companies	—	1 069.2	1 594.0	532.8
Permanent building societies	376.9	—	—	—
Credit cooperatives	—	427.5	—	—
Money market corporations	—	—	2 162.6	124.6
Other	167.8	353.1	2 237.4	401.4
Total	9 671.7	6 751.4	24 997.0	1 476.0
At 30 June 1996				
Banks	9 162.3	5 767.8	32 551.5	538.6
Finance companies	—	1 098.2	1 741.7	554.9
Permanent building societies	179.4	—	—	—
Credit cooperatives	—	409.1	—	—
Money market corporations	—	—	5 116.6	130.0
Other	810.6	309.0	2 370.0	349.9
Total	10 152.3	7 584.1	41 779.8	1 573.4
At 30 June 1997				
Banks	9 993.4	6 090.7	29 404.8	537.4
Finance companies	—	1 271.7	1 618.1	593.4
Permanent building societies	214.3	—	—	—
Credit cooperatives	—	408.7	—	—
Money market corporations	—	—	4 773.1	155.1
Other	1 137.1	309.6	1 847.3	333.7
Total	11 344.8	8 080.7	37 643.3	1 619.6

Source: *Housing Finance for Owner Occupation (5609.0)*; *Personal Finance, Australia*; *Commercial Finance, Australia*; *Lease Finance, Australia*.

Other financial institutions

Other non-bank financial institutions which play an important part in financial activities in Victoria include: money market corporations, finance companies, general financiers, pastoral finance companies, life insurance offices, health insurance offices, superannuation funds, approved deposit funds, cash management trusts, public unit trusts, common funds, friendly societies, co-operative housing societies, general insurance companies, managed funds, securitisers, and financial markets. Statistical data for these institutions are generally available on an Australian basis only, and can be referenced in *Year Book Australia* (Cat. no. 1301.0).

REFERENCES**Data sources**

The 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 ABS's Local Government Finance statistics series.

Local Government Finance statistics for Victoria are collected jointly with the Victoria Grants Commission.

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