

Overview

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

Public finance

The collection and expenditure of public moneys in Victoria are undertaken by three levels of government:

- the government of the Commonwealth of Australia,
- the government of the State of Victoria, including statutory bodies authorised by State Acts,
- local government

The public finance statistics in this chapter measure activity of State and local governments, as well as the relationship between State and Commonwealth governments, classified according to the International Monetary Fund's *A Manual of Government Finance Statistics* and the United Nations *A System of National Accounts*.

To assist users in understanding government finance statistics, the publication *Government Finance Statistics—Concepts, Sources and Methods, 1994* (Cat. no. 5514.0) outlines the major concepts, definitions of statistical units, and the main classifications employed.

State government finance

In 1997–98, the overall financial outcome of the Victorian Government was reflected in a surplus of \$525 million (table 12.1). This compares with a surplus of \$1,613 million recorded in 1996–97. Total outlays were \$17,491 million in 1997–98, which was a 5.9% increase on the 1996–97 figure of \$16,517 million. Total revenue increased by just 0.2% between 1996–97 and 1997–98, from \$17,488 million to \$17,515 million.

12.1 ECONOMIC TRANSACTIONS OF VICTORIAN STATE GOVERNMENT

	1992-93r	1993-94r	1994-95r	1995-96r	1996-97r	1997-98
Item	\$m	\$m	\$m	\$m	\$m	\$m
Total current outlays	16 805	16 317	15 635	15 025	14 914	15 648
Total capital outlays	1 753	2 116	2 644	1 670	1 603	1 842
<i>Total outlays</i>	<i>18 558</i>	<i>18 433</i>	<i>18 279</i>	<i>16 695</i>	<i>16 517</i>	<i>17 491</i>
<i>Total revenue</i>	<i>16 138</i>	<i>17 091</i>	<i>17 053</i>	<i>17 352</i>	<i>17 488</i>	<i>17 515</i>
Total financing(a)	2 420	1 343	1 226	-656	-971	-24
Less increase in provisions (net)	941	830	1 034	758	642	501
Equals deficit or surplus(-)	1 479	512	192	-1 415	-1 613	-525
of which						
Current deficit	868	-715	-1 580	-2 338	-1 987	-1 797
Capital deficit	611	1 228	1 772	924	374	1 273

(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).

Outlays and revenue

Table 12.2 illustrates expenditure allocated by purpose. Total outlays increased by \$974 million to \$17,491 million in 1997-98. Education (\$4,226 million) and health (\$3,492 million) combined comprised 44% of total outlays.

Although total outlays for 1997-98 were below the 1992-93 level, expenditure over this period has increased for a number of areas, particularly social security and welfare (45%) public order and safety (35%); general public services (22%) and health (19%). The most noticeable decrease in outlays has been in public debt transactions with a \$2.8 billion decrease (66%).

12.2 STATE GOVERNMENT TOTAL OUTLAYS

	1992-93r	1993-94r	1994-95r	1995-96r	1996-97r	1997-98
Purpose	\$m	\$m	\$m	\$m	\$m	\$m
General public services	1 619	1 664	1 620	1 408	1 631	1 973
Public order and safety	1 038	1 054	1 130	1 144	1 328	1 405
Education	4 164	3 554	3 587	3 828	4 072	4 226
Health	2 932	2 778	2 876	3 061	3 249	3 492
Social security and welfare	855	861	972	979	1 030	1 240
Housing and community amenities	852	755	983	876	787	868
Recreation and culture	441	195	350	347	371	432
Fuel and energy	-75	549	794	505	105	215
Agriculture, forestry, fishing and hunting	199	212	230	254	254	258
Mining, manufacturing and construction	-120	28	52	72	45	64
Transport and communications	1 565	1 518	1 395	1 341	1 183	1 382
Other economic affairs	152	110	145	108	97	53
Public debt transactions	4 326	4 672	3 729	2 562	1 969	1 489
Other purposes	610	485	418	212	395	393
Total	18 558	18 433	18 279	16 695	16 517	17 491

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

Taxes, fees, and fines

Taxes, fees, and fines decreased by 4.4% from \$8,920 million in 1996–97 to \$8,526 million in 1997–98 (table 12.3). The largest components of taxation revenue were property taxes (\$2,257 million) and employers' payroll taxes (\$2,165 million).

12.3 STATE GOVERNMENT TAXES, FEES, AND FINES

	1992–93	1993–94	1994–95	1995–96	1996–97	1997–98
Item	\$m	\$m	\$m	\$m	\$m	\$m
Employers' payroll taxes	1 660	1 699	1 844	1 995	2 111	2 165
Taxes on property	1 962	2 208	2 155	2 254	2 584	2 257
Taxes on provision of goods and services						
Excises and levies	284	287	309	328	317	188
Taxes on gambling	600	761	908	1 051	1 157	1 296
Taxes on insurance	348	453	464	485	502	515
Total	1 232	1 501	1 681	1 864	1 976	1 999
Taxes on use of goods and performance of activities						
Motor vehicle taxes	541	642	696	720	749	808
Franchise taxes	851	1 060	1 069	1 258	1 331	1 070
Other taxes on use of goods etc.	7	9	13	229	169	227
Total	1 398	1 712	1 778	2 207	2 248	2 105
Total	6 252	7 119	7 459	8 320	8 920	8 526

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

Local government finance

In 1997–98 the economic transactions of local government resulted in a surplus of \$6 million, compared to a deficit of \$90 million in 1996–97 (table 12.4). This was due to a reduction in total outlays from \$2,157 million in 1996–97 to \$2,107 million in 1997–98, coupled with total revenue increasing from \$2,067 million to \$2,113 million.

12.4 ECONOMIC TRANSACTIONS OF LOCAL GOVERNMENT

	1992–93r	1993–94r	1994–95r	1995–96r	1996–97r	1997–98
Item	\$m	\$m	\$m	\$m	\$m	\$m
Total current outlays	1 693	1 616	1 519	1 872	1 794	1 700
Total capital outlays	577	526	492	293	363	407
Total outlays	2 271	2 142	2 011	2 164	2 157	2 107
Total revenue	2 233	2 227	2 074	2 137	2 067	2 113
Total financing(a)	37	-84	-63	27	90	-6
Less increase in provisions (net)	11	9	1	—	—	—
Equals deficit or surplus (-)	26	-93	-64	27	90	-6
of which						
Current deficit	-423	-568	-504	-253	-222	-332
Capital deficit	450	475	440	280	312	326

(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).

Table 12.5 shows that local government outlays were most significant for transport and communications (\$477 million), recreation and culture (\$437 million), housing and community amenities (\$357 million) and social security and welfare (\$326 million). Expenditure on these areas comprised 76% of total local government outlays in 1997–98.

12.5 LOCAL GOVERNMENT TOTAL OUTLAYS

	1992–93	1993–94	1994–95	1995–96r	1996–97r	1997–98
Purpose	\$m	\$m	\$m	\$m	\$m	\$m
General public services	364	385	364	317	245	217
Public order and safety	r33	r20	r18	36	35	31
Education	36	27	26	26	30	27
Health	63	59	56	62	74	71
Social security and welfare	261	256	244	305	322	326
Housing and community amenities	298	295	283	342	357	357
Recreation and culture	414	422	407	445	438	437
Fuel and energy	25	30	3	—	—	—
Agriculture, forestry, fishing and hunting	1	—	—	1	—	-1
Mining, manufacturing and construction	r16	r13	r13	14	12	14
Transport and communications	593	522	504	452	448	477
Other economic affairs	46	48	47	74	97	84
Public debt transactions	127	89	69	55	44	46
Other purposes	r-7	-24	-23	34	55	20
Total r	2 271	2 142	2 011	2 164	2 157	2107

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 the Victorian State Government and local governments, equity and non-equity assets and liabilities, and all lending and borrowing undertaken by those governments.

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.

The financial liabilities of the Victorian Government and local governments were \$20,153 million at 30 June 1998 (table 12.6). Offset against this amount were financial assets of \$18,201 million, resulting in a net debt of \$1,952 million. A reduction in net debt has been occurring since 1993, and was more pronounced in the three years to 1998, due to the privatisation program that was undertaken by the Victorian Government at that time.

12.6 FINANCIAL ASSETS AND LIABILITIES OF STATE AND LOCAL GOVERNMENTS—At 30 June

Item	1993r \$m	1994r \$m	1995r \$m	1996r \$m	1997r \$m	1998 \$m
Liabilities						
Deposits held	221	375	230	150	193	240
Advances received	4 188	3 590	2 779	1 232	1 332	1 306
Other borrowings	37 200	35 523	32 938	25 217	20 396	18 608
Gross debt	41 608	39 488	35 947	26 599	21 922	20 153
Financial assets						
Cash and deposits	2 115	2 586	1 333	1 925	2 178	1 512
Advances paid	794	580	487	512	2 732	1 280
Other lending	7 518	5 361	5 570	9 256	11 871	15 409
Total cash, deposits and lending	10 427	8 527	7 390	11 694	16 781	18 201
Net debt	31 181	30 961	28 557	14 905	5 141	1 952
Unfunded employee entitlements	20 642	16 605	17 505	18 037	18 056	17 842

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

Commonwealth financial assistance

In 1998–99, Commonwealth payments to Victoria totalled \$7,367 million, a 9.6% increase on 1997–98 (table 12.7). General purpose funds totalled \$3,586 million, a 1.3% decrease on 1997–98. Specific purpose grants totalled \$3,567 million, a 20% increase on 1997–98.

12.7 COMMONWEALTH GOVERNMENT PAYMENTS TO VICTORIAN STATE GOVERNMENT AND LOCAL GOVERNMENTS

Nature of payment	1993–94 \$m	1994–95 \$m	1995–96 \$m	1996–97 \$m	1997–98 \$m	1998–99 \$m
General Revenue Assistance	2 957	3 113	3 328	3 553	3 634	3 586
General Purpose Capital Assistance	137	40	35	11	—	—
Specific Purpose Payments	3 735	3 784	3 869	4 602	2 964	3 567
Financial Assistance Local Government	260	260	276	287	284	289
State Fiscal Contributions r	—	—	—	-154	-159	-75
Total Commonwealth payments r	7 089	7 197	7 508	8 299	6 723	7 367

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 1999, there were 34 banks, with 1,274 branches and 1,577 agencies in Victoria (table 12.8). The number of bank branches and agencies decreased between 1998 and 1999 in the Melbourne metropolitan area (by 11.3% and 19.6% respectively). However, in the rest of Victoria a 2.6% decrease in bank branches occurred alongside a 7.4% increase in the number of agencies, indicating a changing emphasis for delivering banking services outside the metropolitan area.

12.8 BANK BRANCHES AND AGENCIES—At 30 June

Banks	1998		1999	
	Branches	Agencies	Branches	Agencies
Commonwealth Bank of Australia	385	1 026	362	999
National Australia Bank	295	41	299	42
ANZ Banking Group	204	18	219	8
Westpac Banking Corporation	325	102	218	4
Bendigo Bank	69	74	73	81
St. George Bank	32	6	32	6
Colonial State Bank	38	1	39	—
Suncorp-Metway Bank	4	—	1	—
Citibank	3	434	2	437
Other banks	33	2	29	—
Location				
Metropolitan area	892	938	791	754
Remainder of Victoria	496	766	483	823
Total	1 388	1 704	1 274	1 577
GiroPost Network(a)	n.a.	658	n.a.	652
Automated teller machines	n.a.	2 036	n.a.	2 082

(a) Citibank and Challenge Bank linked with Australia Post's GiroPost Network in 1995–96.

Source: Australian Prudential Regulation Authority (APRA).

Deposits and loans

At June 1999, there was a total of \$90,282 million dollars in deposits in Victorian customer's accounts, a 7.3% increase on the June 1998 figure of \$84,102 million (table 12.9). Term and at call deposits totalled \$50,174 million, or 56% of total deposits. Other lending totalled \$101,073 million at June 1999, compared to \$89,420 million at June 1998, or an increase of 13%.

12.9 BANK DEPOSITS AND LOANS

As at June(a)	Deposits repayable in Australia					
	Current bearing interest	Current not bearing interest	Term and at call	Other	Total	Other lending
	\$m	\$m	\$m	\$m	\$m	\$m
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
1999	18 685	3 952	50 714	16 930	90 282	101 073

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

Source: Australian Prudential Regulation Authority (APRA).

Non-bank financial institutions

There are a number of financial institution categories, including building societies, credit cooperatives and money market corporations 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 1994–95 to four at the end of 1997–98, reflecting recent trends such as amalgamation between building societies and the conversion of some into banks (table 12.10). The assets of permanent building societies in Victoria at the end of 1997–98 totalled \$1,857.9 million, an increase of 22% over 1996–97. Total expenditure of permanent building societies exceeded total income in 1997–98 by \$2.3 million.

12.10 PERMANENT BUILDING SOCIETIES

Particulars	Unit	1994–95	1995–96	1996–97	1997–98
Societies	no.	6	4	4	4
Income and expenditure					
Total income	\$m	255.8	119.3	126.9	122.3
Total expenditure	\$m	240.9	114.2	123.1	124.6
Assets and liabilities(a)					
Total assets	\$m	2 831.8	1 301.3	1 518.3	1 857.9
Total liabilities	\$m	2 831.8	1 301.3	1 518.5	1 857.9

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

Source: Australian Prudential Regulation Authority (APRA).

Credit cooperatives

There were fifty-nine credit cooperatives in Victoria at the end of 1997–98, down from seventy-two in 1994–95 (table 12.11). The assets of credit cooperatives increased by 6% from 1996–97 to \$3,005.8 million in 1997–98. Income exceeded expenditure by \$27 million over the same period.

12.11 CREDIT COOPERATIVES

Particulars	Unit	1994–95	1995–96	1996–97	1997–98
Cooperatives	no.	72	70	68	59
Income and expenditure					
Total income	\$m	233.7	264.4	262.8	245.9
Total expenditure	\$m	209.8	238.4	239.3	219.1
Assets and liabilities(a)					
Total assets	\$m	2 459.3	2 667.2	2 839.5	3 005.8
Total liabilities	\$m	2 459.3	2 667.2	2 839.5	3 005.8

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

Source: Australian Prudential Regulation Authority (APRA).

Lending activity of financial institutions

Housing finance for owner occupation increased 18.2% from 1996–97 to \$12,593 million in 1997–98, and a further 14.2% to \$14,375 million in 1998–99 (table 12.12). In the two years 1996–97 to 1998–99, personal finance increased by 37.0%, commercial finance increased by 1.6%, and lease finance increased by 2.9%.

Banks increased their housing finance for owner occupation commitments by 36.8% from 1996–97 to 1998–99, and were the dominant lender in all finance lending categories. 'Other' lessors reported a decrease in their share of housing finance for owner occupation from 12.2% in 1997–98 to 9.5% in 1998–99.

12.12 TYPE OF FINANCIAL COMMITMENT—At 30 June

Lender	1997	1998	1999
	\$m	\$m	\$m
Housing finance for owner occupation			
Banks	9 332.0	10 818.0	12 770.0
Finance companies	—	—	—
Permanent building societies	209.0	238.0	240.0
Credit cooperatives	—	—	—
Money market corporations(a)	—	—	—
Other lessors	1 110.0	1 537.0	1 365.0
<i>Total</i>	<i>10 651.0</i>	<i>12 593.0</i>	<i>14 375.0</i>
Personal finance			
Banks	6 090.7	7 748.3	8 338.1
Finance companies	1 271.7	1 704.9	1 846.1
Permanent building societies	—	—	—
Credit cooperatives	408.7	487.9	425.6
Money market corporations(a)	—	—	—
Other lessors	309.6	424.0	463.9
<i>Total</i>	<i>8 080.7</i>	<i>10 365.1</i>	<i>11 073.7</i>
Commercial finance			
Banks	29 404.8	35 722.5	37 155.0
Finance companies	1 618.1	1 196.3	1 088.2
Permanent building societies	—	—	—
Credit cooperatives	—	—	—
Money market corporations(a)	4 778.2	4 848.1	—
Other lessors	1 847.3	2 175.5	—
<i>Total</i>	<i>37 648.4</i>	<i>43 942.4</i>	<i>38 243.2</i>
Lease finance			
Banks	537.4	595.7	808.1
Finance companies	593.4	649.6	724.3
Permanent building societies	—	—	—
Credit cooperatives	—	—	—
Money market corporations(a)	333.7	520.0	—
Other lessors	159.4	158.8	139.4
<i>Total</i>	<i>1 623.9</i>	<i>1 924.1</i>	<i>1 671.8</i>

(a) Money markets corporation data unavailable after July 1998. They are included in the Other lessors category.

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) (PC Ausstats).

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