

Introduction

This chapter provides an overview of the public and private finance sectors in Victoria. Areas for which analysis is presented 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 monies 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; and
- Local government.

In addition to these three levels, Victorian universities are classified to the 'multi-jurisdictional' general government sector, because of the combined roles of the Commonwealth and State governments in their financing and control.

The Government Finance Statistics (GFS) in this chapter measure the financial operations and financial position 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 1993 (SNA93).

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.

Accrual - based Government Finance Statistics

The Australian system for producing GFS was changed for 1998–99 because of the adoption of accrual accounting by governments, and the revision of international statistical standards. As a result, a new conceptual framework was introduced, in the form of an integrated statement of stocks and flows, in place of the cash-based framework. This new framework allows a more comprehensive assessment of the economic impact of government activity and the sustainability of fiscal policy. It also provides an improved basis for monitoring efficiency in the allocation and use of government resources.

The new framework is divided into a number of separate statements (Operating Statement, Statement of Stocks and Flows, Balance Sheet, and Cash Flow Statement), each of which focuses on analytical aggregates or balances of particular interest to decision makers. These financial statements are presented in this chapter for general government at the State and Local government levels. Statements of stocks and flows have not been implemented in this publication. Tables showing details of taxation revenue and expenditure by source and purpose are also included.

Prior to 1998–99, GFS were compiled on a cash basis. Users should note that the move to an accrual basis of recording has required a change in data sources and methodologies for some jurisdictions from 1998–99 onwards. Therefore, the surplus/deficit data for 1998–99 are not directly comparable to the 'deficit' series for earlier years.

Government Finance Statistics measures

The analytical GFS measures are defined as follows:

Net Operating Balance (NOB)

The GFS NOB is calculated as transactions in GFS revenues less transactions in GFS expenses. It measures (in accrual terms) the full cost of providing government services, including unfunded superannuation and non-cash items such as depreciation. The NOB is not affected by revaluations of existing assets, by acquisition or disposal of assets or by assets recognised in the balance sheet for the first time. This measure is conceptually equivalent to the concept of 'Net savings plus capital transfers' in the Australian System of National Accounts (ASNA).

When a government's NOB is positive, it indicates that surplus funds have been generated from current operations and these have resulted in an increase in that government's net worth. These surplus funds may be used to acquire assets and/or decrease liabilities. When a NOB is negative, it indicates that a shortfall has occurred on current operations and it has been necessary to incur liabilities and/or liquidate assets, but it does not necessarily indicate that a government is a net borrower. It can therefore be said that a government's NOB, which is in an overall positive balance over a number of periods, such as an economic cycle, is indicative of the on-going sustainability of that government's operations. However, it should not be necessarily taken as an indicator of sustainability or otherwise of a government's future operations.

GFS Net Lending(+)/ Borrowing(-) (NLB)

GFS NLB is calculated as the NOB less net acquisition of non-financial assets (gross fixed capital formation less depreciation plus change in inventories plus other transactions in non-financial assets). It measures in accrual terms the gap between government savings plus net capital transfers and investment in non-financial assets. The GFS NLB is conceptually equivalent to the ASNA concept of 'Net lending/borrowing'. As such, it measures the contribution of the sector to the balance on current and capital accounts in the balance of payments.

When NLB is positive, a government is placing financial resources at the disposal of other sectors in the domestic economy or overseas (i.e. it is lending). When NLB is negative, a government is utilising the financial resources of other sectors in the domestic economy or overseas (i.e. it is borrowing). In this way, NLB can be viewed as a macro or global indicator of the financial impact of government operations on the rest of the economy.

GFS Net Worth (NW) GFS NW is defined as assets less liabilities, less shares and other contributed capital. For the general government sector, NW is assets less liabilities.

The NW at two points in time can be compared to obtain the change in NW, which is attributable to transaction flows (i.e. the NOB) and other flows (i.e. revaluations and other changes in the volume of assets).

The NW is an economic measure of wealth. It reflects the contribution of governments to the wealth of Australia.

**GFS Surplus(+)/
Deficit(-)**

The Surplus(+)/Deficit(-) is a cash-based measure and is calculated as:

Net cash flows from operating activities

plus Net cash flows from investments in non-financial assets

less Distributions paid

less Acquisitions of assets acquired under finance leases and similar arrangements

equals Surplus(+)/Deficit(-)

The Surplus(+)/Deficit(-) measure described here is conceptually the same as the Deficit(+)/Surplus(-) used in the former cash-based GFS system; in practice, however, the Surplus(+)/Deficit(-) in the accrual-based GFS system has been derived using a different methodology, which results in a break in the time series across the two systems. The Surplus(+)/Deficit(-) is the cash-based equivalent of the GFS Net Lending/Borrowing described above.

The Surplus(+)/Deficit(-) is a broad indicator of a sector's cash flow requirements. When this measure is positive (i.e. a surplus), it reflects the extent to which cash is available to government to either increase its financial assets or decrease its liabilities (assuming no revaluations and other changes occur). When this measure is negative (i.e. a deficit), it is a measure of the extent to which a government requires cash, by drawing on the cash reserves of the domestic economy, or by running down its financial assets, or by borrowing from overseas.

Further information on accrual reporting by governments may be obtained from the ABS publications Government Financial Estimates, Australia (Cat. no. 5501.0) - latest issue 2000-01 - issued November 2000 and Information Paper: Accruals-based Government Finance Statistics (Cat. no. 5517.0) — issued March 2000.

State and Local Government finance

In 1998–99, the overall financial outcome of Victorian State and Local government was reflected in a combined net operating balance of \$3,264m and net lending of \$2,922m, indicating an increase in the government's net worth (table 15.1). Total expenses were \$21,613m, while total revenue was \$24,877m. Taxation revenue of \$10,523m made up 42.3% of total revenue. Around half of the 'Other revenue' total of \$4,310m was raised from the privatisation of public corporations.

15.1 GENERAL GOVERNMENT, Operating Statement — 1998–99

	State \$m	Local \$m	State and Local \$m
GFS Revenue			
Taxation revenue	9 192	1 330	10 523
Current grants and subsidies	6 993	549	7 079
Sales of goods and services	2 066	651	2 717
Interest income	200	48	248
Other	4 039	330	4 310
<i>Total</i>	22 491	2 908	24 877
less	—	—	—
GFS Expenses			
Gross operating expenses			
Depreciation	804	573	1 377
Employee expenses	7 764	612	8 375
Other operating expenses	5 701	1 792	7 493
<i>Total</i>	14 269	2 976	17 245
Nominal superannuation interest expenses	580	0	580
Other interest expenses	666	47	713
Current transfers			
Grant expenses	1 708	0	1 316
Subsidy expenses	759	0	759
Other current transfers	196	0	196
Capital transfers			
Grant expenses	16	0	586
Other capital transfers	804	0	218
<i>Total</i>	18 998	3 023	21 613
equals	—	—	—
GFS Net Operating Balance	3 492	-115	3 264
less	—	—	—
Net acquisition of non-financial assets			
Gross fixed capital formation	1 277	517	1 794
less Depreciation	804	573	1 377
plus Change in inventories	5	0	5
plus Other transactions in non-financial assets	-58	-22	-80
<i>Total</i>	421	-78	342
equals	—	—	—
GFS Net Lending(+)/Borrowing(-)	3 072	-36	2 922

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

The cash flow statement for 1998–99 (table 15.2) reveals cash deficits for State and local government of \$216m and \$37m respectively. For the State Government, the main contributing factors to that result was \$1,383m of investment in new non-financial assets, which was partially offset by net cash flows from operating activities. Net cash flows from operating activities were \$1,018m and \$457m, respectively.

15.2 GENERAL GOVERNMENT, Cash Flow Statement — 1998–99

	State \$m	Local \$m	State and Local \$m
Cash receipts from operating activities			
Taxes received	9 234	1 330	10 564
Receipts from sales of goods and services	2 028	653	2 679
Grants and subsidies received	7 419	598	7 516
Other receipts	3 484	327	3 793
<i>Total</i>	22 166	2 908	24 552
Cash payments for operating activities			
Payments for goods and services	-17 096	-2 403	-19 500
Grants and subsidies paid	-3 029	-1	-2 622
Interest paid	-694	-47	-741
Other payments	-329	0	-329
<i>Total</i>	-21 148	-2 452	-23 191
<i>Net cash flows from operating activities</i>	1 018	457	1 361
Net cash flows from investments in non-financial assets			
Sales of non-financial assets	159	112	271
Purchases of new non-financial assets	-1 383	-606	-1 989
Purchases of secondhand non-financial assets	-10	0	-10
<i>Total</i>	-1 234	-494	-1 728
Net cash flows from investments in financial assets for policy purposes	4 350	0	4 350
Net cash flows from investments in financial assets for liquidity purposes	387	0	387
Net cash flows from financing activities			
Advances received (net)	-958	-21	-979
Borrowing (net)	-3 634	94	-3 540
Deposits received (net)	-32	0	-32
Other financing (net)	-111	-35	-34
<i>Total</i>	-4 735	37	-4 585
Net Increase (+)/Decrease(-) in Cash Held	-214	0	-214
Surplus(+)/Deficit(-)			
Net cash flows from operating activities and net cash flows from investments in non-financial assets	-216	-37	-367
Acquisitions of assets under finance leases and similar arrangements	0	0	0
Surplus(+)/Deficit(-)	-216	-37	-367

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

The consolidated GFS Net Worth for State and local government was \$58,685m at 30 June 1999 (table 15.3). The major factor contributing to the result was \$54,130m in land and fixed assets.

15.3 GENERAL GOVERNMENT, Balance Sheet — 30 June 1999

	State \$m	Local \$m	State and Local \$m
Assets			
Financial Assets			
Cash and deposits	620	423	1 042
Advances paid	494	4	498
Investments, loans and placements	1 253	524	1 773
Other non-equity assets	765	324	1 089
Equity	22 809	56	22 866
<i>Total</i>	25 941	1 332	27 267
Non-financial assets			
Land and fixed assets	31 790	22 339	54 130
Other non-financial assets	696	0	696
<i>Total</i>	32 486	22 339	54 826
<i>Total</i>	58 427	23 671	82 093
Liabilities			
Deposits held	188	50	236
Advances received	41	8	50
Borrowing	6 966	630	7 592
Unfunded superannuation liability and other employee entitlements	13 645	287	13 932
Other provisions	103	0	103
Other non-equity liabilities	1 205	289	1 494
<i>Total</i>	22 150	1 264	23 408
GFS Net Worth	36 278	22 407	58 685
Net Debt(a)	4 828	-263	4 565
Net Financial Worth(b)	3 792	68	3 860

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

State and Local Government expenditure

Total State government expenses were \$18,998m in 1998–99 (table 15.4). Reflecting the different roles of each level of government, education (\$5,050m) and health (\$4,656m) together comprised 51% of total State government expenses. Total Local government expenses were \$3,023m. Transport and communications (\$825m), and housing and community amenities (\$544m) together comprised 45% of total local government expenses.

15.4 GENERAL GOVERNMENT EXPENSES—1998–99

	State \$m	Local \$m	State and Local \$m
General public services	1 387	278	1 659
Public order and safety	1 613	52	1 664
Education	5 050	32	5 082
Health	4 656	88	4 744
Social security and welfare	1 516	410	1 875
Housing and community amenities	511	544	1 046
Recreation and culture	364	530	849
Fuel and energy	114	0	114
Agriculture, forestry, fishing and hunting	486	1	487
Mining, manufacturing and construction	50	29	76
Transport and communications	1 424	825	2 249
Other economic affairs	273	107	379
Public debt transactions	1 251	47	1 298
Other purposes	303	80	91
Total	18 998	3 023	21 613

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

**Taxation
revenue**

Revenue from taxes on property (\$4,020m) and employers' payroll taxes (\$2,211m) together comprised 59% of total taxation revenue in 1998–99 (table 15.5). The proportion of taxation revenue from taxes on gambling is almost 14%.

15.5 GENERAL GOVERNMENT TAXATION REVENUE—1998–99

	State and Local \$m
Employers' payroll taxes	2 211
Taxes on property	4 020
Taxes on provision of goods and services	
Taxes on gambling	1 447
Taxes on insurance	532
Total	1 979
Taxes on use of goods and performance of activities	
Motor vehicle taxes	847
Franchise taxes	1 339
Other taxes on use of goods etc.	128
Total	2 314
Total	10 524

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

**Commonwealth
financial
assistance**

In 1999–2000, Commonwealth payments to Victoria totalled \$7,705m, a 4.6% increase on 1998–99 (table 15.6). General purpose funds totalled \$3,638m, a 1.5% increase on 1998–99. Specific purpose grants totalled \$3,769m, a 5.7% increase on 1998–99. State Fiscal Contributions were abolished with the introduction of The New Tax System (TNTS) in 1999–2000.

15.6 COMMONWEALTH GOVERNMENT PAYMENTS TO STATE AND LOCAL GOVERNMENT

	1994-95	1995-96	1996-97	1997-98	1998-99	1999-2000
	\$m	\$m	\$m	\$m	\$m	\$m
General Revenue Assistance	3 113	3 328	3 553	3 634	3 586	3 638
General Purpose Capital Assistance	40	35	11	—	—	—
Specific Purpose Payments	3 784	3 869	4 602	2 964	3 567	3 769
Financial Assistance Local Government	260	276	287	284	289	298
State Fiscal Contributions	n.a.	n.a.	-154	-159	-75	—
Total Commonwealth payments	7 197	7 508	8 299	6 723	7 367	7 705

Source: Commonwealth Final Budget Outcome.

Reform of Commonwealth-State financial relations

On 13 August 1998, the Commonwealth Government announced its plan to reform the Australian taxation system. A key element of TNS package is the reform of Commonwealth-State financial relations. At the Premier's Conference held on 9 April 1999, Heads of Governments signed an *Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations* which agreed on the key aspects of the reforms. In June 1999, Heads of Governments endorsed a revised *Intergovernmental Agreement. The Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations* commenced on 1 July 1999, with most reform measures taking effect from 1 July 2000.

It was agreed by Heads of Government that a range of measures would be implemented. Examples of some of these measures are provided below.

From 1 July 2000, the Commonwealth appropriates all of the Goods and Services Tax (GST) revenues to the States so that no State is worse off than under current arrangements. After 2001-02, the GST revenues will be distributed amongst the States on a horizontal fiscal equalisation basis.

Financial Assistance Grants and payments of revenue associated with the safety net surcharge arrangements for alcohol, petroleum and tobacco products will cease from 1 July 2000.

The States have adjusted their gambling tax revenues to the extent of the impact of the GST from 1 July 2000. Progressively the States will abolish bed taxes, Financial Institutions Duty, debit taxes, a number of business-related stamp duties and stamp duty on non-residential conveyances on real property.

The States have funded and administered a First Home Owners Scheme from 1 July 2000 to offset the impact of the GST on house prices for first home buyers.

The States will pay the Commonwealth the cost of administering the GST.

As the GST revenues will not be sufficient initially to fund the States' current expenditure and the new responsibilities they are assuming, the Commonwealth has guaranteed that in each of the transitional years following the introduction of the GST, each State's budgetary position will be no worse off under the new arrangements.

Any proposal to vary the 10% GST rate will require the unanimous support of the State and Territory governments, the endorsement by the Commonwealth Government of the day, and the passage of relevant legislation by both houses of the Commonwealth Parliament.

Financial system

The financial system in Australia has three overlapping components. The first component consists of financial enterprises (such as banks) and regulatory authorities, the Reserve Bank and the Australian Prudential Regulation Authority. The second consists of financial markets (for example, the bond market) and their participants (issuers such as governments, and investors such as superannuation funds). The third is the payments system - that is, the cash, cheque and electronic means by which payments are effected - and its participants (for example, banks). The interaction of these components enables funds for investment or consumption to be made available from savings in other parts of the national or international economy.

In response to the recommendations of the Financial System Inquiry (the Wallis Committee), from 1 July 1998, a changed financial regulatory framework came into effect. Under the new structure a single prudential supervisor, the Australian Prudential Regulation Authority (APRA) was established to assume responsibility for the supervision of banks, life and general insurance companies, and superannuation funds. The Australian Securities and Investments Commission (ASIC) assumed responsibility for market integrity and consumer protection across the financial system. The Reserve Bank retained responsibility for monetary policy and the maintenance of financial stability, including stability of the payments system. From 1 July 1999 building societies and credit unions have also been supervised by APRA.

Banks

At 30 June 2000, there were 32 banks, with 1,217 branches and 1,262 agencies in Victoria (table 15.7). The number of bank branches in Victoria decreased by 4.5% between 1999 and 2000. This coincided with a 10.7% increase in the number of agencies, indicating a changing emphasis for delivering banking services within Victoria.

The GiroPost Network, which is available through Australia Post retail outlets and agencies, recorded a 35.7% decrease in 1999–2000, mainly due to rationalisation of operations. The number of Automated Teller Machines (ATM's) increased by 16%.

15.7 BANK BRANCHES AND AGENCIES — At 30 June

	1998		1999		2000	
	Branches	Agencies	Branches	Agencies	Branches	Agencies
Commonwealth Bank of Australia(a)	385	1 026	362	999	381	1013
National Australia Bank	295	41	299	42	294	42
ANZ Banking Group	204	18	219	8	221	9
Westpac Banking Corporation	325	102	218	4	176	26
Bendigo Bank	69	74	73	81	80	116
St. George Bank	32	6	32	6	30	10
Colonial State Bank(a)	38	1	39	—	—	—
Suncorp-Metway Bank	4	—	1	—	5	—
Citibank	3	—	2	—	2	—
Other banks	33	2	29	—	28	46
Total	1 388	1 270	1 274	1 140	1 217	1 262
GiroPost Network	n.a.	1 092	n.a.	1 089	n.a.	700
Automated Teller Machines	n.a.	2 036	n.a.	2 082	n.a.	2 416

(a) Colonial State Bank merged with Commonwealth Bank of Australia in 1999–2000.

Source: Australian Prudential Regulation Authority.

Deposits

At 30 June 2000, there was a total of \$99,977m in deposits in Victorian customers' accounts, a 10.7% increase on the June 1999 figure of \$90,282m (table 15.8). Term and at call deposits totalled \$58,905m, or 59% of total deposits.

15.8 BANK DEPOSITS, Repayable in Australia(a)

	Current bearing interest	Current not bearing interest	Term and at call	Other	Total
As at June(a)	\$m	\$m	\$m	\$m	\$m
1998	17 132	3 922	47 076	15 972	84 102
1999	18 685	3 952	50 714	16 930	90 282
2000	19 997	4 537	58 905	16 538	99 977

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

Source: Australian Prudential Regulation Authority.

Credit cooperatives

There were fifty-one credit cooperatives in Victoria at the end of 1998–99, down from 68 in 1996–97 (table 15.9). The value of assets held by credit cooperatives increased by 10% from 1997–98 to \$3,299.6m in 1998–99.

15.9 CREDIT COOPERATIVES

	Unit	1996–97	1997–98	1998–99
Cooperatives	no.	68	59	51
Income and expenditure				
Total income	\$m	262.8	245.9	265.9
Total expenditure	\$m	239.3	219.1	231.5
Assets and liabilities				
Total assets	\$m	2 839.5	3 005.8	3 299.6
Total liabilities	\$m	2 839.5	3 005.8	3 299.6

Source: Australian Prudential Regulation Authority.

Lending activity of financial institutions

Housing finance for owner occupation increased 14.2% from 1997–98 to \$14,376m in 1998–99, and a further 20.4% to \$17,310m in 1999–2000 (table 15.10). From 1997–98 to 1999–2000, personal finance increased by 30.8%, commercial finance decreased by 6.0%, and lease finance decreased by 2.3%.

Banks increased their housing finance for owner occupation commitments by 42.6% from 1997–98 to 1999–2000. In 1999–2000, lenders other than banks accounted for 10% of housing finance for owner occupation.

Borrowers moved away from finance companies as a source for their personal finance, moving towards banks in 1999–2000. Banks were the dominant lender in all finance lending categories except lease finance.

15.10 TYPE OF FINANCIAL COMMITMENT — At 30 June

	1998	1999	2000
	\$m	\$m	\$m
Housing finance for owner occupation			
Banks	10 816.0	12 770.7	15 421.4
Permanent building societies	240.0	239.6	124.6
Other lenders	1 535.0	1 365.8	1 763.9
Total	12 591.0	14 376.1	17 309.9
Personal finance			
Banks	7 748.3	8 327.1	10 898.6
Finance companies	1 704.9	1 846.1	1 660.0
Credit cooperatives	487.9	425.6	389.4
Other lenders	424.0	463.9	607.8
Total	10 365.1	11 062.7	13 555.8
Commercial finance			
Banks	35 718.0	37 155.0	37 037.0
Finance companies	1 197.0	1 089.0	1 119.0
Other lenders	7 013.0	6 384.0	3 125.0
Total	43 928.0	44 628.0	41 281.0
Lease finance			
Banks	596.0	808.0	753.0
Finance companies	650.0	724.0	533.0
Other lenders	678.0	595.0	593.0
Total	1 924.0	2 127.0	1 879.0

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) (AusStats).

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