



12 Finance

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* (1217.0) and *Government Finance Statistics: Concepts, Sources and Methods* (5514.0) outline the major concepts, provide definitions of the statistical units, and contain the main classifications employed.

State government finance

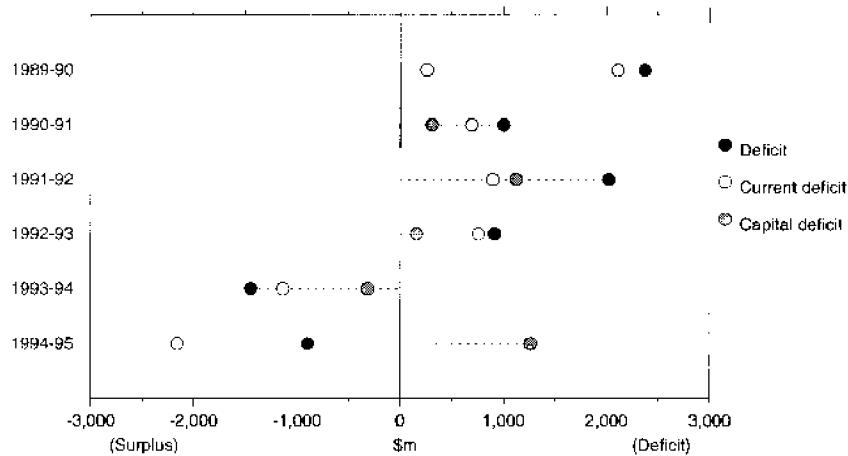
In 1994-95, the overall financial outcome of the Victorian Government was reflected in a surplus of \$900 million, a decrease from the 1993-94 surplus of \$1,448 million. Total current and capital outlays increased by \$1,480 million to \$18,553 million whereas total revenue and grants received increased by \$577 million to \$18,299 million. The deficit adjusted for net advances was -\$394 million, compared with -\$153 million for 1993-94.

12.1 ECONOMIC TRANSACTIONS OF VICTORIAN STATE GOVERNMENT

Item	1989-90 \$m	1990-91 \$m	1991-92 \$m	1992-93 \$m	1993-94 \$m	1994-95 \$m
Current expenditure	9 504	10 238	10 904	11 335	11 129	11 381
less Sales of goods and services (a)	1 124	1 224	1 301	1 420	1 494	1 414
equals Final consumption expenditure	8 379	9 014	9 603	9 915	9 635	9 967
Interest payments	3 259	3 643	3 759	3 715	3 522	3 322
Subsidies paid to public trading enterprises	917	977	968	1 012	905	602
Current grants to other governments	339	343	416	426	412	433
Other transfer payments	1 294	1 261	1 576	1 866	1 985	2 095
Total current outlays	14 188	15 238	16 321	16 933	16 460	16 419
plus Expenditure on new fixed assets	3 245	2 717	2 453	2 516	2 409	2 600
minus Expenditure on secondhand assets (net)	-296	-276	-158	-1 000	-240	56
equals Gross fixed capital expenditure	2 949	2 441	2 296	1 516	2 169	2 656
Expenditure on land and intangible assets (net)	61	-7	21	-30	-324	98
Capital grants to other governments	54	57	22	27	36	23
Other capital outlays	30	763	155	192	-1 268	446
Total capital outlays	3 094	1 728	2 142	1 321	613	2 134
Total outlays	17 282	16 966	18 464	18 255	17 073	18 553
Taxes fees and fines	5 274	5 634	6 001	6 502	7 397	7 756
Net operating surplus of public trading enterprises	1 747	1 889	2 113	2 269	2 557	2 323
Interest received	367	278	213	205	199	216
Grants received - for own use	6 086	6 838	6 727	7 003	7 128	7 452
for onpassing	4 843	5 481	5 202	5 403	5 449	5 634
Other revenue	1 243	1 357	1 525	1 600	1 679	1 818
Total revenue	13 973	14 986	15 510	16 430	17 722	18 299
Increase in provisions for depreciation	938	975	928	909	798	1 154
other	730	828	893	992	1 003	991
Advances received (net)	208	147	36	-83	-205	163
Borrowing (net)	-82	-731	689	-583	-303	105
Other financing transactions	2 092	2 373	2 989	3 214	-2 534	-1 157
Total financing (b)	3 310	1 980	2 953	1 825	-650	254
Deficit adjusted for net advances (d)	2 446	1 788	2 265	1 136	-153	394
Current deficit	261	695	899	758	-1 133	-2 163
Capital deficit	2 111	309	1 126	158	-315	1 263
Deficit (c)	2 372	1 005	2 025	915	-1 448	-900

- (a) Sales of goods and services represents the value of current general government output sold to other public and private bodies.
 - (b) Financing is a measure of the means by which governments finance net outlays or invest net surpluses. It is the difference between total outlays (current and capital) and revenue and grants received.
 - (c) Deficit/surplus comprises financing less increase in provisions.
 - (d) Deficit adjusted for net advances provides the deficit/surplus measure excluding the effects of most asset sales and debt refinancing.
- Source: Government Finance Statistics, Australia (5512.0)

DEFICIT OF VICTORIAN GOVERNMENT



Source: Government Finance Statistics (5512.0)

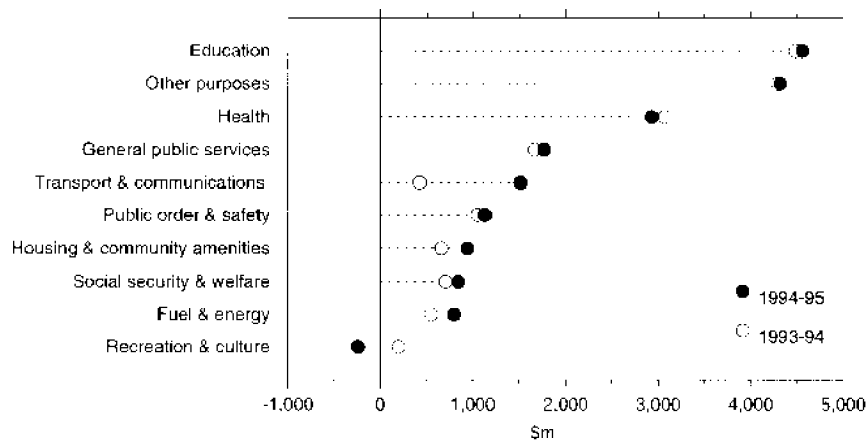
Outlays

Total current and capital outlays by the Victorian Government in 1994-95 were \$18,553 million, a 9% increase on 1993-94. The main components were education \$4,557 million (25%), public debt \$3,303 million (18%), and health \$3,064 million (17%).

Current outlays in 1994-95 were \$16,419 million, which was a decrease of 0.2% over the previous year. The largest component of this outlay was final consumption expenditure of \$9,967 million (61%), followed by interest payments \$3,322 million (20%).

Capital outlays in 1994-95 were \$2,134 million, an increase of 248% over 1993-94. Gross fixed capital expenditure was \$2,656 million, an increase of 22%.

VICTORIAN GOVERNMENT - OUTLAYS BY PURPOSE



Source: Government Finance Statistics (5512.0)

12.2 VICTORIAN STATE GOVERNMENT – TOTAL OUTLAYS BY PURPOSE

Purpose	1989-90 \$m	1990-91 \$m	1991-92 \$m	1992-93 \$m	1993-94 \$m	1994-95 \$m
General public services	926	1 036	1 266	1 625	1 661	1 767
Public order and safety	923	998	1 010	1 035	1 051	1 129
Education –	4 177	4 312	4 614	4 614	4 480	4 557
Primary and secondary education	2 640	2 698	2 891	2 847	2 691	2 691
Tertiary education	1 198	1 306	1 408	1 457	1 472	1 524
University education	737	813	896	943	962	1 005
Technical and further education	455	471	500	514	511	519
Other education	339	308	315	310	318	343
Health –	2 738	2 967	3 065	3 061	2 933	3 064
Hospital and other institutional services	2 404	2 619	2 709	2 686	2 539	2 663
Clinics and other non-institutional services	124	142	152	181	181	206
Other health	209	206	205	195	213	195
Social security and welfare	543	580	647	728	706	841
Welfare services	431	474	512	579	519	619
Other social security and welfare	112	106	135	149	187	222
Housing and community amenities –	991	946	889	759	660	941
Housing and community development	459	463	463	423	312	521
Water supply	210	162	153	92	102	265
Sanitation and protection of the environment	321	320	268	237	246	156
Other community amenities	—	1	5	7	—	—
Recreation and culture	434	373	409	445	194	-240
Recreational facilities and services	316	266	283	322	50	-472
Cultural facilities and services	114	105	122	118	140	225
Other recreation and culture	4	3	4	4	4	6
Fuel and energy	1 045	614	553	-75	548	794
Agriculture, forestry, fishing and hunting	218	224	217	212	219	236
Mining, manufacturing, construction etc.	62	34	48	-121	26	50
Transport and communications –	1 691	1 580	1 608	1 653	421	1 511
Road transport	774	749	754	840	-374	993
Water transport	35	45	27	-1	14	19
Rail and multi-mode transport	868	775	810	810	775	492
Other transport and communications	14	11	16	4	6	7
Other economic affairs	98	120	320	153	188	199
Other purposes –	3 438	3 182	3 819	4 167	3 983	3 704
Public debt	3 262	3 794	3 603	3 708	3 513	3 303
Other	176	-612	215	459	470	401
Total	17 282	16 966	18 464	18 255	17 073	18 553

Source: Government Finance Statistics, Australia (5512.0)

Revenue

Revenue, including grants, received by the State government in 1994-95 was \$18,299 million, a 3% increase on 1993-94. The main components were taxes, fees, and fines \$7,756 million (42%), and grants received from the Commonwealth Government \$7,452 million (41%).

Taxes, fees and fines

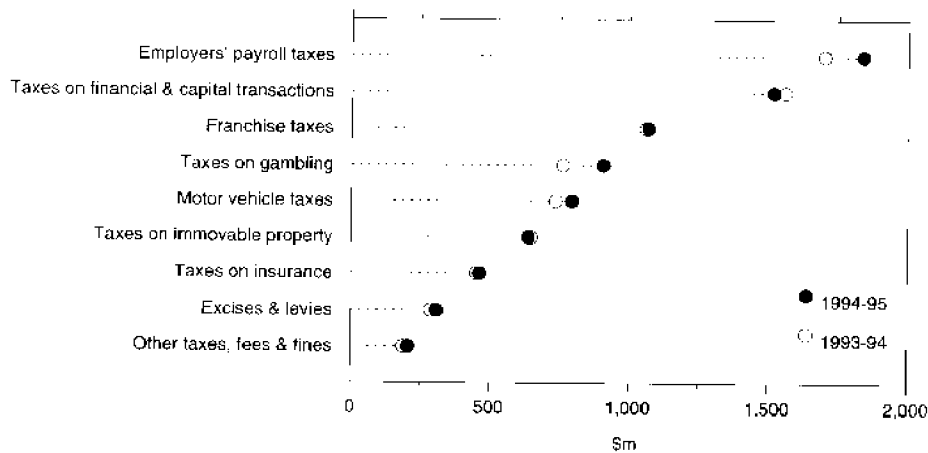
Taxes, fees and fines increased 5% on 1993-94. The largest components were taxes on property \$2,155 million (28%), and taxes on use of goods and performance of activities \$1,878 million (24%). Poker machine taxes increased 48% on 1993-94, while race betting taxes decreased by 29%. Stamp duty on vehicle registration increased by 17%.

12.3 VICTORIAN STATE GOVERNMENT – TAXES, FEES, AND FINES

Item	1989-90 \$m	1990-91 \$m	1991-92 \$m	1992-93 \$m	1993-94 \$m	1994-95 \$m
<i>Employers' payroll taxes</i>	1 554	1 742	1 761	1 664	1 702	1 841
<i>Taxes on property</i>	1 563	1 571	1 679	1 962	2 208	2 155
Taxes on immovable property –	346	459	515	705	648	637
Land taxes	307	416	465	481	409	396
Metropolitan improvement rates	39	43	50	51	58	61
Taxes on immovable property n.e.c.	—	—	—	173	181	180
Estate inheritance and gift duty	1	—	—	—	—	—
Taxes on financial and capital transactions –	1 216	1 111	1 163	1 256	1 560	1 518
Stamp duties	1 033	787	754	847	1 020	960
Financial institutions' taxes	183	325	409	410	540	557
<i>Taxes on provision of goods and services</i>	1 010	1 040	1 080	1 233	1 501	1 681
Excises and levies –	254	243	258	284	287	309
Agricultural production taxes	1	—	—	—	—	—
Levies on statutory corporations	253	243	258	284	287	309
Taxes on gambling	482	502	513	601	761	908
Taxes on private lotteries	279	300	300	290	286	297
Poker machine taxes	—	—	—	95	259	384
Casino taxes	—	—	—	—	—	68
Race betting taxes	195	180	192	198	202	144
Taxes on gambling n.e.c.	7	22	21	17	14	15
Taxes on insurance –	274	295	308	348	453	464
Insurance company contributions to fire brigades	135	149	160	164	162	162
Third party insurance taxes	—	—	—	4	59	65
Taxes on insurance n.e.c.	139	147	148	181	232	238
<i>Taxes on use of goods and performance of activities</i>	1 058	1 154	1 304	1 475	1 805	1 884
Motor vehicle taxes –	432	396	506	618	735	802
Vehicle registration fees and taxes	120	122	229	311	375	383
Stamp duty on vehicle registration	248	206	196	223	260	305
Drivers' licences	59	64	76	77	93	106
Road transport and maintenance taxes	4	5	5	6	8	8
Franchise taxes –	618	753	793	851	1 060	1 069
Petroleum products franchise taxes	295	352	372	350	470	484
Tobacco franchise taxes	204	252	268	360	446	439
Liquor franchise taxes	120	149	153	140	144	147
Other taxes on use of goods etc.	7	6	5	7	9	13
<i>Fees and fines</i>	90	127	178	169	181	194
Compulsory fees	25	49	50	50	59	65
Fines	66	78	127	119	122	130
Total	5 274	5 634	6 001	6 502	7 397	7 756

Source: Taxation Revenue, Australia (5506.0)

VICTORIAN GOVERNMENT – TAXES LEVIED



Source: Taxation Revenue, Australia (5506.0)

Local government finance

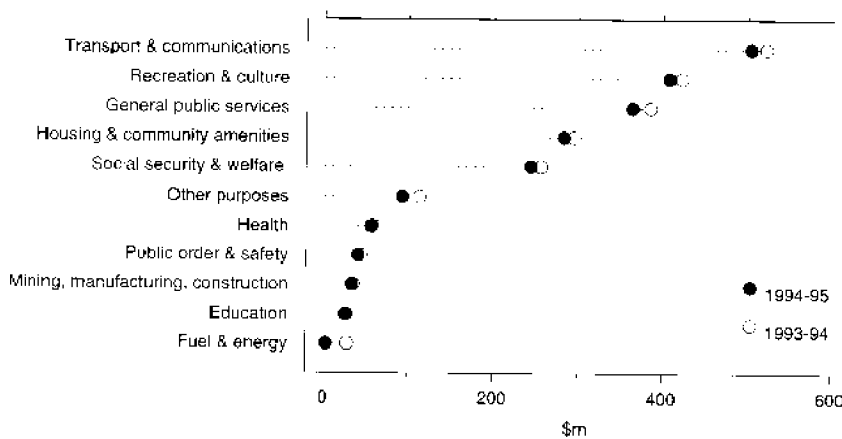
In 1994-95, the overall financial position of Victorian local government was reflected in a surplus of \$47 million, a decrease from the surplus of \$81 million in 1993-94.

Total current and capital outlays for Victorian local government in 1994-95 were \$2,055 million, a 6% decrease on 1993-94. Final consumption expenditure was \$1,494 million, a decrease of 5%. Gross fixed capital expenditure was \$476 million, a decrease of 7%.

The most significant outlays were on transport and communications \$504 million (25%), recreation and culture \$407 million (20%), and administration \$364 million (18%). Other areas of significant expenditure included housing and community amenities \$283 million (14%), and social security and welfare \$241 million (12%).

Local government revenue in 1994-95 was \$2,101 million, a 7% decrease over 1993-94. Taxes, fees, and fines made up 68% of total revenue.

VICTORIAN LOCAL GOVERNMENT – OUTLAYS BY PURPOSE



Source: Government Finance Statistics, Australia (5512.0)

12.4 ECONOMIC TRANSACTIONS OF VICTORIAN LOCAL GOVERNMENT

Item	1989-90 \$m	1990-91 \$m	1991-92 \$m	1992-93 \$m	1993-94 \$m	1994-95 \$m
Current expenditure	1 846	2 020	2 064	2 211	2 315	2 200
less Sales of goods and services (a)	531	602	589	614	742	705
equals Final consumption expenditure	1 316	1 418	1 475	1 597	1 573	1 494
Interest payments	167	190	123	127	89	69
Other transfer payments	34	38	27	—	—	—
Total current outlays	1 516	1 646	1 625	1 723	1 662	1 563
Gross fixed capital expenditure	451	367	347	551	510	476
Expenditure on land and intangible assets (net)	11	8	10	24	14	15
Other capital outlays	-6	-4	-7	—	—	—
Total capital outlays	457	371	351	575	524	492
Total outlays	1 973	2 017	1 975	2 299	2 186	2 055
Taxes fees and fines	1 239	1 392	1 362	1 493	1 525	1 420
Net operating surplus of public trading enterprises	50	73	53	50	58	6
Interest received	143	112	84	111	107	95
Grants received	423	432	495	603	564	576
Other revenue	61	58	50	4	5	4
Total revenue	1 916	2 068	2 044	2 262	2 259	2 101
Increase in provisions	8	10	11	11	9	1
Advances received (net)	-4	-1	—	5	13	14
Borrowing (net)	123	64	68	-99	69	74
Other financing transactions	-70	-124	147	120	25	13
Total financing (b)	56	-51	-69	37	-72	-46
Deficit adjusted for net advances (d)	54	57	-73	26	81	47
Current deficit	-305	-322	363	-422	-554	487
Capital deficit	353	262	284	448	473	440
Total deficit (c)	48	-61	-79	26	-81	-47

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

(b) Financing is a measure of the means by which governments finance net outlays or invest net surpluses. It is the difference between total outlays (current and capital) and revenue and grants received.

(c) Deficit/surplus comprises financing less increase in provisions.

(d) Deficit adjusted for net advances provides the deficit/surplus measure excluding the effects of most asset sales and debt refinancing.

Source: Government Finance Statistics, Australia (5512.0)

12.5 VICTORIAN LOCAL GOVERNMENT – TOTAL OUTLAYS BY PURPOSE

Item	1989-90 \$m	1990-91 \$m	1991-92 \$m	1992-93 \$m	1993-94 \$m	1994-95 \$m
General public services	399	404	421	364	385	364
Public order and safety	39	41	43	44	44	41
Education	29	29	30	36	27	26
Health	66	71	72	63	59	56
Social security and welfare	188	205	226	261	256	244
Housing and community amenities –	232	254	252	298	295	283
Housing and community development	48	55	53	67	62	60
Sanitation and protection of the environment	129	146	139	180	181	173
Other community amenities	54	54	59	50	52	49
Recreation and culture –	334	323	327	414	422	407
Recreational facilities and services	231	219	220	303	305	296
Cultural facilities and services	99	99	104	112	117	111
Other recreation and culture	5	4	4			
Fuel and energy	32	30	20	24	28	3
Agriculture, forestry, fishing and hunting	2	2	2	1		
Mining, manufacturing, construction etc.	32	35	32	35	35	33
Transport and communications	458	439	457	593	522	504
Other economic affairs	58	45	49	46	48	47
Other purposes	103	138	43	119	65	46
Total	1 973	2 017	1 975	2 299	2 186	2 055

Source: Government Finance Statistics, Australia (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 \$36,418 million at 30 June 1995. Offset against this amount were financial assets of \$4,650 million, resulting in a net debt of \$31,798 million.

Financial assets cover the financial claims of the public sector on other organisations (including other government authorities and overseas organizations) 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 1994	30 June 1995
	\$m	\$m
Liabilities		
Deposits held	312	107
Advances received	3 645	3 638
Other borrowings	33 472	32 703
Gross debt	37 429	36 448
Financial assets		
Cash and deposits	2 177	1 021
Advances paid	529	448
Other lending	2 756	3 181
Total cash, deposits, and lending	5 462	4 650
Net debt	31 967	31 798
Unfunded employee entitlements	16 752	17 679

Source: *Public Sector Financial Assets and Liabilities, Australia (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 13 June 1996, prior to the Commonwealth Government bringing down its 1996-97 budget on 20 August 1996. The Conference was assisted by the preparation and release of the National Fiscal Outlook (NFO) for 1996. The NFO presented medium-term projections of Commonwealth and State general government finances based on policy settings as at May 1996.

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 14 June 1996, the Loan Council considered the 1996-97 Loan Council Allocations nominated by the Commonwealth and each State.

Council of Australian Governments

At the Council of Australian Governments meeting on 14 June 1996, the Commonwealth and the States agreed to a program for the implementation of the National Competition Policy and related reforms, and to a related set of financial arrangements. The Commonwealth commitment is on the basis that the financial arrangements will need to be reviewed if Australia experiences a major deterioration in its economic circumstances.

As part of the financial arrangements, the Commonwealth agreed to maintain the real per capita guarantee of the Financial Assistance Grants pool on a rolling three year basis. Local government will also benefit from the decision as a consequence of the link between the State and local government Financial Assistance Grants. The Commonwealth also agreed to make additional general purpose payments in the form of a series of Competition Payments.

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: Commonwealth Financial Relations with other levels of Government 1996-97*.

In 1995-96, total Commonwealth payments to Victoria totalled \$7,508 million, a 4% increase on 1994-95. General purpose funds totalled \$3,363 million, a 7% increase on 1994-95. Specific purpose grants for current and capital purposes totalled \$4,145 million, a 2% increase on 1994-95. Education and health together comprised 73% of total specific purpose grants.

12.7 COMMONWEALTH GOVERNMENT PAYMENTS TO VICTORIAN STATE AND LOCAL GOVERNMENTS

Nature of Payment	1990-91 \$m	1991-92 \$m	1992-93 \$m	1993-94 \$m	1994-95 \$m	1995-96 \$m
General Revenue Assistance	2 712	2 649	2 780	2 957	3 113	3 328
General Purpose Capital Assistance	68	85	105	137	40	35
Specific Purpose Payments -	4 073	4 035	4 248	3 995	4 044	4 145
General public services	43	57	69	72	74	84
Public order and safety	28	31	34	34	34	38
Education	1 488	1 618	1 787	1 751	1 789	1 812
Health	1 011	1 066	1 142	1 159	1 173	1 233
Social security and welfare	102	117	174	207	223	241
Housing and community amenities	220	226	230	215	237	224
Agriculture, forestry and fishing	28	46	53	13	18	15
Mining, manufacturing and construction	3	63	4	4	5	4
Transport and communication	340	292	393	205	149	150
Other economic affairs and purposes	628	266	103	75	82	68
Financial Assistance						
Local Government	182	253	259	260	260	276
Total Commonwealth Payments	6 853	6 769	7 133	7 089	7 197	7 508

Source: Commonwealth Budget Paper Number 3, Commonwealth Financial Relations with other Levels of Government; Department of Finance

PRIVATE FINANCE

The Australian financial system includes banks and a range of non-bank financial institutions such as building societies, credit unions, 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. On 30 May 1996, the Wallis Inquiry was established to review the Australian financial system.

Amendments to the *Banking Act* in 1989 gave the Reserve Bank explicit powers for the prudential supervision of banks as well as providing a formal statutory foundation for this supervision (i.e. greater power to seek information from banks and investigate their affairs); restructured the banking industry by abolishing the distinction between trading and savings banks; formally replaced the Statutory Reserve deposit requirement with a non-callable deposit requirement; removed the limit of 50% on foreign ownership of money market dealers; and reduced the Prime Assets ratio from 10% to 6% of bank assets, to be held in high quality liquid assets.

In December 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.

Banks

The banking system in Australia as at 30 June 1996 comprised a central bank (the Reserve Bank of Australia); forty-four banks (one owned by the Commonwealth, three by State governments, and forty privately-owned); five subsidiary banks; the Commonwealth Development Bank and the Australian Resources Development Bank (specialist banks, owned respectively by the Commonwealth Government and by a consortium of the four major Australian banks).

Thirty-four banks, plus the Reserve Bank, have branches in Victoria.

12.8 BANKS, NUMBER OF BRANCHES AND AGENCIES, VICTORIA

Banks	At 30 June 1995		At 30 June 1996	
	Branches	Agencies	Branches	Agencies
Commonwealth Bank of Australia	513	1 049	486	1 053
National Australia Bank	355	33	342	40
ANZ Banking Group	336	9	325	10
Westpac Banking Corporation	255	12	232	11
Bank of Melbourne	119	200	121	109
Bendigo Bank	-	-	73	84
St. George Bank	32	2	29	5
Challenge Bank	22	14	19	645
State Bank of New South Wales	6	1	10	-
Metway Bank	7	-	7	-
Citibank	4	7	5	1 082
Other Banks	30	3	30	1
Total Banks	1 679	1 330	1 679	3 040
Metropolitan Area	1 123	817	1 116	1 666
Remainder of Victoria	556	513	563	1 374

Source: Reserve Bank of Australia

Deposits and loans

In the three years to June 1996 deposits held in customers accounts at banks increased 22% to a total of \$71,285 million. Loans to customers accounts grew by 25% to a total of \$73,304 million at June 1996. Term and at call accounts represented 58% of total deposits held in customers accounts in June 1996.

12.9 BANKS, DEPOSITS AND LOANS TO CUSTOMERS ACCOUNTS, VICTORIA

Period	Deposits Repayable in Australia					Loans \$m
	Current bearing interest \$m	Current not bearing interest \$m	Term and at call \$m	Other \$m	Total \$m	
As at June -						
1994	10 195	3 592	32 054	15 522	61 364	60 505
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

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

Source: Reserve Bank of Australia

- Interest rates** Interest rates, as the price of money and credit, fluctuate with the supply of and demand for money or credit. They are also affected by other factors such as government monetary policy, government regulation, borrower credit risk, and the maturity and marketability of the particular investment or asset involved. The Reserve Bank of Australia adjusts cash interest rates which in turn affect the operations of financial market participants. Generally, interest rates dropped during 1995-96.
- Non-bank financial institutions** There are a number of categories of financial institutions such as building societies, credit unions, 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 six at the end of 1994-95, 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 1994-95 totalled \$2,832 million, an increase of 11% over 1993-94. Total income of building societies exceeded total expenditure in 1994-95 by \$15 million.
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12.10 PERMANENT BUILDING SOCIETIES, VICTORIA

Particulars	1992-93	1993-94	1994-95
Number of societies	8	6	6
Income and expenditure (\$m)			
Income			
Interest from loans	168.4	169.6	207.3
Interest from investments	25.5	21.3	25.6
Other income	22.2	21.9	22.9
Total	216.1	212.9	255.8
Expenditure -			
Interest on deposits	106.5	97.0	117.1
Interest on loans	9.8	12.6	27.0
Other expenditure	84.4	83.8	96.7
Total	200.8	193.3	240.9
Liabilities and assets (a) (\$m)			
Liabilities -			
Share capital	89.4	101.8	105.8
Reserves (b)	86.7	87.0	106.3
Deposits	1 969.4	2 054.9	2 199.4
Loans	49.8	256.0	336.9
Other liabilities	56.0	57.9	83.5
Total	2 251.5	2 557.6	2 831.8
Assets -			
Amounts owing on loans	1 717.0	2 004.7	2 286.7
Cash on hand	10.2	10.4	8.2
Deposits with banks	80.9	136.7	161.4
Deposits with other institutions	48.5	37.7	26.1
Bills, bonds, and other securities	280.6	262.6	239.2
Physical and other assets	114.3	105.6	110.3
Total	2 251.5	2 557.6	2 831.8

(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 72 credit co-operatives in Victoria at the end of 1994-95, down from 90 in 1992-93. The assets of credit co-operatives increased by 6% from 1993-94 to 1994-95. Income exceeded expenditure by \$24 million in 1994-95.

12.11 CREDIT CO-OPERATIVES, VICTORIA

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

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

(b) Includes accumulated surpluses and deficits.

(c) Includes finance lease receivables, also net of unearned interest and allowance for doubtful debts.

Source: Australian Financial Institutions Commission

Lending activity of financial institutions

Housing finance for owner occupation dropped 12% to \$9,672 million in 1994-95, but recovered 5% to \$10,153 million in 1995-96. Personal finance was 31% higher in 1995-96 than in 1993-94, whilst commercial finance increased by 79% over the same period. Lease finance showed an overall increase over the three-year period of 26%.

Banks increased their commercial finance commitments by 72% during 1995-96. Banks were the dominant lender in all areas except lease finance, while money market corporations also significantly lifted their share of commercial finance commitments.

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 1994 -				
Banks	10 382.4	4 081.2	18 088.5	377.2
Finance companies	—	866.3	1 393.6	495.6
Permanent building societies	487.7	—	—	—
Credit cooperatives	—	431.9	—	—
Money market corporations	—	—	1 396.9	113.1
Other	139.1	235.4	2 489.6	263.7
Total	11 009.2	5 614.8	23 368.6	1 249.6
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	9 162.7	5 818.5	32 608.3	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	34.2	2 371.9	348.6
Total	10 152.7	7 360.0	41 838.5	1 572.1

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: authorised money market dealers, money market corporations, finance companies, general financiers, life insurance offices, superannuation funds, approved deposit funds, cash management trusts, public unit trusts, common funds, friendly societies, general insurance companies, managed funds, and the stock market. Statistical data for these institutions are generally available on an Australian basis only, and can be referenced in *Year Book Australia* (1301.0).

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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.

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Stock Exchange: Courtesy of the Australian Stock Exchange
