

**BUDGET STRATEGY
AND REVIEW
1991-92**

Presented by
The Honourable Tom Roper, M.P.
Treasurer of Victoria
for the information of Honourable Members on the occasion
of the Budget 1991-92

BUDGET PAPER No. 2

MELBOURNE

L. V. NORTH GOVERNMENT PRINTER

1991

**Budget Strategy and Review 1991-92
(1991-92 Budget Paper No. 2)**

Printed and Published by
THE LAW PRINTER
a subsidiary business of the
Victorian Government Printing Office
Melbourne Victoria Australia
© State of Victoria 1991

This book is copyright. No part may be reproduced
by any process except in accordance with the provisions
of the Copyright Act.

Address all inquiries to The Law Printer
PO Box 203 North Melbourne 3051
Victoria Australia

ISSN 1033-6338

ISBN 0 7241 8427 9

Published August 1991 by authority
L. V. North, Government Printer Melbourne

BUDGET STRATEGY AND REVIEW 1991-92

TABLE OF CONTENTS

| | <i>Page</i> |
|---|-------------|
| Preface | x |
| Chapter 1 Budget Overview 1991-92 | 1 |
| Chapter 2 Economic Conditions and Outlook | 27 |
| Chapter 3 State Public Sector Financial Transactions 1986-87 to 1991-92 | 42 |
| Appendix: Non Budget Authorities: Major Capital Projects | 53 |
| Chapter 4 Commonwealth-State Financial Relations | 55 |
| Chapter 5 Financial Management | 69 |
| Chapter 6 Budget Outcome 1990-91 | 93 |
| Chapter 7 Economic Planning Policies | 99 |
| Chapter 8 The Conservation and Environment Program | 114 |
| Chapter 9 Public Authority Policy and Performance | 122 |
| Appendix | 141 |

LIST OF TABLES

| | | <i>Page</i> |
|-------------------|--|-------------|
| Table 1.1 | Budget Sector Planning Projections | 1 |
| Table 1.2 | Economic Forecasts for Victoria | 2 |
| Table 1.3 | Public Sector Net Debt and Budget Sector Debt Service Planning Projections | 3 |
| Table 1.4 | Sale of Business Assets 1990-91 and 1991-92 | 5 |
| Table 1.5 | Budget Sector Revenue and Current Grants Received 1975-76 to 1990-91 | 6 |
| Table 1.6 | Tax Sharing/Financial Assistance Grants 1984-85 to 1991-92 | 8 |
| Table 1.7 | Composition of Interest Paid 1986-87 to 1991-92 | 12 |
| Table 1.8 | Public Sector Employment Levels 1990 and 1991 | 13 |
| Table 1.9 | Budget Sector Capital Funding 1975-76 to 1990-91 | 21 |
| Table 1.10 | Examples of Victorian Public Sector Capital Projects Commenced or Completed During the 1980s | 23 |
| Table 2.1 | Economic Indicators for the 1980s | 31 |
| Table 2.2 | Real Private Sector Spending and the Labour Market | 32 |
| Table 2.3 | OECD Economic Forecasts | 35 |
| Table 2.4 | Demand and Output Forecasts | 36 |
| Table 2.5 | Labour Market and Inflation Forecasts | 39 |
| Table 3.1 | Budget Sector Current Outlays 1986-87 to 1991-92 | 42 |
| Table 3.2 | Budget Sector Capital Outlays 1986-87 to 1991-92 | 43 |
| Table 3.3 | Composition of Asset Sales 1990-91 and 1991-92 | 44 |
| Table 3.4 | Composition of Budget Sector Outlays 1986-87 to 1991-92 | 45 |
| Table 3.5 | Budget Sector Revenue and Grants Received 1986-87 to 1991-92 | 46 |
| Table 3.6 | Budget Sector Financing Transactions 1986-87 to 1991-92 | 47 |
| Table 3.7 | Financial Transactions of the Non Budget Sector 1986-87 to 1991-92 | 48 |
| Table 3.8 | Financial Transactions of State Public Sector 1986-87 to 1991-92 | 51 |
| Table 3.9 | Composition of State Public Sector Expenditure on New Fixed Assets 1986-87 to 1991-92 | 52 |
| Appendix | Non Budget Authorities: Major Capital Projects | 53 |

| | | |
|-------------------|--|------------|
| Table 4.1 | Commonwealth Net Payments to the States and Territories, Estimates 1990-91 and 1991-92 | 56 |
| Table 4.2 | Distribution of Financial Assistance Grants, Hospital Grants, and Special Revenue Assistance, 1991-92 | 58 |
| Table 5.1 | Global New Money Borrowings: Phasing of States' Basic Programs to Per Capita Basis | 74 |
| Table 5.2 | Distribution of State-Local Authorities' Approved Borrowing Limits 1990-91 and 1991-92 | 75 |
| Table 5.3 | Distribution of Global Borrowing Allocation 1990-91 and 1991-92 | 76 |
| Table 5.4 | Refinancing of Debt Under Financial Agreement | 77 |
| Table 5.5 | Net Debt of the Victorian Public Sector 1987 to 1992 | 78 |
| Table 5.6 | Contributions to Changes in Budget Sector Net Debt 1986-87 to 1990-91 | 79 |
| Table 5.7 | Contributions to Changes in Non Budget Sector Net Debt 1986-87 to 1990-91 | 80 |
| Table 5.8 | Foreign Exchange Debt Exposures of Victorian Authorities 1987 to 1991 | 80 |
| Table 5.9 | Maturity Structure of Gross Debt as at 30 June 1991 | 81 |
| Table 5.10 | Budget Sector Interest Paid and Incurred | 82 |
| Table 5.11 | Farrow Group Arrangements – Funding | 84 |
| Table 5.12 | Estimated Transport Lease Commitments for Future Years | 91 |
| Table 6.1 | Budget Outcome 1990-91 | 94 |
| Table 6.2 | Taxes Fees and Fines Outcome 1990-91 | 96 |
| Table 6.3 | Budget Sector Financing Transactions Outcome | 98 |
| Table 8.1 | Salinity Control Funding | 120 |
| Table 9.1 | Dividend Payments | 130 |
| Table 9.2 | State Electricity Commission of Victoria – Performance Indicators | 132 |
| Table 9.3 | Board of Works – Performance Indicators | 134 |
| Table 9.4 | Gas and Fuel Corporation – Performance Indicators | 136 |
| Table 9.5 | Port of Melbourne Authority – Performance Indicators | 138 |
| Table 9.6 | Grain Elevators Board – Performance Indicators | 140 |

| | | |
|------------------|--|------------|
| Table A.1 | Budget Sector Outlays by GPC Category 1986-87 to 1991-92 | 141 |
| Table A.2 | Composition of Budget Sector Taxes, Fees and Fines 1986-87 to 1989-90 | 143 |
| Table A.3 | Victorian Non-Farm Gross Domestic Product 1986-87 to 1991-92 | 144 |
| Table A.4 | Summary of Budget Transactions 1986-87 to 1991-92 | 145 |
| Table A.5 | Budget Sector Outlays and Revenue by Fund Source: 1991-92 | 146 |

LIST OF CHARTS

| | | <i>Page</i> |
|------------------|--|-------------|
| Chart 1.1 | Public Sector Net Debt | 4 |
| Chart 1.2 | Tax Sharing/Financial Assistance Grants | 10 |
| Chart 1.3 | Per Capita Taxes, Fees and Fines v FAGs | 10 |
| Chart 2.1 | GDP and GNE, Australia | 27 |
| Chart 2.2 | The Current Account Balance | 28 |
| Chart 2.3 | Real Interest Rate and Credit Growth | 29 |
| Chart 2.4 | Exchange Rate and Terms of Trade | 30 |
| Chart 2.5 | Employment Growth | 31 |
| Chart 2.6 | Private Sector Spending | 33 |
| Chart 7.1 | Exports of Metals and Manufactures | 100 |
| Chart 8.1 | Area of Land Managed under the National Parks Act | 117 |
| Chart 9.1 | SECV Price Index and Rate of Return | 131 |
| Chart 9.2 | Board of Works | 133 |
| Chart 9.3 | GFCV Price Index and Rate of Return | 135 |
| Chart 9.4 | PMA Price Index and Rate of Return | 137 |
| Chart 9.5 | GEB Price Index and Rate of Return | 139 |

PREFACE

This Budget Paper describes and analyses issues associated with the aggregate budget and budgetary policies. It includes time series data for the Victorian State public sector in Government Finance Statistics format (generally, although not quite correctly, referred to as national accounting format) from 1986-87 onwards.

The Victorian Budget is presented this year shortly after the Commonwealth Budget, but because of lack of time, relevant data from the Commonwealth Budget Papers have not been fully incorporated into the Victorian budget estimates. The budget estimates incorporate information made available by the Commonwealth Government at the financial Premiers' Conference and Loan Council meetings in May 1991. All numbers relating to public sector financial transactions in 1990-91 and assets and liabilities as at 30 June 1991 are preliminary and subject to final audit.

Chapter 1 contains an overview of the budgetary strategy and succeeding chapters provided more detail about key aspects of the 1991-92 Budget. Chapter 2 outlines Treasury forecasts for the Australian and Victorian economies in 1991-92. Chapter 3 describes trends since 1986-87 in the main components of public sector outlays and revenue and grants. The Appendix to this chapter provides details of major capital projects to be undertaken by the major non budget sector agencies in 1991-92. Chapter 4 describes current issues in Commonwealth-State financial relations. Chapter 5 sets out key aspects on financial management. Chapter 6 describes the outcome of the 1990-91 Budget against estimates. Chapter 7 sets out the main features of the Government's economic planning policies; and Chapter 8 describes the conservation and environment program. Chapter 9 outlines current issues in public authority policy with a particular focus on corporatisation. The Appendix contains more detailed time series data.

Style Conventions

Figures in tables and in the text have been rounded. Discrepancies in tables between totals and sums of components reflect rounding. Percentage changes in all tables are based on the underlying unrounded amounts.

The notation used in the tables is as follows:

- n.a. not available or not applicable
- .. zero, or rounded to zero

CHAPTER 1

BUDGET OVERVIEW 1991-92

The Budget estimates for 1991-92, and the planning projections for the following two years, are set out in Table 1.1, which is presented in the same format as the June Economic Statement. Victoria's presentation of these planning projections was a first. Neither the Commonwealth nor any other State or Territory produces planning projections for outlays, revenue and grants received, and financing transactions. Victoria looks forward to production by the Commonwealth of forward estimates of revenue and financing transactions as well as outlays, since this would be very helpful for both the Victorian Government's own budget planning purposes and an understanding of the

TABLE 1.1
BUDGET SECTOR PLANNING PROJECTIONS (a)
(\$ million, per cent change)

| | 1988-89 <i>Actual</i> | 1989-90 <i>Actual</i> | 1990-91 <i>Actual</i> | 1991-92 <i>Budget</i> | 1992-93 <i>Est.</i> | 1993-94 <i>Est.</i> |
|-----------------------------|--------------------------|--------------------------|--------------------------|--------------------------|------------------------|------------------------|
| OUTLAYS | | | | | | |
| Interest Paid | 1 265.6 | 1 444.1 | 1 572.6 | 1 804.0 | 1 900.0 | 1 850.0 |
| (% change) | | 13.9 | 9.1 | 14.7 | 5.3 | -2.6 |
| Trico Subsidy | | | | 180.0 | 180.0 | 180.0 |
| Superannuation | 533.8 | 603.1 | 681.2 | 803.8 | 913.4 | 1 027.5 |
| (% change) | | 13.0 | 12.9 | 18.0 | 13.6 | 12.5 |
| Other Current Outlays | 7 376.4 | 8 032.7 | 8 369.4 | 8 694.2 | 8 955.0 | 9 223.7 |
| (% change) | | 8.9 | 4.2 | 3.9 | 3.0 | 3.0 |
| Capital Outlays (b) | 1 796.6 | 1 439.1 | 1 658.7 | 1 785.0 | 1 450.0 | 1 500.0 |
| (% change) | | -19.9 | 12.7 | 7.6 | -18.8 | 3.4 |
| of which Asset Sales | -230.5 | -592.3 | -296.6 | -404.4 | -300.0 | -200.0 |
| Total Outlays | 10 972.4 | 11 519.0 | 12 281.9 | 13 267.0 | 13 398.4 | 13 781.2 |
| (% change) | | 5.0 | 6.6 | 8.0 | 1.0 | 2.9 |
| REVENUE | | | | | | |
| Taxes Fees & Fines | 4 791.0 | 5 071.3 | 5 405.7 | 5 967.3 | 6 528.2 | 7 096.2 |
| (% change) | | 5.9 | 6.6 | 10.4 | 9.4 | 8.7 |
| Public Authority Income ... | 354.2 | 398.7 | 326.8 | 458.5 | 467.6 | 475.6 |
| (% change) | | 12.6 | -18.0 | 40.3 | 2.0 | 1.7 |
| Other | 353.7 | 378.1 | 447.5 | 397.8 | 394.1 | 393.6 |
| (% change) | | 6.9 | 18.4 | -11.1 | -0.9 | -0.1 |
| GRANTS | 4 465.0 | 4 667.6 | 4 853.2 | 4 949.4 | 5 153.3 | 5 389.7 |
| (% change) | | 4.5 | 4.0 | 2.0 | 4.1 | 4.6 |
| Total Revenue & Grants ... | 9 963.9 | 10 515.7 | 11 033.2 | 11 773.0 | 12 543.2 | 13 355.1 |
| (% change) | | 5.5 | 4.9 | 6.7 | 6.5 | 6.5 |
| FINANCING | | | | | | |
| TRANSACTIONS | 1 008.6 | 1 003.3 | 1 248.7 | 1 494.0 | 855.2 | 426.1 |
| Current | -151.7 | 258.6 | 345.4 | 428.8 | 121.0 | -338.2 |
| Capital | 1 160.3 | 744.7 | 903.3 | 1 065.2 | 734.2 | 764.3 |

(a) In 1991-92 includes \$300 million for redundancy package.

(b) Excludes Commonwealth grants for on-passing, sale in 1990-91 of State Bank Victoria and sale in 1991-92 of other business assets.

Commonwealth Government's medium term economic and budgetary expectations and objectives. As in the Economic Statement, the data in Table 1.1 exclude Commonwealth grants for on-passing, sale in 1990-91 of State Bank Victoria, and sale in 1991-92 of other business assets.

Budget Sector Planning Projections

Various changes to the estimates have occurred subsequent to the June Statement as a result of complete national accounting data for 1990-91 and finalisation of 1990-91 transactions and 1991-92 Budget estimates, with consequent effect upon the planning projections.

Macroeconomic Forecasts

The 1991-92 forecasts for Victoria shown in Table 1.2 differ from the corresponding forecasts provided in the June Economic Statement because key economic statistics published since then have revealed lower than expected outcomes for GDP, average weekly earnings, CPI and employment in the June quarter 1991. Statistically, these outcomes affect year on year growth for 1991-92 but not for the subsequent years in the forecast period.

TABLE 1.2
ECONOMIC FORECASTS FOR VICTORIA
(average annual percentage change)

| | 1980-81 to 1990-91 | 1991-92 | 1992-93 | 1993-94 |
|---------------------------------|-----------------------|---------|---------|---------|
| GDP | 2.5 | 0.0 | 2.6 | 2.5 |
| Employment | 1.7 | -3.7 | 1.9 | 2.0 |
| Unemployment Rate (level) | 6.8 | 11.0 | 10.9 | 10.4 |
| Inflation | 8.0 | 4.0 | 5.0 | 5.0 |

Source: Australian Bureau of Statistics and Treasury estimates

Outlays

Interest savings starting in 1991-92 have been identified subsequent to the June Statement as a result of lower interest rate projections, targeted efficiency savings as a result of further improvements in debt management, associated in part with the new Victorian Borrowing Authority, and targeted savings from improved intra-year cash management.

Other current outlays have increased relative to the figures in the June Statement even though the portfolio savings embraced in the estimates are very significant. Capital outlays have been reduced because of savings in base estimates and as a result of changed arrangements in respect to road funding. Within the capital program, an amount of some \$150 million has been allocated for new works, conditional on the achievement of the budgeted asset sales.

Revenue

The depressed level of collections of payroll tax and financial institutions duty in recent months confirms the depth of the recession. However, stamp duty

collections on transfers of motor vehicles and property have exhibited some early indications of recovery. This trend, and the emergence of lower inflationary expectations, have led to a downward revision of estimates of taxes fees and fines of \$23.2 million in 1991-92.

The major influences on the three-year projections are the expectations of a medium-term economic recovery, coupled with containment of inflation. The revenue gains from 1990-91 and 1991-92 Budget revenue initiatives are built into the base for future years as are the changes in the land tax base related to the Government's reforms to land tax on the recommendation of the Fordham Report. Other variations mean that the projected rates of growth of taxes, fees and fines for 1992-93 and 1993-94 are as they were in the Economic Statement.

Financing Transactions

Budgeted financing transactions in 1991-92 are close to the figure in the June Economic Statement, while the projected level in 1992-93 is now slightly higher and in 1993-94 is somewhat lower.

Public Sector Debt and Debt Service Projections

Table 1.3 shows net debt and debt service projections to 1993-94, set out in the same format as in the June Economic Statement. Since the Statement, the estimated level of budget sector net debt in 1991-92 has been increased mainly because of an extension of coverage to the Flexible Tariff Management Unit Trust (FTMUT) borrowings. There is little change in the estimate for 1992-93, and the estimate for 1993-94 is around \$100 million lower as a result of repayment of Victorian Government securities, lower discount on inscribed stock and lower indexation of bonds.

TABLE 1.3
PUBLIC SECTOR NET DEBT AND BUDGET SECTOR DEBT SERVICE PLANNING PROJECTIONS

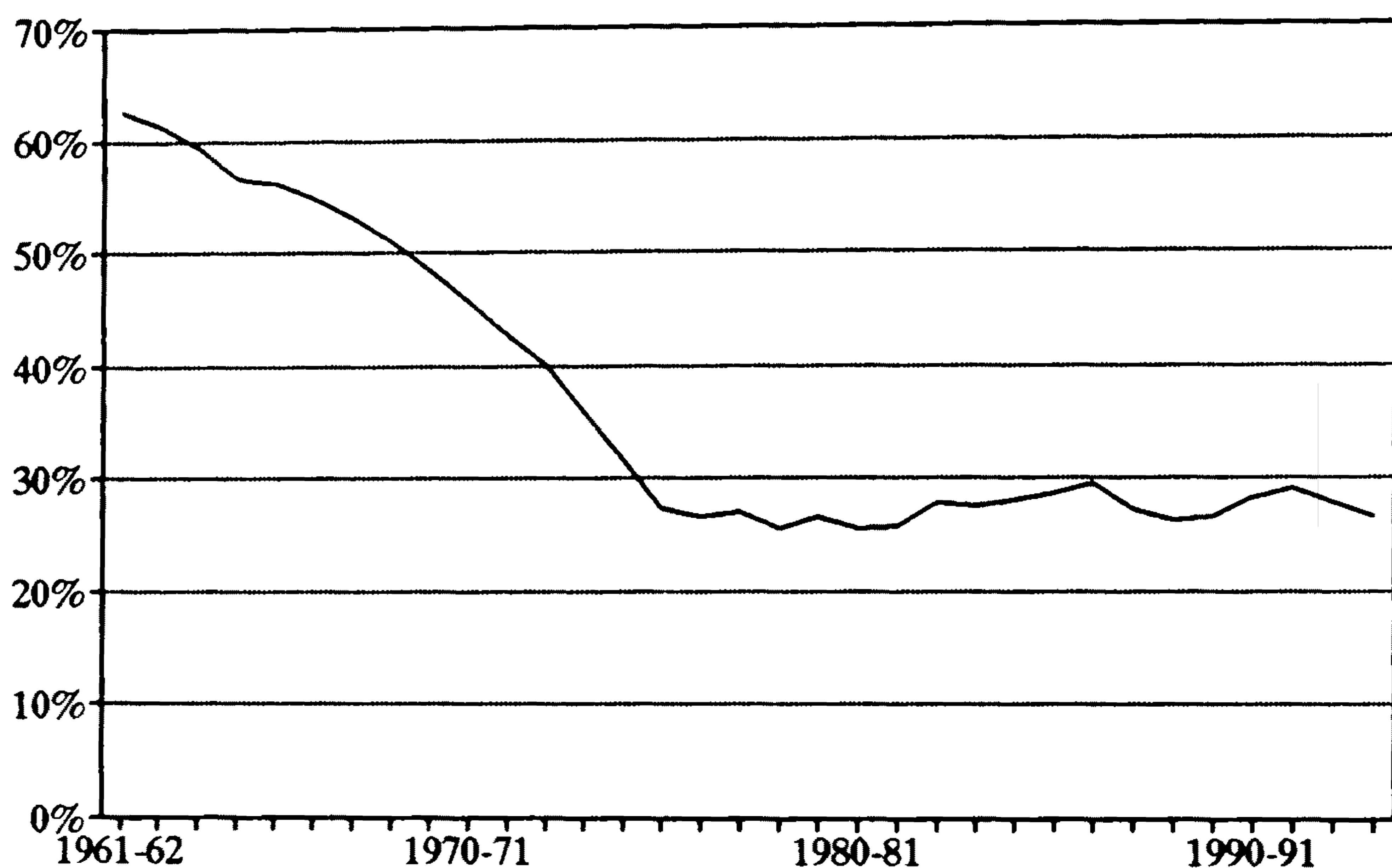
| | 1989-90 <i>Actual</i> | 1990-91 <i>Actual</i> | 1991-92 <i>Budget</i> | 1992-93 <i>(Est.)</i> | 1993-94 <i>(Est.)</i> |
|---|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|
| BUDGET SECTOR | | | | | |
| Net Debt at 30 June (\$m) | 14 533 | 15 638 | 16 835 | 17 755 | 18 241 |
| Debt/NFGDP (%) | 14.5 | 15.6 | 16.4 | 16.0 | 15.3 |
| Interest Paid/Revenue & Current Grants (%) | 14.7 | 15.3 | 16.3 | 16.1 | 14.7 |
| NON BUDGET SECTOR | | | | | |
| Net Debt at 30 June (\$m) | 12 278 | 12 707 | 13 092 | 13 224 | 13 353 |
| Debt/NFGDP (%) | 12.2 | 12.7 | 12.7 | 11.9 | 11.2 |
| PUBLIC SECTOR | | | | | |
| Net Debt at 30 June (\$m) | 26 698 | 28 329 | 29 911 | 30 963 | 31 578 |
| Debt/NFGDP (%) | 26.6 | 28.3 | 29.1 | 28.0 | 26.5 |

The debt service ratio in the budget sector is somewhat lower over the forecast period than was projected in June, reflecting the greater extent of savings in interest paid now being targeted for the next three years. These numbers also reflect revisions made since the June Statement to time series data for NFGDP by the ABS.

Projections of net debt of the non budget sector and the public sector as a whole have changed only slightly since the June Economic Statement.

Chart 1.1 puts these net public sector debt projections into a longer term perspective.

CHART 1.1
NET PUBLIC SECTOR DEBT
AS A PROPORTION OF STATE NFGDP



Source : ABS unpublished data and Treasury data

Sale of Business Assets

Transactions relating to the sale of business assets in 1990-91 and 1991-92 are set out in Table 1.4 classified to the relevant Government Finance Statistics (GFS) categories.

In the 1990-91 Budget, the Government announced a program for the sale of business assets totalling an estimated \$2.6 billion for application to debt retirement, as part of a debt management strategy designed to achieve budget sector debt reductions.

The main component of the program was the merger of the State Bank of Victoria (SBV) with the Commonwealth Bank, effected on 31 December 1990 and yielding proceeds of \$1.6 billion supplemented by compensation for revenue forgone of \$413 million. Proceeds included \$4.5 million interest accrued. The proceeds were disbursed in accordance with the terms of the agreement, with \$755.7 million paid to SBV to discharge the Government's obligations, \$45.0 million paid to repay advances made by the Public Account and \$803.8 million

TABLE 1.4
SALE OF BUSINESS ASSETS 1990-91 AND 1991-92
(\$ million)

| | 1990-91 Act. | 1991-92 Est. |
|--|-----------------|-----------------|
| CAPITAL OUTLAYS | | |
| Advances Paid (Net) | | |
| Purchase Proceeds – SBV | -1,600.0 | n.a. |
| <i>State Bank (Succession of Commonwealth Bank) Act 1990</i> | | |
| Clause 26 | 561.7 | n.a. |
| Clause 28. | 194.0 | n.a. |
| Sale of Other Business Assets | .. | -500.0 |
| | -844.3 | -500.0 |
| REVENUE AND GRANTS RECEIVED | | |
| Interest Received | 4.5 | n.a. |
| Compensation from Commonwealth for Revenue Forgone . | 413.0 | n.a. |
| | 417.5 | n.a. |
| FINANCING TRANSACTIONS | | |
| Net Advances from Commonwealth | -413.0 | n.a. |
| Other Borrowings (repaid) | -576.0 | n.a. |
| Other Financing – Investments (increase) | -191.5 | -500.0 |
| Other Financing – Cash (increase) | -81.3 | n.a. |
| | -1,261.8 | -500.0 |

transferred to the Victorian Debt Retirement Authority (VDRA). Of the amount transferred, \$576.0 million was immediately applied by the VDRA to repay State debt owing to SBV. The amount of \$413.0 million, received as compensation from the Commonwealth Government for revenue forgone, was applied through the VDRA to extinguish Financial Agreement debt.

Other assets proposed for sale at the time of the 1990-91 Budget included the State Insurance Office (SIO), softwood plantations and the Government's share in the Portland aluminium smelter. Due to the refusal of the Opposition to support the necessary legislation in the Parliament, the sale of the SIO did not proceed in 1990-91. A consultant's report on options for sale of softwood plantations was received, but the Government decided not to proceed with immediate sale in the present economic climate.

The target for sale of business assets in 1991-92 has been set at \$500 million. The Government will introduce amended legislation for the sale of the SIO into the Parliament in the spring session, following further consultation with the Opposition. The Government has decided to sell Gas and Fuel Exploration N/L and will also seek formal expressions of interest in the sale of the Portland Smelter Unit Trust's (PSUT) 35 per cent share in the Portland smelter. It will also examine options for sale of other businesses.

The Budget Context

In this Budget, the Government seeks to address the major structural imbalance in the Victorian budget sector in the medium term. This imbalance arises from a notably unfavourable conjunction of circumstances.

One is the severity of the current recession, now fully reflected in a depressed State revenue base, and the likelihood that recovery in activity and employment levels will be slow over the next twelve months, at least if interest rates remain at their present high real level. At this time, there are no widespread signs of general recovery in the economy. The cyclical downturn has been compounded in Victoria by the adverse impact of tariff reductions this year.

A second is the effective withdrawal of the Commonwealth since the early 1980s from adequate financial arrangements with the States, together with the continuing reluctance of benefiting States (i.e. all other States apart from New South Wales) to support review of the current highly inefficient system of horizontal fiscal equalisation.

A third is the resource commitment of debt service resulting partly from a combination of high interest rates (though falling more recently) and depressed levels of revenue and current grants, and partly from the cost of support for Tricontinental Corporation, the failed merchant banking arm of State Bank Victoria, and the cost of reimbursement of depositors in the failed Farrow Group of building societies.

Impact of the Recession on the State Revenue Base

Table 1.5 shows the changing composition and level of revenue and current grants received between 1975-76 and 1990-91. It illustrates some of the fundamental changes in the nature of the revenue flowing to the budget sector during this period.

TABLE 1.5
BUDGET SECTOR REVENUE AND CURRENT GRANTS RECEIVED
1975-76 TO 1990-91
(\$ million)

| | 1975-76 | 1978-79 | 1981-82 | 1984-85 | 1987-88 | 1990-91 |
|--|---------|---------|---------|---------|---------|---------|
| Payroll Tax | 339.5 | 437.3 | 678.9 | 894.5 | 1 199.2 | 1 708.2 |
| Probate Duty | 68.4 | 62.2 | 55.4 | 8.5 | 0.7 | 0.2 |
| Land Tax | 56.3 | 69.6 | 115.9 | 153.3 | 209.5 | 415.0 |
| Taxes on Financial and Capital Transactions | 146.9 | 188.2 | 286.6 | 541.0 | 1 116.7 | 1 110.3 |
| Levies on Statutory Corporations | 17.3 | 29.2 | 88.0 | 164.2 | 211.1 | 242.7 |
| Gambling Taxes | 98.6 | 152.4 | 218.8 | 298.9 | 386.0 | 502.2 |
| Taxes on Insurance | 54.7 | 69.3 | 99.5 | 144.3 | 118.8 | 146.7 |
| Motor Vehicle Taxes..... | 133.8 | 207.7 | 257.2 | 362.1 | 428.2 | 395.2 |
| Franchise Fees | 37.1 | 67.0 | 183.3 | 372.2 | 455.5 | 752.8 |
| Taxes Fees and Fines | 1 032.6 | 1 328.3 | 2 067.7 | 3 004.0 | 4 233.2 | 5 405.7 |
| Interest Received | 82.3 | 124.3 | 149.2 | 189.5 | 150.0 | 138.6 |
| Other Property Income | 64.0 | 140.1 | 218.3 | 497.3 | 510.7 | 576.7 |
| Other Revenue | -6.6 | -2.5 | -2.9 | 14.3 | 26.5 | 63.4 |
| TOTAL REVENUE | 1 172.3 | 1 590.2 | 2 432.2 | 3 705.0 | 4 920.3 | 6 184.5 |
| CURRENT GRANTS (a) | 1 029.9 | 1 510.7 | 2 060.7 | 2 974.0 | 3 746.7 | 4 093.3 |

(a) Excludes Commonwealth grants for on-passing.

Current grants received from the Commonwealth as a proportion of total revenue and current grants received fell steadily from around 48 per cent in the second half of the 1970s to 44.5 per cent in 1984-85. Since then, the share of current grants has declined rapidly to 39.8 per cent of the total in 1990-91, despite the current depressed level of revenue. This fundamental change in the composition of income flows to the budget arises from the decline in financial assistance grants and the on-going excessive degree of horizontal fiscal equalisation. These matters are described in the next section.

The State revenue base has itself undergone extensive changes over the period. During the 1970s, these included the abolition of probate duty by all States, and the introduction of tobacco and petroleum franchise fees. During the first half of the 1980s, some stamp duties were abolished, a more broadly based financial institutions duty was introduced, and public authority dividends were introduced in place of statutory contributions, as a result of the adoption of a rate of return approach to pricing policy in public authorities.

These measures were directed at improving the equity and efficiency of the State revenue base, but the issue of the distribution of taxing powers was then, as it remains now, of fundamental importance. The impact of the gradual erosion of Commonwealth grants after 1983-84 was offset by the strong growth in taxes on financial and capital transactions, particularly stamp duties on share transactions (up to the stockmarket crash in October 1987) and on land transfers (up to 1989-90). The share of these taxes in total taxes, fees and fines rose from 14.2 per cent in 1975-76 to 18.0 per cent in 1984-85 and 26.4 per cent in 1987-88. By 1990-91, their share had fallen to 20.5 per cent.

Commonwealth-State Financial Relations

Table 1.6 shows an estimate of total revenue losses since 1984-85 to the Victorian budget sector arising from cutbacks in grants, due to the Commonwealth's decision to reduce its financial support for the States and the ongoing payment of annual subsidies by Victoria to the smaller States.

All States have suffered under a massive redistribution of budgetary resources to the Federal level. In the six years from 1984-85 to 1990-91, net payments to the States as a share of Commonwealth revenue declined by 8.7 percentage points from 35.5 per cent to 26.8 per cent.

The decrease in Commonwealth assistance means that in 1991-92 the Victorian revenue base is \$1.5 billion lower than it would have been had the arrangements that were in place in 1984-85 been continued.

This decrease in support from the Commonwealth has permitted the Commonwealth to retain resources and use them for its own ends, such as increasing own purpose outlays and paying off debt, while forcing the States to rely more heavily on their less efficient and narrow tax bases, one-off sources of revenue and higher borrowings. Indeed, it is possible to argue that the Commonwealth's debt reductions have been paid for by making the States less financially secure. From 1987-88 to 1990-91 the Commonwealth reduced its net indebtedness by almost \$18 billion, and reduced its net annual interest charges by more than \$1.7 billion, thereby receiving substantial second round effects from the reductions in assistance to other governments.

TABLE 1.6
TAX SHARING/FINANCIAL ASSISTANCE GRANTS 1984-85 TO 1991-92
(\$ million)

| | 1984-85 | 1985-86 | 1986-87 | 1987-88 | 1988-89 | 1989-90 | 1990-91 | 1991-92 (Est.) |
|---|---------|---------|---------|---------|---------|---------|---------|-------------------|
| 1. Total Taxation Revenue (TTR) in previous year | 44 901 | 53 028 | 58 974 | 66 326 | 74 866 | 83 217 | 90 501 | 93 078 |
| 2. FAGs pool under 1984-85 arrangements (a) | 9 303 | 10 987 | 12 219 | 13 743 | 15 512 | 17 243 | 18 752 | 19 286 |
| 3. Victoria's equal per capita share of (2)..... | 2 470 | 2 908 | 3 220 | 3 608 | 4 057 | 4 498 | 4 883 | 5 007 |
| 4. Actual FAGs pool | 9 530 | 10 430 | 11 518 | 12 434 | 12 405 | 12 905 | 13 167 | 13 382 |
| 5. Victoria's equal per capita share of (4)..... | 2 530 | 2 737 | 3 035 | 3 265 | 3 244 | 3 366 | 3 429 | 3 474 |
| 6. Victoria's Actual Financial Assistance Grant | 2 020 | 2 248 | 2 494 | 2 667 | 2 661 | 2 710 | 2 712 | 2 678 |
| As a percentage of TTR (%) | 4.5 | 4.2 | 4.2 | 4.0 | 3.6 | 3.3 | 3.0 | 2.9 |
| 7. Victoria's transfer to Commonwealth (due to smaller pool) (3)-(5) | -60 | 171 | 185 | 344 | 813 | 1 131 | 1 454 | 1 533 |
| 8. Victoria's subsidy to other States (due to equalisation) (5-6) | 510 | 489 | 541 | 597 | 583 | 656 | 717 | 796 |
| 9. Total revenue transfer from Victoria (7+8) | 450 | 659 | 726 | 941 | 1 396 | 1 788 | 2 171 | 2 329 |
| 10. Cumulative total revenue transfer from Victoria | 450 | 1 110 | 1 836 | 2 777 | 4 173 | 5 961 | 8 132 | 10 461 |

(a) Figures in this row represent the continuation of the tax sharing arrangement in place in 1984-85 under which tax sharing grants to the States were fixed as 20.72 per cent of Commonwealth Total Taxation Revenue in the previous year.

(b) The actual pool in 1984-85 turned out to be larger (21.22 per cent) than the legislated 20.72 per cent of previous year's Commonwealth total tax collections, due to the guarantee that no State would receive a grant lower than in the previous year.

(c) Numbers may not add due to rounding.

Sources: Victorian Treasury, figures derived from Commonwealth Budget Papers, Commonwealth Grants Commission Reports, various years.

During most of this period the Commonwealth has not applied the same degree of fiscal restraint to its own purpose outlays as to payments to the States. Between 1984-85 and 1986-87 Commonwealth own purpose outlays were increasing in real terms. The first real decline in these outlays occurred in 1987-88. After two years of negative real growth, Commonwealth own purpose outlays rose by 0.8 per cent in real terms in 1989-90 and 6.4 per cent in 1990-91. The Commonwealth running cost budgets, which cover salary and administrative expenses associated with the running of departments and agencies, have increased in real terms every year since the system's introduction in 1987-88. Commonwealth Budget Papers show real growth of 7.0 per cent in 1990-91 and estimated real growth of 3.4 per cent in 1991-92. This trend is also apparent in Commonwealth own-purpose payments for 1991-92 which are estimated to increase by more than 8 per cent in nominal terms.

In each of the years 1984-85 to 1991-92, net payments to the States grew more slowly than Commonwealth own purpose outlays. Reducing the real level of assistance provided to other Governments by the Commonwealth has been by far the greatest single instrument used to improve the underlying sustainability of the Commonwealth Budget.

In this period of concern for maximising efficiency and the competitive potency of the economy, the structure and administration of Commonwealth-State financial relations remains as a glaring national economic policy anomaly.

No other federation in the world applies the principle of fiscal equalisation as rigorously as is done in Australia. In the Canadian system, for example, which provides a similar but modified version of equalisation of revenue capacities of the provinces, there is no attempt to equalise for the costs of provision of government services. In Australia, this category of equalisation accounts for more than three quarters of the annual subsidies paid by the two larger States to the smaller States. Yet the administration of these payments places no conditions on the recipients to provide the corresponding service, so that there is no guarantee of any adjustment to expenditure to rectify for the measured disability and to achieve a higher degree of equity.

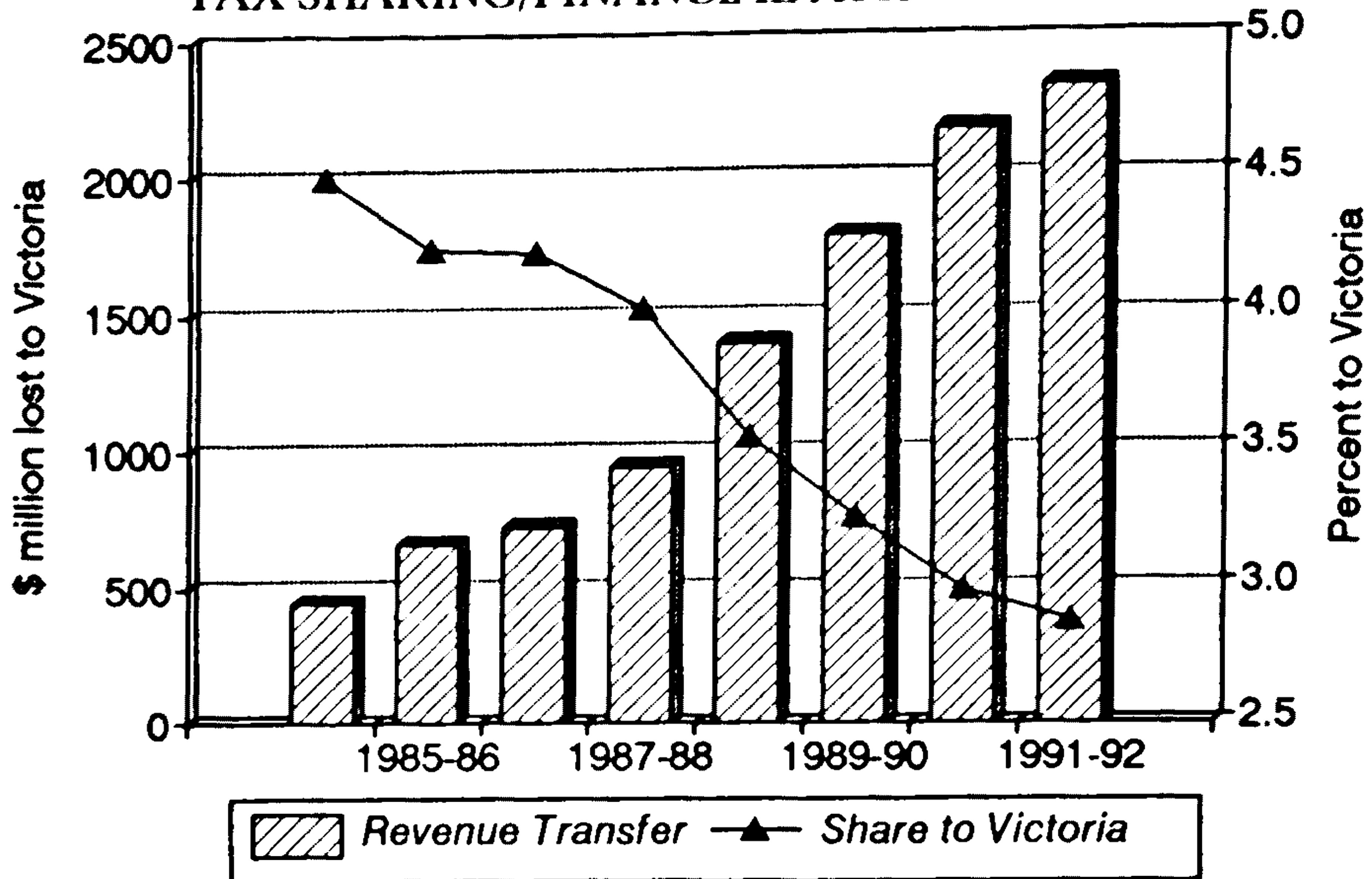
In 1991-92, equalisation subsidies from Victoria and NSW are expected to amount to \$1.75 billion. This recurring loss to the large States dwarfs any other consideration in the determination of budget capacities.

Since 1984-85, Victoria has lost a total of \$4.9 billion due to transfers paid to the smaller States through the system of equalisation. Chart 1.2 shows how Victoria has been squeezed by the reduction in Commonwealth grants and the increased degree of subsidy paid to other States in the guise of equalisation. Chart 1.3 shows that when Commonwealth financial assistance grants per capita are added to taxes, fees and fines per capita, Victoria's per capita revenue base in 1990-91 was the second lowest of all States.

Concerns about the efficiency of the Federal system have been raised consistently since Federation. The Grants Commission addressed the issue in its Third Report (1936):

"It would be wrong to give subsidies to the people of a State to make up for the poverty of resources. Such grants would encourage a population which in the long run cannot be maintained and would thus perpetuate an uneconomic regime."
(para 160)

CHART 1.2
TAX SHARING/FINANCIAL ASSISTANCE GRANTS

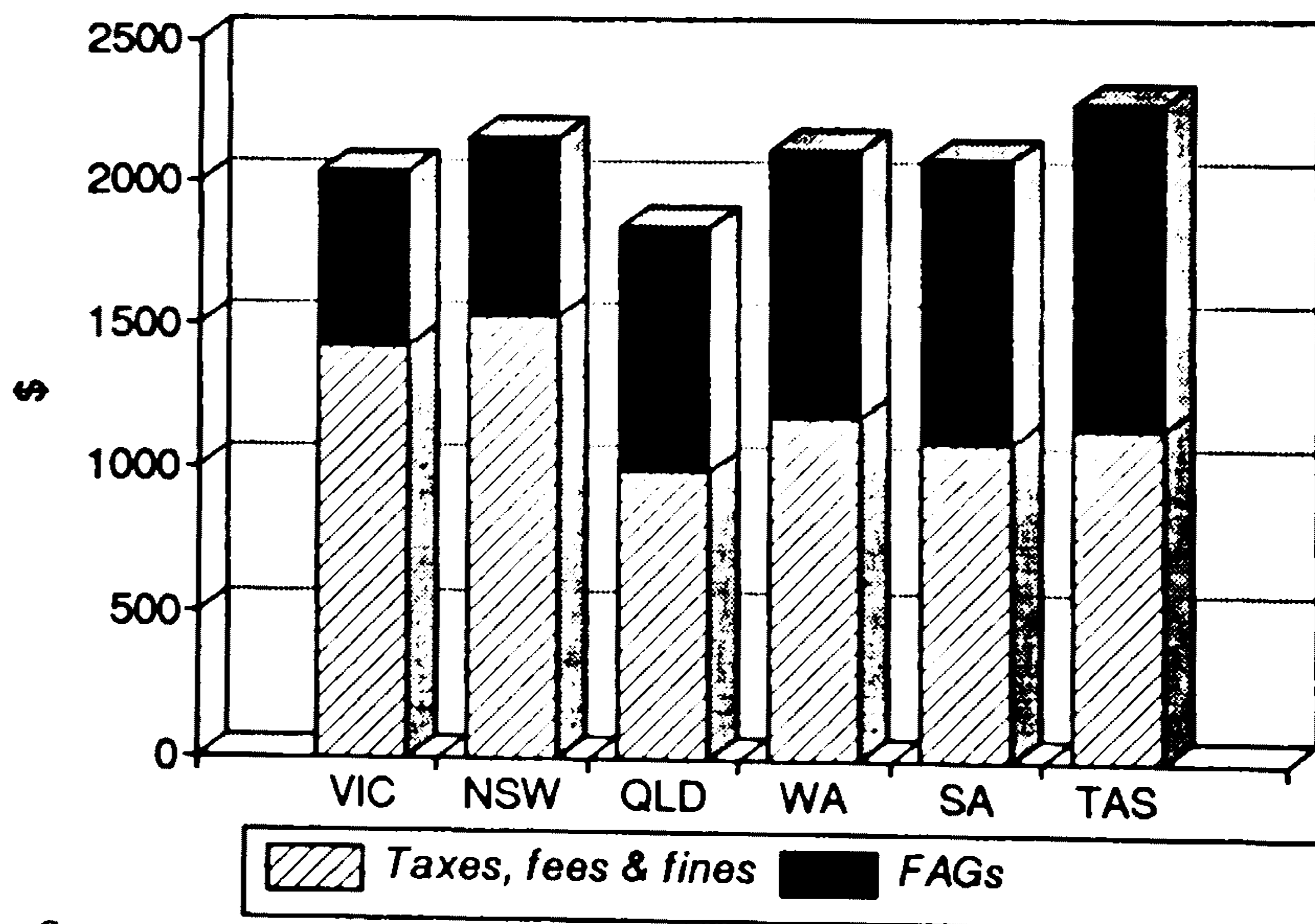


Potential revenue transferred from Victoria to the other States and the Commonwealth (LHS) and Victoria's share of Commonwealth total tax revenue (RHS).
Source: Victorian Treasury.

It remains the Victorian Government position that substantial reform is required of the Federal-State financial system to redress the degree of advantage that has flowed to the Commonwealth and the smaller States.

In this context, the Victorian Government fully supports a thorough independent review of Australia's fiscal equalisation policy.

CHART 1.3
PER CAPITA TAXES, FEES & FINES v FAGs
1990-91



Sources:
Government Financial Estimates, Australia 1990-91, Cat. No 5501.0, March 1991.
Commonwealth Treasury Budget Paper No 4 1991-92.

1991-92 Grants

In the current year, three main factors will affect Commonwealth general purpose assistance payments to Victoria. These are:

- (i) The adoption of 1991 Update relativities, which means a loss of \$74 million compared to a continuation of the old relativities.
- (ii) Victoria's obligation to provide \$9 million toward a \$40 million special revenue assistance package for the Northern Territory.
- (iii) The general purpose capital grant, which apart from the payment for Better Cities initiatives, will remain at the same nominal level as in 1990-91.

In determining the cross-subsidies appropriate for a particular year, the Grants Commission's comparison of revenue-raising capacities and recurrent costs of service provision are based on data for five years with a lag of two years. Accordingly, Victoria is being adversely affected by the use of the current updated relativities due to higher assessed fiscal capacities in 1989-90, relative to 1984-85.

This is despite the fact that the Victorian economy has suffered more than any other state economy in the 1991 downturn. In other words, the administration of the allocation of Federal grants is serving to deepen the recession in Victoria relative to other States.

Total budgeted financial assistance grants to Victoria will be less than \$2.7 billion, a decrease of 1.3 per cent on 1990-91. The second largest category of grants – specific purpose grants to State-run programs – have fared even worse and are budgeted to fall 12.1 per cent. In total, Commonwealth grants to Victoria, including grants for on-passing, are projected to fall by 1.7 per cent in 1991-92.

Costs of Debt and Other Liabilities

The cost to the budget of debt service has grown in recent years, reflecting until relatively recently, an increase in the average interest rate paid, and, since the onset of the recession, a significant cost for intra-year budget funding, and the interest cost of borrowing associated with support for depositors in the failed Farrow Group of building societies.

Table 1.7 sets out the composition of interest paid annually since 1986-87. As agreed at the 1990 Loan Council meeting, Financial Agreement debt is being progressively rolled over by all States. The Commonwealth is being repaid and each State is rolling over the debt into its own name. Since Financial Agreement debt is low cost debt, this rollover tends to push up the average interest cost of the debt.

In addition, the budget has in the past two years required significant intra year funding since the onset of the recession began to drive down revenues.

The cost of the operating subsidy to Tricontinental Corporation, to begin this year, will be \$180 million annually. This is a substantial addition to the portion of budget outlays which is inflexible over the medium term.

TABLE 1.7
COMPOSITION OF INTEREST PAID 1986-87 TO 1991-92
(\$ million)

| | 1986-87 | 1987-88 | 1988-89 | 1989-90 | 1990-91 | 1991-92 (Est.) |
|---|----------------|----------------|----------------|----------------|----------------|-------------------|
| Financial Agreement | 517.2 | 527.3 | 524.8 | 536.6 |) 511.7 | 517.6 |
| Commonwealth Specific Purpose | 79.8 | 84.1 | 87.0 | 87.6 | | |
| Capital Works Authority (a) | 342.9 | 448.1 | 523.8 | 602.0 | 722.3 | 885.9 |
| State Development Account | 61.1 | 65.3 | 77.4 | 94.7 | 98.0 | 110.0 |
| Cash Management Account | 14.0 | 5.5 | 3.6 | 35.9 | 50.6 |) 166.3 |
| Public Account Advances | .. | .. | .. | .. | 96.7 | |
| Rural Water Commission | 10.5 | 11.4 | 11.8 | 14.1 | 16.3 | 18.1 |
| Housing | 19.7 | 15.9 | 17.0 | 22.9 | 16.5 | 15.3 |
| EDP Finance Lease Facility | 6.4 | 6.0 | 10.1 | 13.1 | 8.7 | 6.5 |
| SBV-Farrow Group depositors | n.a. | n.a. | n.a. | n.a. | 42.1 | 58.0 |
| FTMUT | .. | .. | .. | .. | 7.9 | 24.2 |
| Other (b) | 16.2 | 11.3 | 10.1 | 37.2 | 1.8 | 2.1 |
| TOTAL | 1 067.8 | 1 174.9 | 1 265.6 | 1 444.1 | 1 572.6 | 1 804.0 |

(a) Includes interest paid on debt raised by transport authorities and in respect of the Melbourne Underground Railway Loop and, in 1990-91, interest costs of arrangements in respect of State Bank Victoria.

(b) Includes interest paid on Victorian Arts Centre Trust debt to 1988-89.

Public Sector Employment Trends

Total Victorian public sector employment generally accounted for a decreasing share of total employment during the latter part of the 1980s, by contrast with the 1970s when Victorian public sector employment (measured on a head count basis) as a share of total labour market employment grew from less than 13 per cent in 1971 to 15.5 per cent by the end of the decade, before climbing to 16.7 per cent at the peak of the early 1980s recession and then generally declining. The most recent available data suggest that the share has climbed marginally during the current period of negative economic growth in Victoria.

At the time of the 1990-91 Budget, the Government expected that, in order to achieve budgeted expenditure savings, there would need to be a reduction of some 8,000 positions in the budget sector. The decrease between June 1990 and June 1991 in budget sector employment was about 6,200, according to figures regularly collected by Treasury on the same basis as the estimates published by the ABS (see Table 1.8).

This decrease is net after taking account of additional recruitment as a result of policy decisions to increase employment in a number of areas such as apprentices intake in the Public Transport Corporation, full implementation of the Traffic Camera Office program, upgrading of Occupational Health and Safety activities in the Department of Labour, implementation of the State Plan in CSV, and additional recruitment in parts of the Health portfolio. The 6,200 decrease does not take account of reductions in contract employment most notably the PTC.

TABLE 1.8
PUBLIC SECTOR EMPLOYMENT LEVELS 1990 AND 1991
(equivalent full-time staff as at June)

| | 1990 | 1991 | Change |
|-------------------------------------|---------|---------|--------|
| <i>Budget Sector</i> | | | |
| Unadjusted | 202 021 | 197 411 | |
| (% change) | | -2.3 | |
| After schools adjustment (a) | 202 021 | 195 820 | -6 201 |
| (% change) | | -3.0 | |
| <i>Non Budget Sector</i> | | | |
| Unadjusted | 75 684 | 61 662 | |
| (% change) | | -18.5 | |
| After SBV sale adjustment (b) | 64 418 | 61 662 | -2 756 |
| (% change) | | -4.3 | |
| <i>Public Sector Total</i> | | | |
| Unadjusted | 277 705 | 259 073 | |
| (% change) | | -6.7 | |
| On comparable basis | 266 439 | 257 482 | -8 957 |
| (% change) | | -3.4 | |

(a) During 1990-91 coverage was expanded in the schools sector.

(b) At June 1990, State Bank Victoria employed 11,266 EFT staff.

Source: Treasury estimates

The gross reduction in employee numbers resulting from expenditure decisions on savings, i.e. before taking into account the effect of policy decisions resulting in additional employment and taking into account reductions in the number of contract employees, is estimated at 7,000. By way of comparison, staffing levels associated with the running of Commonwealth departments are showing an increase. In 1990-91 the increase in staffing under the Commonwealth's running cost system was 2.7 per cent, and this year it is budgeted at 2.8 per cent.

Employment in the public sector calculated on an equivalent to full time (EFT) basis i.e. correcting for part time jobs is shown in Table 1.8. Reflecting measures in the 1990-91 Budget to reduce budget supported employment, there was a three per cent decrease in EFT staff (on a comparable basis) during 1990-91 to 195,820. However, due to a broadening in statistical coverage of staff in schools, the 1991 base was increased to 197,411, giving a decrease of 2.3 per cent on June 1990 on an unadjusted basis.

There was a substantial reduction in the EFT jobs in the non-budget sector. Leaving aside the reduction in the figures arising from sale of the SBV, the decrease in this sector was 2,756 or 4.3 per cent.

Resource Management Developments

In the present difficult budgetary environment, the Government places high priority on continuing restraint in departmental spending. This restraint requires the on-going development of processes to realise increasing efficiencies in resource management across the whole public sector. Five areas which have been receiving particular attention recently are outlined below – award restructuring in the public sector, changes in the budget process, the workforce management strategy in the budget sector, changes in asset management, and commercialisation of certain activities.

Award Restructuring in the Public Sector

Award restructuring in the public sector and implementation of the Structural Efficiency Principle (SEP) were described in detail last year in Budget Paper No. 6, *Supplementary Budget Information 1990-91*, Chapter 6.

The emphasis on structural efficiency engendered in the August 1988 National Wage Case and reinforced in the 1989 National Wage Case Decision continued to constitute the prime focus of activity in the industrial arena in 1990.

The August 1989 Decision provided for adjustments in rates of pay if the Industrial Relations Commission (IRC) was satisfied that parties to an award had co-operated positively in a fundamental review of that award, and were implementing measures to improve the efficiency of industry and to provide workers with access to more varied, fulfilling and better paid jobs.

By the end of 1990 the vast majority of public sector employees had received increases in wages in accordance with the requirements of the SEP.

The Accord Mark VI agreement negotiated between the Commonwealth Government and the Australian Council of Trade Unions (ACTU) in February 1990 (and subsequently modified in November of 1990) was put to the National Wage Case Full Bench in December/January 1990-91. Submissions by the ACTU to the Full Bench were for a flat increase of \$12.00 per week for all workers from 16 May 1991 plus the capacity for enterprise bargaining in minimum rates awards based on productivity and profitability, increases in paid rates awards, and a claim for an additional three per cent superannuation contribution.

The decision of the Full Bench was handed down in April 1991. The decision provided for an increase in wages up to a maximum of 2.5 per cent pursuant to the SEP that specified progress with Award restructuring could be demonstrated.

The decision rejected the Accord Mark VI claim in so far as the agreement went to increases in superannuation, and the availability of productivity and efficiency related wage increases at the enterprise level. Instead, in the former case, the IRC requested the Commonwealth Government to convene a national conference to consider a wide variety of issues surrounding the superannuation issue. In the latter case, it was indicated that the issues required further debate and could be considered in the context of further reviews of the wage fixation principles. Adjustment of paid rates awards on the basis of market considerations was also rejected.

The Accord partners rejected the decision of the IRC. The decision was regarded as an impediment to productivity and efficiency improvement through agreements at the enterprise level. The percentage increase as distinct from the flat increase sought was also criticised because of its adverse impact upon lower wage earners.

Following the outcome at the national level, discussions were entered into by the Government with the Victorian Trades Hall Council and the ACTU. Agreement was reached on an Accord Mark VI package for Victorian public sector employees, estimated to number in excess of 250,000. The term of the agreement is from 16 May 1991 to 30 September 1992.

The agreement contained the facility for payment of a \$12.00 per week increase operative from the first pay period on or after 16 May 1991.

The possibility of further (unspecified) movements in wages is envisaged by the agreement. These increases are dependent upon implementation of new award structures and translation to new classifications under the SEP and/or arrangements which achieve productivity and efficiency improvements.

For the Victorian public service, three instalments are to be available at no less than six monthly intervals commencing no earlier than 30 September 1991. In the case of statutory authorities and agencies, negotiations are to take place at the enterprise level, but questions of quantum and timing are to be settled separately in relation to some agencies.

The State Wage Case was heard in the IRC in June 1991. In that case, the Government submitted that the Accord Mark VI agreement negotiated for public sector workers should be adopted as a model for all State awards. The Full Bench of the IRC declined to accept the Government's submissions on this point, instead adopting the principles of wage fixation determined in the National Wage Case decision. The Full Bench did recognise, however, that the agreement had been negotiated in the light of the need for immediate productivity bargaining and to ensure the continuation of the award restructuring process and productivity and efficiency improvements in the public sector.

The opportunities provided by the restructuring and efficiency and structural efficiency frameworks since their inception in 1987 have been utilised in the public sector to ensure that needed services are provided in the most cost effective manner.

Structural efficiency proposals developed by agencies, often in conjunction with the Department of Labour, have been presented to the Industrial Relations Task Force Sub-Committee of Cabinet for its in-principle endorsement. Treasury and the Ministry of Finance have also oversighted costings of proposed changes to ensure that additional cost implications for the new arrangements are kept to a minimum.

While much has been done in the context of structural efficiency to ensure that work practices and organisational and award structures have as their focus the efficient delivery of services, much still needs to be done to ensure that award based reforms are reflected at the level of the workplace, and that the potential for increased efficiency and productivity is realised.

The Accord Mark VI package negotiated for the public sector sets the framework for award restructuring to be implemented and for effective productivity bargaining to take place.

The Government intends to honour its commitment to the Accord Mark VI agreement with the ACTU/VTHC and has made provision for a lump sum payment based on \$12.00 per week from 16 May 1991. This payment will only be made where unions affirm their ongoing commitment to negotiate wage adjustments over the next 12 months in accordance with the requirements for productivity improvements contained in the agreement.

Productivity based wage adjustment proposals will be closely scrutinised to ensure that savings and productivity improvements can be measured and are able to be delivered.

Budget Process

The budget process was described in detail last year in Budget Paper No. 6, *Supplementary Budget Information 1990-91*, Chapter 5. The major changes since then implemented by the Government, largely to facilitate the identification and implementation of savings in "non-core" areas and to prioritise spending in "core" areas in portfolio outlays, are set out here.

Continuing real reductions in the level of funding available for departmental operating costs has increased the need for careful assessment of program priorities to ensure that essential core programs are delivered in the most cost effective manner while substantial savings are effected. In the 1991-92 Budget process, several changes to previous practice were implemented to facilitate the complex task of prioritisation.

The formation of a Ministry of Finance separate from Treasury as part of wider machinery of government changes during 1990-91 has enabled a more specific Ministerial focus on the development and monitoring of portfolio budget outlays, embracing not only gross current and capital expenditure of departments but also receipts from charges and reimbursements and from sales of surplus assets.

Within the Ministry of Finance, an Effectiveness Review Unit was established with a particular responsibility both to identify and to monitor the achievement of portfolio outlays savings.

The previous practice of sending out forward estimates to Ministers based on an unchanged policy assumption as a first step in determining agency recurrent budgets was discontinued. Instead, forward estimates with savings in departmental gross spending on lower priority programs and savings generated from more efficient implementation of core programs were compiled and sent to Ministers for consideration. There was also an increased focus on concurrent consideration of initiatives relating to gross spending and charges and reimbursements. On the basis of these estimates, all agencies have developed action plans to demonstrate how the savings will be realised. These action plans have been approved by Cabinet.

In 1991-92, agencies will be required to specify performance measures for discrete agency service delivery responsibilities. The Effectiveness Review Unit will be responsible for ensuring that agency program performance plans are met.

In 1991-92, agencies are also being required to develop workforce management proposals consistent with the budget action plans for the year. These workforce management proposals are to specify the ways in which agencies' employment patterns can be rearranged so as to meet budget targets. The components of the workforce management plan required of all agencies are described below.

The Workforce Management Strategy in the Budget Sector

A key element in the achievement of targeted savings remains, as it was in 1990-91, improved resource management, particularly the cost of labour. In 1989, the Government established a Workforce Management Unit within the Department of Labour to co-ordinate and manage the implementation of workforce practice changes in the budget sector. Savings were to be achieved by attrition, redeployment and special incentives for voluntary redundancies.

Redeployment is the major mechanism for allowing staff whose positions become surplus to be relocated to areas of need in other public sector agencies. Throughout 1990-91, the Workforce Management Unit was responsible for the control of external recruitment of staff from outside the public sector. As a result of this restriction on external recruitment, redeployment opportunities for staff have been maximised. It is intended that for 1991-92 the redeployment arrangements currently in place will continue and the Workforce Management Unit will assist agencies and staff in the redeployment process.

To facilitate redeployment and to assist in reducing overall staffing costs, priority will continue to be given in 1991-92 to the training and retraining of staff. The Workforce Management Unit is responsible for the identification and implementation of programs aimed at retraining staff to equip them with skills which will enable them to be successfully redeployed. For 1991-92, the existing measures will be supplemented by a further range of initiatives which allow for additional leave without pay and part-time work to increase the ability of staff to undertake training and study to add to and upgrade their skill levels.

The Premier has already indicated in the June Economic Statement that the Government intends to introduce a number of measures aimed at providing greater flexibility in employment arrangements for budget sector staff. These initiatives will be of benefit to agencies in allowing them to meet budget targets and will allow staff to have more suitable and productive work arrangements. Specifically, it is intended to increase leave without pay beyond the current limit of 12 months for approved purposes, including up to seven years family leave, as well as to grant leave without pay for short periods for purposes such as training and study. A cost effective initiative that has been trialled within the Ministry of Education and Training is to allow staff to take an additional four weeks annual leave each year without pay with the reduction in salary being spread throughout the year. This initiative should prove attractive for staff as well as reducing agency salary budgets. Another initiative to be introduced by Government is the extension of the current ceiling on part-time employment from 5 per cent to 10 per cent, including the conversion of full-time positions to part-time either for a fixed period or on a permanent basis.

Enhanced Resignation Package

In the 1990-91 Budget, an amount of \$100 million was allocated for payments associated with the implementation of microeconomic reform including a voluntary redundancy package. Expressions of interest were invited from interested staff in selected agencies including the Public Transport Corporation, the Ministry of Education and Training and the Health Department.

In total, around 1,600 people accepted the offer of enhanced resignation in 1990-91 at a cost to the budget of \$72 million. The restrictions on external employment and the effective redeployment procedures in place during that year meant that these reductions in staffing levels resulted in on-going savings for agencies.

A central component of the budget strategy in 1991-92 is the implementation of an Enhanced Resignation Package (ERP). An amount of \$300 million has been budgeted for this ERP, to be funded by a special addition to Victoria's global limit borrowing allocation approved at the 1991 Loan Council meeting. The

ERP will be generally available to employees in the budget sector, but there will be restrictions on the personnel categories eligible to apply. Expressions of interest in the package were called for in August. Individual offers will be determined by management, having regard to the operational requirements of the agency. This package will be available more widely and has more generous payments and entitlements compared to that available in the previous year. Once again, the package will be supplemented with tight controls on external recruitment and an effective redeployment process to ensure that savings in salary levels are on-going.

Asset Management

To enhance the efficiency of asset management, the Government is continuing to focus on the asset renewals program, and in addition will centralise the management of the Government Employee Housing Authority housing stock.

The implementation of a formal asset renewals program was described in detail in Budget Paper No. 6, *Supplementary Budget Information 1990-91*, Chapter 6. The major new features are explained below.

The *asset renewals program* generates funds from the sale of real estate assets which are surplus or under utilised and the proceeds are invested in new capital assets. The program also encourages departments and agencies to develop improved management efficiencies through better use of their real estate resources. Total revenue paid to the Consolidated Fund since 1986-87 amounts to \$835.5 million, a significant contribution towards maintaining the level of investment in new schools, hospitals, police stations and other public works.

Since its inception in October 1986 the program has sought continually to review and update the complex processes involved in the identification of land surplus to requirements, including the assessment of whether such land should be retained in public ownership; consultation with local government, other affected agencies and the consideration of community concerns; the obtaining of approval to sell, and the development of innovative marketing strategies to offer property for sale during what are clearly difficult economic circumstances.

In May 1991 a further modification was made to the process of disposing of surplus property to ensure that procedures were more flexible, more public and encompassed shorter time frames.

The changes included disbanding the Land Classification Review Committee and the Cabinet Committee Reviewing Government Assets, and combining the functions in an Asset Management Committee (AMC) within the Ministry of Finance (MoF).

The Asset Management Division of MoF is to become responsible for the management of the identification, assessment consultation approval and sale of surplus property. The AMC, chaired by a senior officer of MoF and with representatives from Treasury, the Department of Conservation and Environment, Ministry of Education and Training, Department of Planning and Housing, the Ministry of Transport and the Valuer General's Office, will be responsible for supervising the performance of the participating agencies in the program, developing and recommending policy initiatives to the Minister for Finance, and implementing the Government's objectives in rationalising the portfolio of surplus real estate assets held by budget sector departments and agencies.

The Major Projects Unit and the Ministry of Planning and Housing are not directly subject to this process as the former is a commercially oriented agency while the latter is funded by the Federal Government with the proceeds from asset sales rolled over into the provision of new housing.

As part of the process to streamline the disposal of surplus property, the real estate functions at the Ministry of Planning and Housing and the operational sales groups at the Public Transport Corporation have been relocated within the Ministry of Finance. This step will result in operational efficiencies and improved management of the disposal process.

Identification of potentially surplus land is now performed by a unit within the Ministry of Finance. This unit has been empowered to take an active role in working with other budget sector agencies in the continuing identification of suitable land. These agencies will continue to have primary responsibility for identifying their surplus property.

With the exception of transactions involving Government agencies, sale to leaseholders, occupiers under purchase lease arrangements and adjoining owners pursuant to the provisions of the Land Act, the consultation process will include notification to the following agencies and bodies that land is surplus and may be sold on the basis of period of review which is generally 28 days:

- . Department of Conservation and Environment (DCE)
- . Department of Planning and Housing
- . Local Municipality
- . Public Assets Defence Coalition
- . The public at large by way of advertisement in a metropolitan daily, relevant regional newspapers, and the Government Gazette (for freehold as well as Crown land).

The above procedures are designed to identify concerns and the arrangements that might best meet the various perspectives of those with an interest in the outcome.

Where necessary, land with public land attributes will be sold with restrictions as recommended by DCE.

The final decision will be taken by the Minister for Finance on the recommendation of the AMC. The AMC will place before the Minister a report covering all outcomes of the consultation process relating to each property identified as surplus to operational requirements, and which may be sold on the open market by auction or tender.

Surplus land which is not to be sold because of its high public amenity value will be transferred to DCE.

The Government also intends to develop new incentives to encourage budget sector agencies to identify and surrender surplus real estate assets. Under this program, agencies are to agree with the Ministry of Finance on a portion of their capital spending to be funded out of the net proceed of sales of the agency's surplus assets valued at less than \$100,000. Such amounts will be made available to agencies only when, and to the extent that, the proceeds of the land sales are received into the Consolidated Fund. A proportion of the net proceeds derived from the sale of property valued in excess of \$100,000 will be also available for agencies to allocate to agreed capital works.

The incentive scheme will also be extended to DCE in respect to Crown property that it independently identifies as having low public land values and which can be economically offered for sale.

Government Employee Housing Authority

The Government has decided to centralise management of all government employee housing by transferring stock from departments and agencies to GEHA, effective from 1 July 1991. GEHA previously managed some 45 per cent of the public sector total of 3,900 houses with an estimated asset value in excess of \$225 million.

The decision will enable GEHA to rationalise the stock on the basis of defined employee housing needs, through a program of asset sales, modernisation and cyclic maintenance, and further extension of market rental policies.

While the move will free departments and agencies to focus on their own core services, it will also lead to a significant improvement to the overall management of government employee housing, and support the Government and GEHA's debt retirement strategy. GEHA estimates that some 30 per cent of housing may be in excess of agency needs, and has a 1991-92 asset sales target of some \$20 million, or approximately 5 per cent of total stock.

Commercialisation in Budget Sector Agencies

The Government, through the Ministry of Finance, is implementing a number of initiatives to increase significantly the productivity of budget sector agencies as part of their program delivery responsibilities. Beginning on 1 November 1991, the Government will operate its vehicle fleet on a fully commercial basis under the trade name of VicFleet. VicFleet will be responsible for the ownership of vehicles and the introduction of commercial management practices for fleet funding, management and maintenance systems. Agencies will hire vehicles from VicFleet. Expressions of interest from the private sector are currently being evaluated to assess management and financing options for the vehicle fleet. It is estimated that implementation of VicFleet will generate savings of \$20 million in vehicle fleet operations in 1991-92.

Major initiatives are being implemented to improve the efficiency of supply and warehousing functions conducted by the Ministry of Finance for agencies. Expressions of interest from the private sector are currently being evaluated to determine the extent of savings from working with the private sector to introduce more modern warehousing facilities and electronic ordering systems across agencies. These initiatives are in addition to work being implemented to fully commercialise the operations of other budget sector agencies such as the Government Printer, canteens, and the government media placement business (Advic). The impact of commercialising other activities such as timber production is currently being examined.

As part of the budget process, and consistent with the directions detailed in the June Economic Statement to improve the efficiency of the public sector, the Ministry of Finance has identified a number of goods and services which could be supplied under the principle of user pays. A number of agency budgets will this year incorporate the extension of user pays.

Funding the Provision of Infrastructure

Borrowing has traditionally been a major source of funding for the provision of budget sector infrastructure by all governments in Australia. In recent years, however, the issue of funding the provision of infrastructure has been an increasingly difficult one for all Australian governments in the context of general scarcity of capital funding. For State Governments, the retreat by the Commonwealth Government from adequate funding arrangements has had just as significant an effect on capital account as on current account. Table 1.9 sets out details of gross capital spending and sources of funding in the Victorian budget sector since 1975-76. A number of fundamental points are readily apparent from the data.

TABLE 1.9
BUDGET SECTOR CAPITAL FUNDING 1975-76 to 1990-91
(\$ million)

| | 1975-76 | 1978-79 | 1981-82 | 1984-85 | 1987-88 | 1990-91 |
|---|--------------|--------------|--------------|----------------|----------------|----------------|
| Gross Outlays on Fixed Assets | 688.7 | 779.7 | 920.3 | 1 602.4 | 1 882.5 | 1 929.0 |
| Capital Grants and Other Transfer Payments | 20.2 | 38.1 | 44.5 | 91.1 | 124.0 | 180.5 |
| TOTAL GROSS CAPITAL SPENDING | 708.9 | 817.8 | 964.8 | 1 693.5 | 2 006.5 | 2 109.5 |
| funded by: | | | | | | |
| Capital Grants from Commonwealth .. | 315.8 | 309.4 | 335.6 | 650.4 | 596.1 | 759.8 |
| Net Advances from Commonwealth .. | 355.4 | 279.7 | 189.9 | 180.8 | 19.3 | -296.2 |
| Other Financing | -74.0 | 112.7 | 194.6 | 573.6 | 815.9 | 1 544.8 |
| Sale of Assets | 13.8 | 17.4 | 31.3 | 36.1 | 223.0 | 296.6 |
| Current Account Surplus | 269.6 | 169.3 | 172.1 | 241.1 | 269.3 | -349.7 |
| Advances Paid (+ = net repayments) .. | -171.6 | -70.7 | 41.3 | 11.5 | 83.0 | 154.2 |

In 1975-76, around 95 per cent of capital spending was funded equally from capital grants and net advances (i.e. borrowing under the Financial Agreement) from the Commonwealth. By 1990-91, that proportion had fallen to 22.6 per cent. Alternative sources of funding have inevitably led to a substantial increase in the share of other borrowing by the budget, supplemented since the mid 1980s by a significant increase in sale of assets and in recalls of advances. Since the onset of recession in 1990, the current account surplus as a source of funding has disappeared, although the Government's strategy is to move back to this position and the 1993-94 planning projection shows a current account surplus.

Regardless of these difficulties in assembling adequate funding, the responsibility of government for provision of infrastructure is on-going.

Most public infrastructure assets have long service lives (assuming proper maintenance). Mean asset lives range from 30 to 60 years in the budget sector and up to 60 years in the non-budget sector. Thus the size, composition and quality of today's capital stock depends on trends in investment over many previous years, and replacement investment may come in waves. Catching up and then keeping pace with the demographic and geographic changes associated with the post-war baby boom and high levels of immigration in the provision of urban services was a preoccupation of public investment in the 1950s and 1960s.

Investment in education and road systems accounted for by far the most significant share of total budget sector investment from 1971-72 through to the

mid-1970s, although investment in housing, health and rail and urban transport grew markedly during this period. By the early 1980s, investment in education and health had been halved in real terms compared to the mid 1970s, while the strong growth in rail and urban transport continued.

During the 1980s, spending on public housing, community amenities, public transport and education was maintained in real terms. Health services and public order and safety took up a significantly enlarged share of total capital spending.

Examples of major projects commenced or completed during the 1980s are listed in Table 1.10 to give an indication of the variety, scale and significance of the new assets added to the State's capital stock, despite a greatly reduced scale of investment spending as a proportion of NFGDP.

Infrastructure Investment Guidelines for Victoria

The *Infrastructure Investment Guidelines for Victoria*, published in May, were developed after extensive discussions with the private sector and the union movement. They provide the basis for a new working partnership between the public and private sectors for the provision of essential assets required to meet community infrastructure needs.

The demand for new infrastructure is growing at a rate that is beyond the capacity of government alone to fund. At the same time, there is a need to upgrade many existing services such as roads, water supply, sewerage and communications systems.

For the private sector, infrastructure is an investment that can generate cash flows and offer long term security in valuable assets. Areas identified as suitable for private sector investment include hospitals, transport services, leisure and entertainment venues and community facilities.

The community benefits from private sector investment in that infrastructure can be provided in step with demand, rather than to a timetable which has traditionally been dictated by the availability of government funds.

To advance this partnership, the Victorian Government, in conjunction with other States and the Commonwealth, is examining appropriate actions that can be taken through the tax system to remove anomalies which restrict private investment in public infrastructure.

In the interests of both the public and private sectors and to ensure that the partnership works, the infrastructure guidelines provide for:

- . compliance with government strategic planning policies;
- . improved private sector access to useful and timely information about infrastructure investment opportunities in Victoria, through regular briefings and early involvement in project assessment and formulation;
- . the flexibility required to attract investment and to allow innovative proposals to proceed while ensuring protection of public interests and providing additional facilities when required;
- . definition of financial options at an early stage;
- . analysis of social and economic benefits for each project;
- . binding agreements to protect confidentiality and intellectual property rights in private and public sector project proposals.

TABLE 1.10
**EXAMPLES OF VICTORIAN PUBLIC SECTOR CAPITAL PROJECTS COMMENCED OR
 COMPLETED DURING THE 1980S**
 (\$ million)

| | |
|---|-------|
| <i>Arts</i> | |
| Museum Annexe | 19 |
| <i>Public Order and Safety</i> | |
| Coronial Services Centre | 25 |
| Macleod Forensic Laboratory | 14 |
| Melbourne Remand Centre | 79 |
| Barwon and Loddon regional prisons | 90 |
| Police academy, headquarters and communications upgrade | 44 |
| <i>Education</i> | |
| Kurunjang Primary School (Melton) | 4 |
| St Helena Post-Primary School | 10 |
| Western Institute | 13 |
| Colleges of TAFE – | |
| Holmesglen | 56 |
| Frankston expansion | 25 |
| Bendigo expansion | 21 |
| Sunraysia | 11 |
| <i>Health</i> | |
| Austin Hospital Stage 2 | 62 |
| Walter and Eliza Hall Institute | 38 |
| Western Hospital (Sunshine Campus) | 120 |
| Monash Medical Centre (Stage 1) | 140 |
| Maroondah Hospital | 40 |
| Willsmere relocation projects | 32 |
| Child care centres | 24 |
| <i>Housing and Community Amenities</i> | |
| Southbank Boulevard, Southbank Promenade, Flinders Walk, and Yarra pedestrian bridge | 42 |
| Western outfall sewer | 370 |
| Thomson Dam | 300 |
| <i>Recreation and Culture</i> | |
| Victorian Arts Centre | 225 |
| Australian Ballet Centre | 18 |
| Indoor Sport and Recreation Centre | 12 |
| National Tennis Centre | 82 |
| National Wool Centre (Geelong) | 5 |
| <i>Energy</i> | |
| Loy Yang A power station | 4 827 |
| Moorabool to Portland powerline | 140 |
| Portland to South Australia powerline extension | 159 |
| <i>Transport and Communications</i> | |
| Altona/Laverton electrification | 12 |
| Box Hill Transport Centre | 32 |
| Bundoora tram extension | 20 |
| Underground rail loop | 480 |
| Epping Depot | 43 |
| Rolling stock acquisition | 860 |
| Metropolitan Ring Road (Tullamarine) | 130 |
| Westgate Freeway | 175 |
| Southeastern Mulgrave Arterial Road Link | 153 |
| Hume Highway dual carriageway – Wangaratta, Benalla, Glenrowan and Euroa Bypasses | 212 |
| Western Highway – Melton and Ballarat Bypasses | 117 |
| <i>Other Economic Affairs</i> | |
| Portland Smelter Unit Trust | 20 |

Source: Victorian Treasury Information Paper No. 1, *Victoria's Public Balance Sheet*, June 1991.

Note: This list is not intended to be exhaustive. It is *illustrative*. Project values shown are approximate only and generally in the dollars of the day at project completion.

Cabinet sets the Government's infrastructure priorities, after due consideration of economic viability and feasibility of execution, and value of the projects to the community.

Approval-in-principle to pursue project feasibility and initial development must be obtained from Cabinet for projects worth \$6 million or more (current dollars) except in the case of the Board of Works and the State Electricity Commission, for which the limits are \$10 million and \$20 million respectively.

For projects worth less than \$6 million (current dollars), the responsible Minister can either grant approval-in-principle or choose to seek endorsement from Cabinet.

All projects involving private investment require Cabinet approval before implementation.

The implementation of the Infrastructure Investment Guidelines for Victoria is the responsibility of the Infrastructure Investment Reference Group, which includes government and private sector representation.

Its terms of reference are to:

- identify opportunities for private sector investment in infrastructure projects within Government policy, program and priority constraints;
- facilitate the progress of projects involving private sector investment; and
- monitor the use of the guidelines and make recommendations to the Government for improvement.

An Infrastructure Secretariat in Treasury supports the Reference Group by:

- monitoring the application of resources in both sectors to promote a focus on achievable projects;
- facilitating and championing projects with public sector agencies to ensure progress against agreed timetables;
- monitoring public and private sector use of the guidelines and assisting in their interpretation and, where applicable, modification;
- facilitating private sector dealings with the public sector to enhance the confidence of private investors through the demonstration of project achievability; and
- recording and disseminating information on public/private projects.

Since the Guidelines were released in May 1991, the Government has announced five projects to be developed in partnership with the private sector. These projects are as follows (with estimated total cost shown in brackets): St Vincent's Hospital Redevelopment Stage A (\$120 million), Southbank Museum (\$140 million), Rapid Transit Link City to Airport (\$250-500 million), State Sports Centre (\$70 million), and Yan Yean Water Treatment Plant (\$25 million).

Prior to the publication of the Guidelines, the following projects were initiated under the broad principles now formalised in the Guidelines: Cathedral Place (\$62 million), MCG Southern Stand (\$143 million), and the Accelerated Infrastructure Program (see below).

Further projects for private investment are being developed in particular portfolio areas and are yet to obtain Cabinet approval-in-principle.

In helping to develop the guidelines, and in response to their release, the private sector has shown an encouraging level of interest. Many are seeking to initiate specific projects. From the public sector, there is a growing preparedness to improve private sector access to useful and timely information.

The Government proposes to produce a number of complementary publications this year, including business plan guidelines for the public sector, an information paper on legislation affecting infrastructure development, and Investment Evaluation Guidelines for Victoria.

Accelerated Infrastructure Program

The Accelerated Infrastructure Program is a private sector financial arrangement developed with the National Australia Bank for the provision of accommodation in office style buildings. It was initiated to meet demand for social infrastructure in rapidly developing areas of metropolitan Melbourne and to address changing needs in already developed areas. The program is primarily targeted at the need for new accommodation for Police and Courts functions. Accommodating Law Courts, Police Stations and other Government services in office buildings is not new. Examples are the Commonwealth Family Court in Marland House, Bourke Street and the Knox Police Station in Springvale Road.

The arrangement involves the Government pre-committing to lease space for approximately 20 years at indexed rents from a company which purchases and develops appropriate property. Development and leasing proposals have been received and construction work should start towards the end of 1991 on the first three projects (the capital costs of which are shown in brackets), namely Frankston Police and Law Court Complex (\$30 million), Wangaratta Police District Headquarters (\$15 million) and Fountaingate Police 24 Hour Station (\$8 million).

A second phase is under consideration and development and lease proposals have been requested from the leasing company. The projects in the second phase (and approximate capital costs) are South Morang Police Station (\$7 million), Keilor Downs Police Station (\$7 million) and Dandenong Community mental Health Clinic (\$2 million).

The advantages of the arrangement for the Government are that: the total costs of accommodation are competitive with borrowing and renting; lease payments are more likely than normal rents to closely match revenue flows; the budget is insulated from many of the risks associated with construction and ownership, such as construction cost blowouts; and employment in the construction industry will be generated from the resulting private investment.

Developments in Financial Reporting

Victoria continues to maintain a strong record in extending the scope and the quality of financial reporting and accountability mechanisms. There were numerous steps taken in this regard in 1990-91, and a continuation of the momentum is planned for the current year.

In June, the Treasurer released *Victoria's Public Balance Sheet*, which provided a preliminary consolidated asset and liability statement for the State public sector as at 30 June 1990. It was the first time that such a balance sheet had been compiled for Victoria. The Treasury proposes to update this statement and to review the methodology applied.

With respect to particular public sector authorities, the Government has widened the coverage of the rate of return reporting guidelines. This form of reporting, which is particularly valuable in the public sector, is being extended to the Mornington Peninsula and District Water Board, the Geelong and District Water Board and the Portland and Geelong Port Authorities.

Further amendments are now proposed to the *Audit Act* 1958 to focus its intention even more directly on the appropriate audit and reporting functions of the Auditor-General. These changes are being put forward with the support of the Auditor-General.

The *Public Account Act* 1958 is to be updated, and brought more into line with contemporary accounting and reporting standards. Specifically, *Finance* will be reformed so as to appear as a summary level report similar to the aggregate financial statement prepared by the Commonwealth Department of Finance. Detailed financial reporting will continue to be provided through departmental annual reports. Provisions relating to the Public Ledger will be reformed so as to facilitate the recording of improved accounting information and of values of physical assets and transactions on an accrual basis. Supplementary aggregate financial material of the type now produced in *Finance* will continue to be produced.

An accounting policy statement is to be issued concerning the recording and reporting of non-current physical assets.

Clarification of financial accountability and responsibility within Departments is also being dealt with through designation of an Accountable Officer, and a Chief Finance and Accounting Officer.

Under the proposed legislative changes, budget sector resource managers will be given more flexibility to manage, along similar lines to the Commonwealth's running costs system, through provision for net appropriations and for carrying forward and transfers of appropriations, and through allowing administrative units to borrow (up to a specified percentage limit) from the following year's appropriations.