BUDGET STRATEGY AND REVIEW 1990–91

Presented by

The Honourable Tom Roper, M.P.

Treasurer of Victoria

for the information of Honourable Members on the occasion of the Budget 1990–91

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PREFACE

This Budget Paper describes and analyses issues associated with the aggregate budget and budgetary policies. It includes time series data in national accounting format from 1985–86 onwards for the financial transactions of both the budget sector and the non budget sector.

Chapter 1 contains an overview of the budgetary strategy and succeeding chapters provide more detail about key aspects of the 1990–91 Budget. Chapter 2 outlines the forecasts for the Australian and Victorian economies in 1990–91. The appendix to this chapter describes medium term trends in economic growth in Victoria. Chapter 3 summarises the budget outcome for 1989–90 and the budget estimates for 1990–91. Chapter 4 describes the main trends since 1985–86 in the financial transactions of the Victorian State public sector. The Appendix to this chapter provides details of major capital projects to be undertaken by the largest non budget public authorities in 1990–91. Chapter 5 describes current issues in financial management policies. Chapter 6 analyses developments in Commonwealth–State financial relations during the past year. Chapter 7 summarises the economic development aspects of the Government's policies. Chapter 8 describes more fully main features of the conservation and environment programs implemented in the budget. The Appendix contains more detailed time series data.

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 incorporated into the Victorian budget estimates. However, the Victorian budget estimates do incorporate information made available by the Commonwealth Government at the Premiers' Conference and Loan Council meetings in June 1990.

CHAPTER 1

BUDGET OVERVIEW

1990–91 Budget

The context of this year's Budget was set by the conjunction of three highly unfavourable developments. They were:

—the continuing adverse impact on the State's revenue base of the current cyclical slowing in the Australian economy, particularly in the property and share markets;

—another substantial real cut in general revenue assistance from the Commonwealth; and

—the potential cost to the State Budget of the recent difficulties of two financial institutions in Victoria, namely State Bank Victoria (in respect to its merchant banking subsidiary, Tricontinental Corporation Ltd.), and the Farrow Group of building societies.

All States' Budgets will this year be unfavourably affected by the first two factors. The third was particular to Victoria. As a result of the conjunction of all three, the public perception of Victoria's financial strength has been adversely affected. This is evidenced in the recent downgrading of the long-term domestic credit rating of the State's borrowing authorities by Moody's Investor Services (from AAA to AA1) and Australian Ratings (from AAA to AA+), and short-lived runs on other financial institutions in Victoria, reflecting fears of inadequate asset backing.

The Government rejects the notion that the underlying soundness of Victoria's finances has been undermined. It recognised, of course, the nature and magnitude of the problems which had to be addressed in the 1990–91 Budget, and took action accordingly. As part of a debt management strategy designed to achieve budget sector debt reductions, the Government has decided to sell business assets totalling $2·6 billion.

The first of these, the sale of the State Bank of Victoria (SBV) for a total of $1·6 billion supplemented by a tax compensatory package of $413 million, has already been announced. Other assets proposed to be sold include the State Insurance Office (SIO), soft wood forest plantations and the Government's share in the Portland Smelter. These asset sales will result in a reduction in nominal budget sector debt. Although some benefit will be received in this year's budget from these asset sales by way of lower interest payments, the full year effect, at current interest rates, of about $360 million represents a reduction of over 20 per cent in budget sector interest payments.

The 1990–91 Budget provides also for:

—a significant reduction in financing transactions of the budget sector and of the State public sector as a whole;

—implementation of a formal 10 year debt management strategy, building on the debt management processes already in place and including the establishment of a Debt Retirement Fund;

—further reductions in the growth of total current outlays with the emphasis on avoiding cuts in delivery of essential services as far as possible by improving productivity, by phasing down non-essential activities and by increased cost recovery through user charges;

—some one-off gains through changed timing of payments;

—a substantial cut in public sector expenditure on new fixed assets;

—a significant capital budgetary provision for microeconomic reform and redundancy payments; and

—a range of revenue-raising measures, some in concert with other States and some linked to environmental protection.

The Government notes, moreover, that the Victorian economy remains sound and that it strengthened markedly relative to the rest of Australia during the 1980s. In addition, as a result of the economic and budgetary policies implemented during the 1980s:

—total public sector spending was held back to a greater extent in Victoria than in the Commonwealth or in the other States between 1983–84 and 1989–90;

—in spite of massive funding cuts from the Federal Government, taxes and charges increased much less in Victoria than in other States between 1983–84 and 1989–90;

—the ratios of public sector borrowing and debt to NFGDP in Victoria were reduced substantially between 1982–83 and 1989–90;

—public sector productivity improvements have been substantial through the 1980s; and

—the financial position of key public sector financial enterprises has recently shown substantial improvement.

These longer term perspectives are an essential ingredient in assessing the 1990–91 Budget and are set out in the latter part of this chapter.

Summary

Table 1.1 summarises key features of the Budget. As a ratio to Victorian NFGDP:

—current outlays are expected to decline to 9·8 per cent in 1990–91, which will be the fourth consecutive year of decline in the ratio;

—capital outlays are forecast to remain at 1·5 per cent, the same level as in 1989–90 and well below that of the earlier years shown;

—revenue is expected to recover to 6·2 per cent, bringing the share of revenue to NFGDP back to the same level as the average of the years 1986–87 to 1988–89;

—grants received are expected to fall to 4·5 per cent continuing the downward trend which has been apparent since 1986–87;

—financing transactions are budgeted to fall to 0·6 per cent, a very marked decline on their levels in recent years.

Table 1.1

BUDGET SUMMARY

($ million, per cent)

	1985–86	*1986–87*	*1987–88*	*1988–89*	*1989–90*	*1990–91 (Est.)*
Current Outlays[a]						
Current Prices	7 133	7 790	8 393	9 176	10 083	10 607
% of NFGDP	10·7	11·1	10·4	10·3	10·2	9·8
Capital Outlays[a]						
Current Prices	1 772	1 771	1 700	1 797	1 434	1 630
% of NFGDP	2·7	2·5	2·1	2·0	1·5	1·5
Revenue						
Current Prices	4 019	4 351	4 920	5 499	5 846	6 722
% of NFGDP	6·0	6·2	6·1	6·2	5·9	6·2
Grants Received[a]						
Current Prices	3 854	4 160	4 343	4 465	4 668	4 855
% of NFGDP	5·8	5·9	5·4	5·0	4·7	4·5
Financing Transactions						
Current Prices	1 041	1 048	835	1 009	1 003	660
% of NFGDP	1·6	1·5	1·0	1·1	1·0	0·6
Budget Sector Debt						
Current Prices	9 562	10 673	11 517	12 709	14 470	14 281
% of NFGDP	14·4	15·2	14·3	14·2	14·6	13·3
Public Sector Debt						
Current Prices	19 165	20 989	22 188	23 995	26 614	27 138
% of NFGDP	28·8	29·9	27·6	26·8	26·9	25·5

(*a*) Excluding Commonwealth grants for on-passing.
Source: Chapters 4 and 5 and Table A.4.

Context

Impact of Economic Slowing on the Revenue Base

The nature and extent of the State revenue base is limited by Commonwealth constitutional provisions and the pre-eminence of the Commonwealth in the income tax field. State taxation is heavily concentrated on a small number of narrowly-based imposts, for a number of which the underlying trend rate of growth is slow. For others, the trend is swamped by the amplitude of the cyclical fluctuations.

The onset of a cyclical slowing in the Australian economy generally during 1989–90 has been reflected in a slowing in the rate of growth of the State revenue base as a whole. The revenue base of most States has become particularly sensitive since the mid 1980s to the cycle in the property and share markets. Those markets experienced a very marked upswing between 1983–84 and 1987–88, and have gone into a correspondingly marked downturn since 1988–89.

Decisions at the 1990 Premiers' Conference and Loan Council Meetings

At the Premiers' Conference in June 1990, the Commonwealth Government cut $400 million off its own forward estimates of general revenue grants to the States and the Northern Territory. This meant a reduction of some $140 million in Victoria's share of general revenue assistance relative to what had been expected on the basis of the Commonwealth Government's published forward estimates.

Victoria's increase for 1990–91 was lower than that of any other State because of the implementation, as recommended by the Commonwealth Grants Commission, of new relativities which benefit other States at Victoria's expense. The result was an estimated increase of only 1·9 per cent in nominal terms in Victoria's general revenue grants for 1990–91 compared to the previous year. This is the second year in succession of virtually no growth in the nominal value of general revenue assistance—in 1989–90, the increase was 2·2 per cent.

The general revenue grants included in the 1990–91 Commonwealth budget papers show, in fact, only a 0·4 per cent increase for 1990–91 relative to the previous year. The lower figure largely reflects the unilateral decision of the Commonwealth Government after the Premiers' Conference to reduce financial assistance grants, as a consequence of the announcement by the Prime Minister that the Commonwealth intended vacating the debits tax field and reflecting that decision in reduced financial assistance grants to the States. The States had proposed prior to the Premiers' Conference that the Commonwealth drop the debits tax but the proposition was not accepted by the Commonwealth at that time.

At the Loan Council meeting, total global limit borrowing for the States and the Territories rose by only 0·7 per cent in nominal terms for 1990–91. However, the Commonwealth allocated its own public authorities an increase of some 9 per cent, on the grounds of the commercial needs for investment in aviation and Telecom's re-financing of advances from the Commonwealth budget.

Subsequently, the Victorian Government decided to apply even more stringent restrictions to its global limit borrowings, and will not take up its full borrowing allocation in 1990–91.

Impact of Assistance to Financial Institutions on the 1990–91 Budget and Debt

As set out in Chapter 5 of this Budget Paper the increased losses incurred by the State Bank Group required the Government to increase its previously announced support measures from $795 million to $2·7 billion so as to ensure that it continued to meet Reserve Bank guidelines. Although this was to be drawn down over a number of years the maximum cost to the Budget of up to $400 million per annum was prohibitive. As a consequence, the Government called for expressions of interest in the State Bank to assess whether its sale was the best option.

Although the subsequent sale of the Bank means that the Government will be required to take direct ownership of Tricontinental, which has a net deficiency of some $1·6 billion, the elimination of the Support Agreements, except for the $576 million paid out in June 1990 and a further amount to be settled as part of the due diligence process, will enable the Government to achieve a reduction in debt levels during this financial year of $1·6 billion and of about $80 million in debt charges compared with continuation of the Support Agreements.

The Government's undertaking in respect of the early distribution to depositors in the Farrow Group of building societies which was made in August will cost an estimated $55 million in interest payments in the 1990–91 Budget.

In respect of Victorian building societies, a sustained run on the depositor base of the Farrow Group of building societies reduced the liquidity of these societies to such an extent that in June 1990 an administrator was appointed. Subsequently, the societies' operations were suspended. In July 1990, the Government announced that depositors with the Farrow Group of building societies would receive, over time, the full amount of their principal outstanding at 24 June 1990, less any interest credited since 1 July 1989.

The Government brought forward the first distribution to Farrow depositors by arranging for State Bank Victoria to pay out 25 per cent of their deposits. The cost of interest payments on this amount to the Government will depend on when the Administrator has funds available to make this first distribution but a provision of $55 million has been made in the Budget for 1990–91.

The administrator appointed by the Registrar of Building Societies has estimated in his interim report that the shortfall to depositors and investors from the immediate realisation of assets would be in the order of $250 million. However, this amount would be minimised by an orderly realisation of assets.

In anticipation of the effect of the difficulties in the Farrow Group of building societies on the other building societies, the Government called a meeting of representatives of building societies and the major banks to establish a support package for the non-Farrow building societies. The Government arranged, with the assistance of the five major banks, a comprehensive liquidity support scheme for these societies which were acknowledged by the RBA to be well managed and conservative in their operations. In essence the scheme involves:

—Victorian Public Authorities Finance Agency (VicFin) providing funds to the Victorian Building Societies Council (VBSC) with the benefit of an indemnity from the Government; and

—the VBSC on-lending these funds to the various building societies to support their liquidity needs. These moneys are lent on the security of a charge over the assets of the relevant building society at an interest cost to the Societies comparable with a commercial cost of funds.

This arrangement has been implemented as part of a process by the Government to substantially restructure the building society industry in Victoria.

Actions Taken

Unchanged Policy Budget Estimates

Forward estimates presented to the Government by Treasury in the development of the 1990–91 Budget showed that, on an unchanged policy basis, budget sector financing transaction would be some $2·0 billion for 1990–91.

Further, on the basis of those forward estimates, it was necessary to reduce 1990–91 financing transactions to around the 1989–90 budgeted level of $729 million in order to ensure that there was no increase in the ratio of debt to NFGDP for the budget sector.

The Government considered a wide range of revenue raising and outlays reducing measures in order to generate a policy mix which would ensure no rise in the debt ratio. There were three key elements of the wide-ranging package as finally determined. The first was a formal debt management strategy building on processes already in place having regard to the debt and debt service ratios and including business asset sales. The second embraced a range of measures relating to other outlays, and the third revenue-increasing measures.

Debt Management Strategy

As set out in Table 1.1, budget sector financing transactions are projected at $660 million in 1990–91, a reduction of more than one third on the 1989–90 amount. For the non budget sector, financing transactions are projected at $730 million dollars in 1990–91, a reduction of $676 million relative to 1989–90.

As noted above, budget sector debt estimates assume $2·6 billion of business asset sales, including the sale of the SBV to the Commonwealth Bank of Australia and equivalent repurchase of budget sector securities.

The Government will strengthen its debt management strategy for budget sector debt, building on the debt management processes already in place, and taking into account the effective dismantling of the Financial Agreement agreed to at the Loan Council meeting in June 1990 which means the withdrawal of the Commonwealth Government from management of States' debt under the Financial Agreement.

The States agreed to a Commonwealth proposal that, from 1990–91 onwards, States take over responsibility for debt raised on their behalf under the Financial Agreement, subject to full cost compensation. States can borrow in their own names in domestic markets and will undertake additional domestic borrowings to refinance debt previously raised under the Financial Agreement. They will make all repayments to the National Debt Sinking Fund. During 1990–91, the Commonwealth and the States will discuss detailed arrangements, including compensation for the States to meet their additional interest costs arising from the existing differences in borrowing margins and the loss of the Commonwealth contribution to the National Debt Sinking Fund.

As set out more fully in Chapter 5, the effect of the borrowing constraint, the business asset sales referred to previously, and other debt management initiatives will be that budget sector debt will fall in dollar terms over the next 12 months. Sales of business assets will be used to retire budget sector debt in order to ameliorate the debt service costs borne by the budget.

As indicated above, a Debt Retirement Fund is to be established and the necessary legislation will be introduced in the current session of the Parliament. The Fund will be funded from the $2·6 billion business asset sales and a debt repayment from the Consolidated Fund of $100 million per annum.

Productivity Improvement and Other Savings in Current Outlays

The Victorian Government has implemented over the past five years a budget sector productivity improvement policy. The rate in recent years has been 1·5 per cent per annum of the cost of delivering the existing level of recurrent services, excluding non discretionary costs. The savings generated through this policy are estimated to have totalled some $345 million from 1985–86 to 1989–90. This cumulative effect is carried through into the base for 1990–91. Further savings in 1990–91 from this policy are estimated at $124 million.

The Government also established processes to ensure that the implementation of the 4 per cent second tier wage increase awarded in the March 1987 national wage award was basically cost neutral over time. It has also more recently decided that agencies are to absorb 10 per cent of national wage award increases. This policy commenced with wage accord decisions handed down in 1989–90. At the same time, partly in response to these measures and because of actions taken in relation to the implementation of the Structural Efficiency Principle (SEP), improvements in productivity through work practice or other changes are being implemented across the public sector. (More details of the implementation of the SEP are provided in Budget Paper No. 6. *Supplementary Budget Information 1990–91*, Chapter 6).

All these measures represent significant savings and the budget process is predicated on their on-going application. These spending constraints have operated cumulatively since 1985, while at the same time the demand for services, generated by demographic and changing geographic pressures, has continued to grow. Accordingly, it is becoming increasingly difficult to achieve productivity savings in current outlays and the Government will have to give increasing attention to a contraction of program outputs. More fundamentally, the Government will be giving consideration to the scope for removing the provision of certain goods and services from the public domain, in order to concentrate scarce public sector resources on the provision of goods and services which cannot be efficiently produced in the private sector because it is not possible to charge the individual consumer. This is the case with community law and order, for example, where all persons benefit from such protective services and are therefore expected to pay taxes as a contribution to their public provision.

Additional savings in current outlays are budgeted in three areas this year—in net operating costs across all agencies, in changed timing for the payment of certain grants, and in interest payment savings arising from the debt management initiatives outlined above and in more detail in Chapter 5 of this paper.

Table 1.2

KEY BUDGET COMPONENTS

($ million, 1984–85 prices)

	1985-86	*1986-87*	*1987-88*	*1988-89*	*1989-90*	*1990-91 (Est.)*
Gross Operating Costs	5 898	6 145	6 018	5 989	6 058	6 054
Charges and Reimbursements	1 111	1 140	1 160	1 149	1 106	1 165
Net Operating Costs	4 787	5 005	4 858	4 840	4 952	4 889
Total Current Outlays	6 666	7 005	6 948	6 978	7 202	7 081
Gross Outlays on Fixed Assets	1 721	1 665	1 558	1 513	1 427	1 295
Asset Sales	73	125	185	175	423	307
Gross Fixed Capital Expenditure	1 648	1 540	1 374	1 337	1 004	988
Total Capital Outlays[a]	1 656	1 593	1 408	1 366	1 024	1 088
Taxes, Fees and Fines	3 086	3 314	3 504	3 643	3 622	3 929
Other Revenue	670	599	569	539	554	558
Total Revenue	3 756	3 913	4 073	4 182	4 176	4 487
Grants Received[a]	3 602	3 741	3 595	3 396	3 334	3 241

(*a*) excluding Commonwealth grants for on-passing.
Source: Chapter 4 and Table A.4.

Gross Operating Costs

Table 1.2 includes constant price estimates for key budget components. In 1990–91, gross operating costs will fall very slightly in real terms.

All budget sector agencies have been subject to review by the Expenditure Review Committee (ERC), and savings targets in addition to the 1·5 per cent productivity savings and National Wage Award absorption have been set. These targets are to be achieved partly by further reducing gross operating costs and partly by increasing user charges.

The targeted ERC expenditure reductions are budgeted to yield savings of $143 million in the 1990–91 financial year.

A key element in the achievement of these savings will be improved resource management, particularly in the case of labour. Improvements in productivity through work practice changes are being pursued and the Workforce Management Unit recently established by the Government will play a significant role in enhancing flexibility of employment opportunities across the public sector. Savings will be achieved by attrition, redeployment, and special incentives for voluntary redundancies. In addition, the Education Expense Allowance will not be paid in 1991, providing a saving to the Budget of some $69 million in 1990–91. The payment of this allowance will be re-assessed by the Government in July 1991.

Charges and Reimbursements

The real level of charges and reimbursements, as shown in Table 1.2, is expected to increase in 1990–91, back to a level similar to that in 1987–88 and some 5·3 per cent higher than in 1989–90.

The Government has exercised tight control over fees and charges in recent years by setting an annual guideline percentage increase. Generally, fees and charges have increased by no more than the Consumer Price Index. The guideline increase was 5 per cent in 1984–85, 7 per cent in 1985–86 and 1986–87, 6 per cent in 1987–88, 5 per cent in 1988–89 and 6 per cent in 1989–90.

For 1990–91, two guideline increases will apply. Where full cost recovery is already being achieved in the provision of a service, the guideline increase will be 8 per cent, which takes account of cost movements above the guideline increase set for 1989–90 and of the inflationary outlook for 1990–91. Where full cost recovery is not being achieved, the fees and charges in question may be increased by up to 15 per cent. Where there are special circumstances larger increases may be permitted. New charges are generally set to recoup costs.

Changed Payments Timetable

The 1990–91 Budget will benefit from some one-off changes in the timing for the payment of certain grants. The benefit will provide a saving, in the 1990–91 financial year only, of $69 million. The Government has implemented this procedural change as an alternative to cutting the level of the grants. The relevant savings are in respect of grants to non government schools ($42·5 million), pensioner rates concessions ($17·0 million), and municipal library subsidies ($9·5 million).

Grants to non-government schools have previously been paid in the school year as follows: 25 per cent in February, 50 per cent in July and the balance in October. This pattern will be changed from the 1991 school year; the grants will be paid 75 per cent in July and the balance in October.

To avoid uncertainty as to the total size of the grants payable in a school year, the Government will announce the total size of the grant for the year prior to the commencement of the school year.

At present, pensioner rate concessions are paid to municipalities when claimed, generally half in November/December and half in July/August. From now on, a single payment in full will be made in July. Municipalities will still receive the full rebate in their financial year which ends on 30 September.

Municipal library subsidies are currently paid in two amounts in the municipal financial year. Payments are made in October and in the following July. In the future these grants will be paid as one amount in July.

To ensure that the changed payment arrangements to non-government schools and municipalities are cost-neutral, provision will be made in 1991–92 and future financial years for additional payments to offset the interest impact.

The total savings which are expected to be achieved from the 1·5 per cent productivity gain, absorption of 10 per cent of National Wage increases, ERC targeted savings and the Education Expense Allowance decision are in the order of $370 million in 1990–91.

Total savings in current outlays against the forward estimates were estimated at $508 million.

Expenditure on New Fixed Assets

The level of expenditure on new fixed assets in both the budget and the non budget sectors will be constrained this year by the Government's desire to constrain the level of net borrowing and hence debt and debt service. The Government has, in fact, decided to reduce its global limit borrowing more than reflected in the 1990 Loan Council decision which cut Victoria's allocation by $36·5 million relative to the previous year, a very significant fall in real terms. More particularly, at least $118·5 million of the allocation will be unused, as shown in Chapter 5. The unused amount will be increased to the extent that the currently unallocated non budget sector amount of $100 million is not drawn down during the year.

Notwithstanding the significant constraint on borrowings, the Government has been able to provide in this budget for the continuation of some key infrastructure programs and projects. Some of these are outlined later in this chapter—more detail is included in Chapters 7 and 8 of this Budget Paper and Budget Papers Nos. 5 and 7.

Revenue-raising Measures

In the lead up to the 1990 Premiers' Conference and Loan Council meetings, State Treasury officers met on a number of occasions to consider the scope for joint action, given that the States generally were facing similar economic and budget difficulties. A particular focus of the discussions was tax harmonisation.

Discussions continued in the light of Premiers' Conference and Loan Council decisions. One outcome was the announcement by the NSW, Victorian and ACT Governments of similar changes to payroll tax and the financial institutions duty.

The payroll tax and financial institutions duty initiatives together are estimated to add $240 million to revenue in 1990–91. The other major taxation measures involve increases in business franchise fees (tobacco, petroleum products and alcohol) which will contribute $139 million in 1990–91, the extension of conveyancing duty to include business transfers as in every other mainland State ($9 million in 1990–91), an increase in (non-private) motor vehicle registration ($7·3 million in 1990–91), and the introduction of an accommodation business duty to generate revenue for tourism promotion ($4 million in 1990–91). The Government proposes changes to land tax that will reduce revenue by $43·8 million in 1990–91 compared to "standard" indexation of the scale. Details of these and the other major taxation measures included in the 1990–91 Budget are set out in Budget Paper No. 4, *Budget Revenues 1990–91,* Chapter 2.

These tax initiatives are to be complemented by measures to broaden the revenue base, including discretionary action to increase revenue from existing bases by a thorough review of fee structures and by devoting increased resources to ensure compliance with taxation law through better information flows to taxpayers, increased investigation effort and earlier follow-up of overdue payments.

Portfolio Program and Project Initiatives

Budget Paper No. 5, *Program Budget Outlays 1990–91*, provides information at a portfolio and program level while Budget Paper No. 7, *Social Justice and the Budget 1990–91,* a new Budget Paper this year provides information about the Government's social justice programs. Some information about initiatives and on-going programs is given below.

Social Justice and Social Development

The 1990–91 Budget delivers further improvements for social justice target groups by building on and consolidating past programs and providing for new initiatives in key areas, including:

—a further major expansion and redevelopment of services to people with intellectual disabilities, with the State Plan growing to $26·2 million in 1991 from an expenditure of $9 million the previous year, to enable establishment of 139 new residential places in the community, an extra 144 day programs and 15 respite care centres;

—the establishment of an Office of Pre School and Child Care, and continued expansion of child care places, with an increase in funding jointly with the Commonwealth to $5·9 million;

—increased expenditure of $1·6 million in 1990–91 on child protection, to maintain the policy of progressively transferring primary responsibility for child protection services to Community Services Victoria;

—continued growth in the joint Commonwealth-State-Local Government Home and Community Care program with an increase in funding of 12·3 per cent to a total allocation of $130·35 million (CSV and Health);

—increased expenditure on supported accommodation for homeless youth, victims of domestic violence and others with temporary accommodation crises or longer term accommodation problems—an additional $3·66 million of matched Commonwealth-State funds is to be made available;

—capital expenditure in Health to enable further construction works at Monash Medical Centre ($38 million), at Western Hospital campuses at Sunshine and Footscray ($23 million); redevelopment of Ballarat Base Hospital and the new Psychiatric Unit at Frankston Hospital;

—upgrading of a number of community health service facilities, including completion of Endeavour Hills and Craigieburn. Land will be purchased in the Mill Park area for the development of a new community hospital;

—design work on a number of major projects including the Peter Macallum Hospital relocation, Box Hill Hospital's new accident and emergency unit; redevelopment work at Royal Melbourne Hospital will be undertaken;

—establishment of a Credit Tribunal to hear cases brought by consumers and traders under the Credit Act.

—increased expenditure in the areas of public tenant security and low interest loans to social justice target groups;

—introduction of a Seniors Card, targeted to people who are aged over 60 years and are not in the full time workforce, which will provide access to a range of discounts on accommodation, hospitality, retail, entertainment, sporting, cultural, educational, travel, health and fitness services;

—targeted measures which focus on the safety, reliability, cleanliness and comfort of the public transport system including increased security at stabling sites for the train fleet; increased profile for transit police and roving guards; improved metropolitan station lighting and signalling rationalisation;

— further development of the new Victorian Certificate of Education and implementation of a range of strategies to ensure that young people who are most at risk of leaving school early take up educational opportunities;

—increased access to post secondary education and training in TAFE colleges and the progressive introduction of computer software in neighbourhood houses and community learning centres to enable the extension of the Job and Course Explorer network; and

—transfer of people with intellectual disabilities who are aged 18 years and over from special schools to TAFE colleges and further education facilities.

Urban Infrastructure

A feature of Government programs for 1990–91 will be the development of services in outer areas of Melbourne which emphasise co-ordination and integration, flexibility and responsiveness to the needs of families and their children. This will call for close co-operation between agencies to achieve co-location of new and existing services, redesign of services and the development of more effective linkages between different service providers. Local communities will be closely involved in shaping the services to be provided.

Planning and development of these community services, and of the physical services to these areas, will be a responsibility of the Planning and Urban Committee of Cabinet.

Two new initiatives will commence in 1990–91:

—the establishment of an Urban Land Authority infrastructure fund of $12 million to enable infrastructure works and community services to be developed in metropolitan areas, particularly the growth corridors; and

—the establishment of a taskforce, with private sector representation, to enhance private sector involvement in the development of infrastructure.

A further priority in 1990–91 will be the development of options for a State-wide regional development strategy. This strategy will look at the capacity of provincial centres to absorb population growth and their economic development potential. This in turn will help to maximise benefits from past infrastructure investments and to assist in taking some of the pressure of population growth away from the metropolitan area.

Conservation and Environment

Policy initiatives for 1990–91 amounting to $2·44 million are summarised in Table 8.1 of Chapter 8. These depend on a closely-related package of revenue initiatives based on the "user pays" and "polluter pays" principles. In addition, in a year of cut-backs the Government has maintained the level of resources of the Environment Protection Authority.

The 1990–91 Budget continues to apply the principle of "polluter pays" through a major rescaling of the EPA's system of licence fees to ensure that both the direct and indirect costs of establishing and reviewing licences and of auditing and enforcing compliance are recovered.

Programs commenced in previous years, such as the Clean Technology Incentives Scheme, which assists industry to apply waste minimising technology, will be continued and the successful Rural Chemicals Collection Scheme will receive a further boost in funding this year with $927 000 being made available.

For 1990–91, a new package of measures is provided which directly addresses critical environment protection needs.

The EPA will receive $118 000 towards control of major marine discharges, while the Department of Conservation and Environment will receive $150 000 to encourage local sewerage authorities to develop waste water recycling projects and $50 000 for activities associated with the LaTrobe Valley Waste Water Inquiry.

An additional $0·62 million is being made available to the EPA for environmental audit, enforcement and community response activities.

The EPA will also receive $140 000 for accelerated action on contaminated sites.

Finally, a levy is to be applied on use of chlorofluorocarbons (CFCs), in line with the national strategy for ozone protection. The revenue, an estimated $310 000 in 1990–91, will help meet costs of complete phasing-out of CFCs by 1998.

A complementary package of initiatives is directed towards conserving Victoria's natural resources. These initiatives, amounting to $1·12 million in 1990–91, will accelerate progress in areas of priority conservation concern, including national vegetation retention, protection of National Parks, and wildlife management.

An amount of $250 000 will assist landholders to manage retained natural vegetation and to ensure that recently established State-wide clearing controls are implemented consistently.

To help accelerate protective and visitor facilities in National, State and Regional Parks, the Government will apply the "user pays" principle through increases in various park user-charges to raise an additional $600 000 in 1990–91. These funds will benefit a variety of projects in parks around the State including the Alpine National Park, the Grampians National Park and Buchan Caves.

An amount of $1·5 million is also being provided for works required to develop the new Mallee National Park next year. Remaining allocations, part-funded from hunting licences, will improve the Department's wildlife management services.

There will be an increased emphasis in the Department of Agriculture and Rural Affairs on sustainable development with initiatives in sustainable farming systems, landcare, salinity and agro-forestry through an initiative of $1 million.

Law and Order

The budget for the Attorney-General's Department makes provision for a number of important justice initiatives.

Recurrent funding of $6·4 million has been provided to complete the transfer of responsibility of PERIN Court warrants from the Police to the Sheriffs. A further $3·1 million has been provided in Works and Services for associated accommodation fitout and mainframe computer lease.

Consistent with the Government's commitment to strengthen the administration of justice, funding for two additional Supreme Court judges and relevant support staff (totalling $0·3 million in recurrent and $0·5 million in Works and Services) has been provided. A further $0·5 million has been allocated for the on-going refurbishment of the Supreme Court.

In conjunction with the above commitment, additional recurrent funding has been allocated for the implementation of the Magistrates Court Act 1989. This Act will enhance the efficiency of the Magistrates Court System and aid in reducing court delays.

Initial works and services funding of $1·1 million has been provided for the extension and modernisation of the Shepparton Magistrates Court.

An appropriation of $8·1 million is also provided as the State's contribution to the Legal Aid Fund.

A major Fraud Strike Force to combat the growing problem of white collar crime will be established. The unit will include police, lawyers and accountants with the expertise necessary to investigate various activities. When necessary, National Crime Authority members and Australian Securities Commission officers will be seconded to handle specific operational areas.

There will be increased funding for the Traffic Camera project to achieve further reductions in speeding, road deaths and accidents.

Arts

The Spotswood Science and Technology Museum will be substantially completed this financial year as the first stage of the Museum of Victoria redevelopment, design work will continue on the Southbank museum and site assembly will be completed.

An allocation of $7·5 million will allow the redevelopment of the State Library to commence in 1990, with the construction of two infill buildings on Russell Street. In the short term, this will provide space for library decanting and museum conservation activities.

An amount of $500 000 will be provided to upgrade the BASS system at the Arts Centre and $500 000 for the design development work for the fire safety program at the Gallery of Victoria.

Government Charges

The Government is reviewing the continued operation of the Family Pledge. The Education Expense Allowance will not be paid in 1991 but will be re-assessed by the Government in July 1991. Public Transport charges will increase by 15 per cent. As a water conservation measure there will be an additional charge of 15 cents per kilolitre on the first 150 kilolitres of water used in a 12 month period. Gas and electricity prices have been announced, Transport Accident Commission premiums will be unchanged and driver licence fees will be re-assessed.

Although the full effect of the Family Budget Pledge will not be met this year, it is delivering substantial gains to Victorian families through the restrained increases in recent years in household charges.

Over the three year period from 1987–88 to 1990–91 the following real decreases have occurred in the prices of the items in the basket covered by the Pledge :

Electricity—7·5 per cent

Gas—8·6 per cent

Public Transport—3·4 per cent

Board of Works—4·4 per cent

Driver's Licence—19·4 per cent

Transport Accident—18·8 per cent

If all of these charges had increased in line with inflation the cost to average metropolitan families would have been $2 217.71 in 1990–91 instead of an estimated cost of $1 976.24. The estimated savings relative to inflation is $241·47.

This restraint has helped to keep the rate of increases in Victorian Government charges relatively low. Between June 1982 and June 1990, the State and Local Government charges component of the Melbourne CPI increased 50·5 per cent, while the increase for the eight capital average was 73 per cent. Melbourne's increase was the lowest of all State capitals.

LONGER TERM PERSPECTIVES

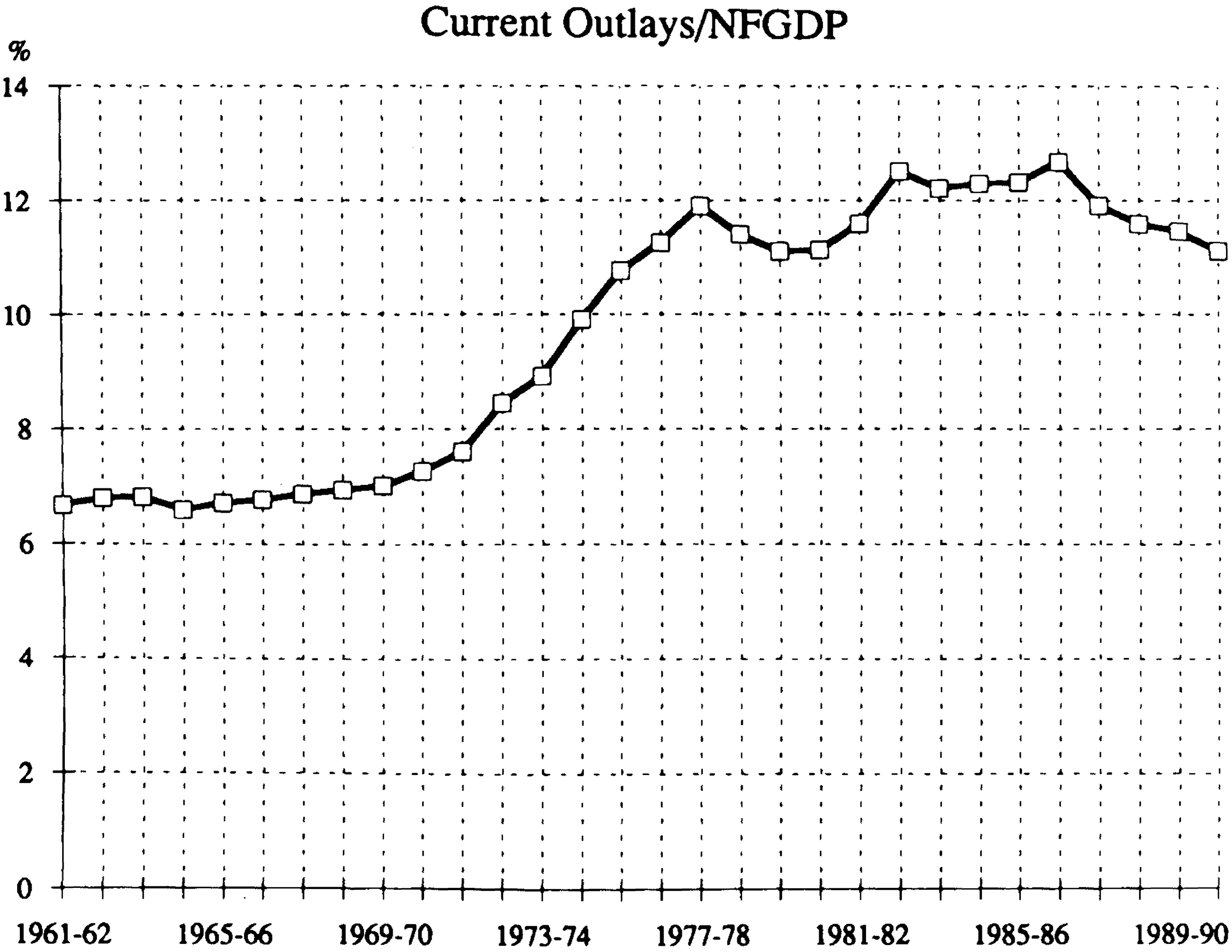
While an important focus of the 1990–91 Budget has been adjustment to the particular conjunction of adverse circumstances faced by the Government at this time, it is useful to place the Budget in a broader perspective, both in a longer time period and embracing recent developments in the non budget sector.

Long-Term Trends in Budget Sector Transactions

Charts 1.1 to 1.6 depict trends in key components of the budget over the past three decades, the period for which comparable time series data is available. Two fundamental changes have occurred during this period. One is the sustained decline in the real level of budget sector capital outlays as a proportion of Victorian NFGDP. This ratio now stands at one third of its level 30 years ago. This represents a major shift in the extent to which the community is investing in budget sector assets, such as education, health and public transport facilities, and has resulted in the virtual cessation of growth in the capital stock and a rise in the average age of fixed assets in the budget sector. In large part, this trend has been driven by the virtual abolition over this period of general purpose capital funds provided to the States by the Commonwealth.

The other key change relates to movements in the ratio of State revenue and current outlays to NFGDP. There is a close relationship between changes over time in current outlays on the one hand and revenue and grants received on the other, given the inability of the States to handle large fluctuations on current account.

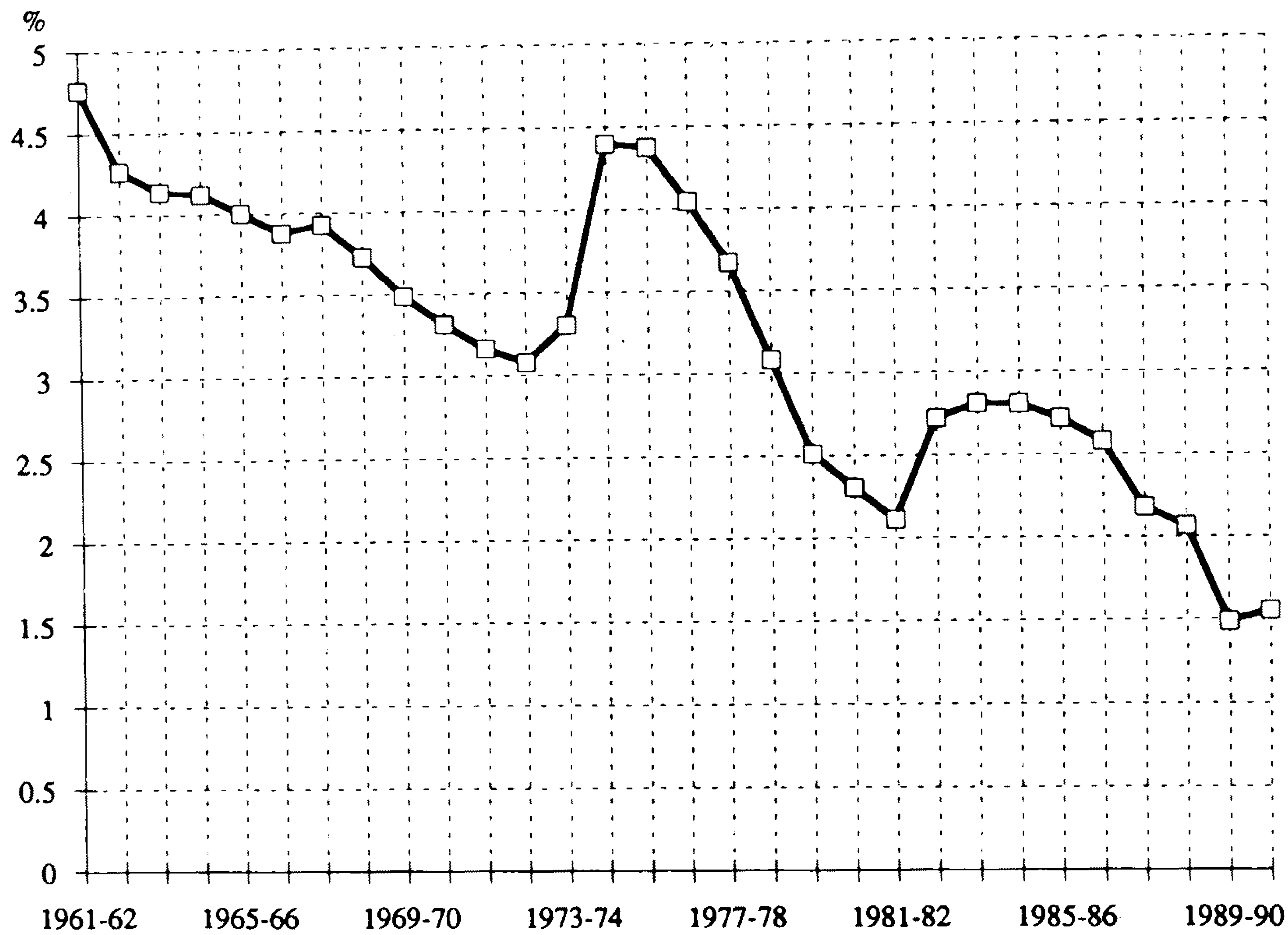
CHART 1.1
Current Outlays/NFGDP



Source: ABS unpublished data and Treasury data.

As shown in Chart 1.1, current outlays as a proportion of NFGDP showed a flat trend during the 1960s at around 6·5 to 7·0 per cent, rose strongly during the first half of the 1970s, to 11·9 per cent in 1977–78 declined slightly to 11·1 per cent by 1979–80 and then rose again to a peak of 12·7 per cent in 1986–87. Since then, there has been a consistent decline in the ratio, and in 1990–91, at an estimated level of 11·1 per cent, the ratio is back to its level in 1980–81.

CHART 1.2
Capital Outlays/NFGDP



Source: ABS unpublished data and Treasury data.

Chart 1.2 shows capital outlays as a proportion of NFGDP. There is a close relationship between trends in capital outlays and trends in net borrowing. The major component of capital outlays is gross fixed capital expenditure, which is traditionally and appropriately financed to a large degree by borrowing. Policy action can influence non-borrowing sources of funds for capital works and one such source, asset sales, has been used very significantly in Victoria in recent budgets. The other, a greater current account contribution, has been made the more difficult to achieve. This is as a result of continually reducing general revenue payments from the Commonwealth, and the cyclical decline in the underlying rate of growth of State own revenue sources as, for example, in 1989–90 and 1990–91 as noted above, and the difficulty of reducing current outlays beyond the levels embraced in recent budgets, especially in a context of increasing demand for many State services.

The ratio of capital outlays to NFGDP declined during the 1960s but rose strongly during 1973–74 and 1974–75, reflecting the programs of the Whitlam Government. The ratio peaked at 4·4 per cent in 1974–75, reflecting a similar peak in net advances from the Commonwealth (as shown in Chart 1.5) and then declined during the second half of the 1970s to a trough of 2·1 per cent in 1981–82.

The subsequent rise in the ratio to a peak of 2·8 per cent in 1983–84 reflected the program implemented by the present Government to reverse the rundown in the State's infrastructure which occurred during the 1970s at a time the level of private sector economic activity was in a cyclical trough. Since the mid 1980s, a combination of strong revival of private business investment and constraints on capital grants and net advances from the Commonwealth has driven the ratio to an unprecedented low of 1·5 per cent in 1989–90.

Despite this squeeze on the size of budget sector capital spending in the economy, across-the-board improvements in the quality of Victoria's infrastructure have been effected during the 1980s. The re-equipment of the public transport system has been substantially completed with new overhead systems and new rolling stock. For the first time in a century, Victoria has major new prisons, with the Loddon and Barwon prisons both completed. The Government is approaching the completion of a program of deinstitutionalisation of persons with intellectual disabilities involving the closure of the century old institutions of St Nicholas and Willsmere. The achievement of this updating and relocation of infrastructure is not only of direct benefit to the community. It also means that, in the medium term, room has been made in a period of expensive and increasingly scarce capital funds for allocation of funds to urban infrastructure.

Revenue as a proportion of NFGDP is shown in Chart 1.3. This ratio did not show any clear trend around an average level of 3·9 per cent during the 1960s, increased strongly during the first half of the 1970s and peaked in 1977–78 at 5·7 per cent. After some easing to around 5·4 per cent in subsequent years the ratio rose in 1981–82 and 1982–83 to around 6·1 per cent. It has remained at this level in subsequent years.

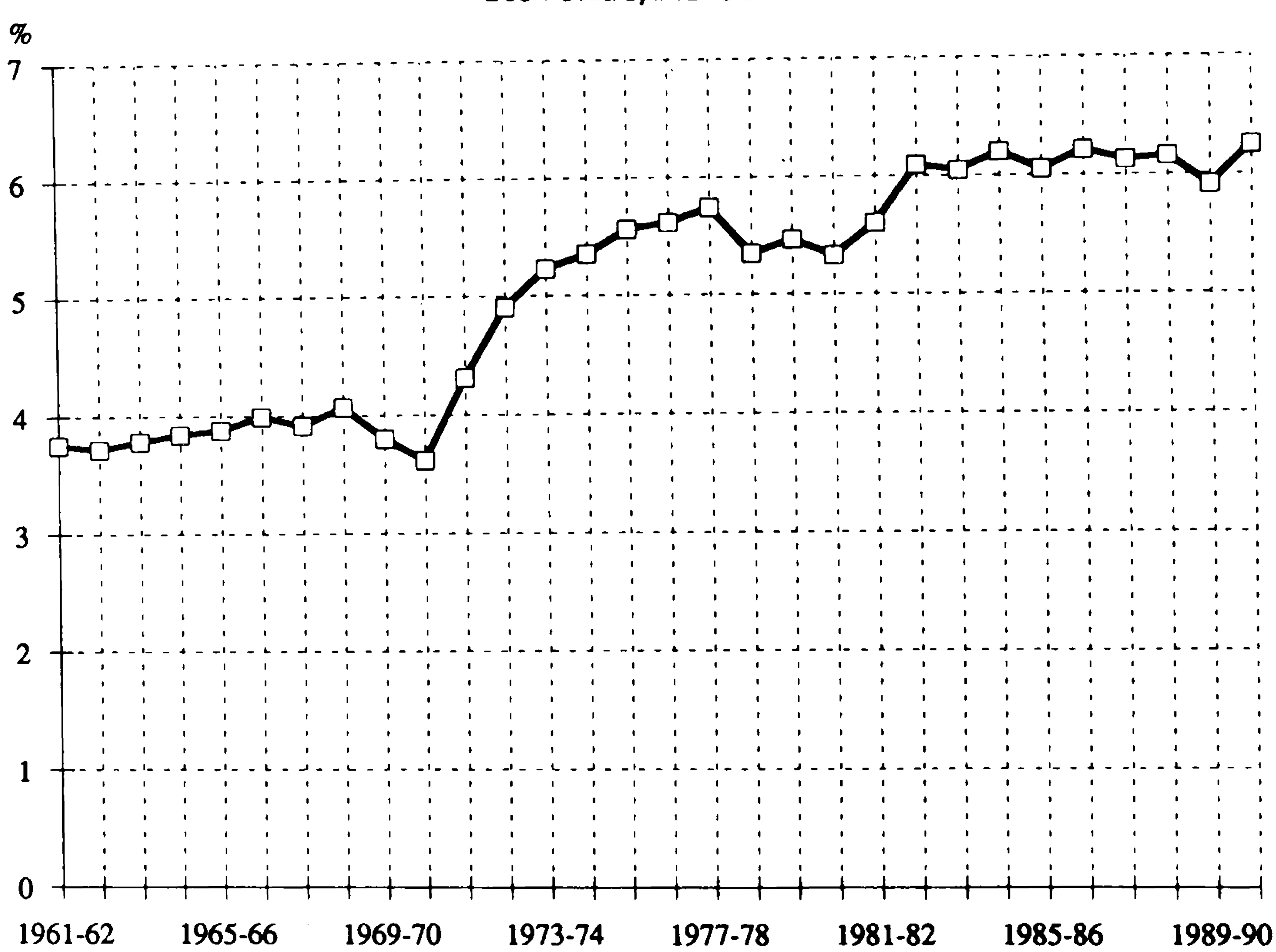
There was a progressive broadening of the revenue base through the decade. This was achieved through the introduction of new taxes and changes in tax scales. Payroll tax was transferred from the Commonwealth to the States in 1971. The tobacco franchise fee was introduced in 1974–75; the pipeline licence fee was introduced in 1981–82 (and disallowed by the High Court in 1983–84); financial institutions duty was introduced in 1982–83. An offsetting factor was the progressive phasing out of probate duty, beginning in 1976–77.

After 1982–83 the trend growth in the ratio of revenue to NFGDP ceased, despite very strong cyclical growth in activity and prices in the property and share markets and hence in taxes on financial and capital transactions between 1983–84 and 1988–89. In spite of a severe reduction in Federal funds and continued service delivery demands, Victoria pursued a policy of reduction in the State taxation burden, particularly directed to families and to firms in support of economic development. This occurred because of the indexation and restructuring of rates, the introduction of various deductions and rebates, and the abolition of stamp duty on workers compensation premiums, the third party insurance surcharge and motor registration fees on private motor vehicles. The full year cost of the tax cuts which were instituted over the previous five budgets amount to $350 million (as estimated at the time of the relevant budget).

The Government has not been able in its 1990–91 Budget to continue to contain adjustment to declining Commonwealth payments and depressed State source revenue growth to the outlays side of the budget, and taxes, fees and fines (the major component of revenue) are projected to rise.

As shown in Chart 1.4, grants received from the Commonwealth (including both current and capital grants and grants for on-passing) as a proportion of NFGDP fluctuated during the 1960s but averaged around 4·0 per cent, accelerated during the first half of the 1970s and peaked in 1975–76 at 8·5 per cent. There has been a strong downward trend in subsequent years. In 1990–91, the ratio is estimated at 5·8 per cent, or close to the same as in 1973–74.

CHART 1.3
Revenue/NFGDP



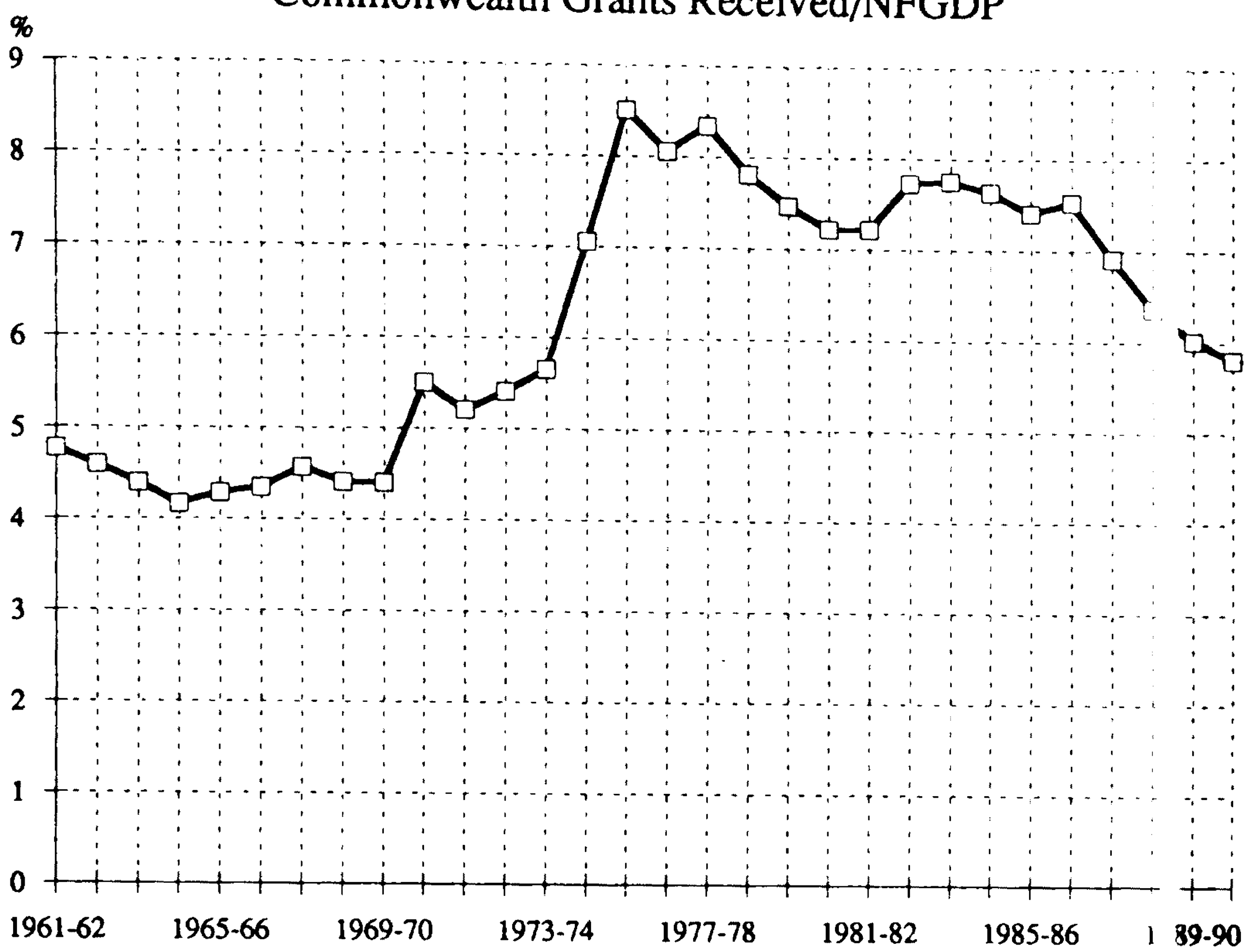
Source: ABS unpublished data and Treasury data.

The ratio of net advances from the Commonwealth to NFGDP is shown in Chart 1.5. The persistent decline in this ratio is striking. The ratio stood at 2·8 per cent in 1961–62, fluctuated about a declining trend during the 1960s, increased during the first half of the 1970s, and reverted to a declining trend during the second half of the 1970s which continued into the 1980s. By 1988–89, net advances had been eliminated and in subsequent years became negative as repayments exceeded gross advances.

Long Term Trends in Public Sector Debt

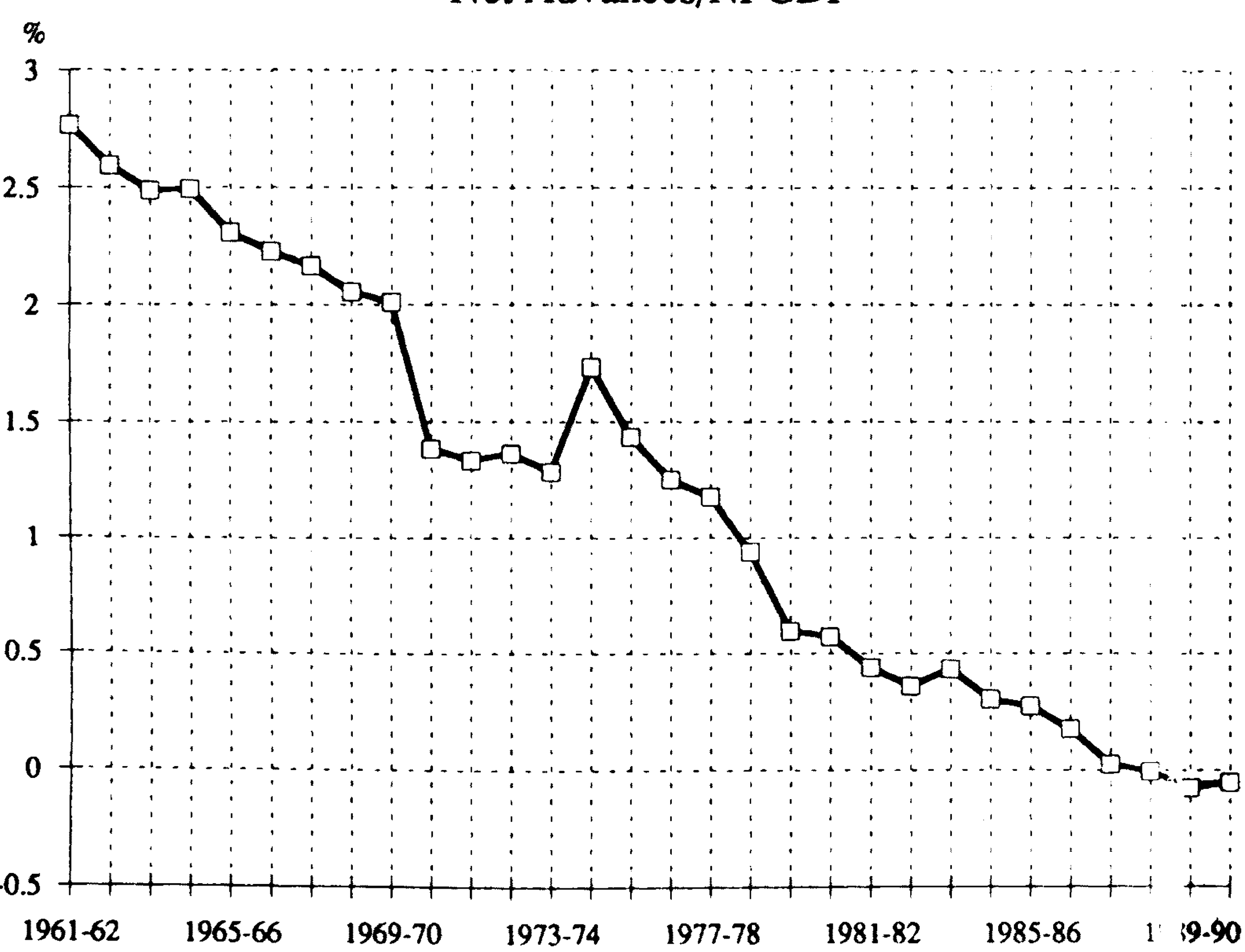
As shown in Chart 1.6 between 1961–62 and 1981–82 the rate of public sector net debt to Victorian NFGDP fell from over 60 per cent in 1961–62 to around 25 per cent. During the 1980s, the ratio rose somewhat, to a peak of nearly 30 per cent in 1986–87. This increase reflected the increasing proportion of capital

CHART 1.4
Commonwealth Grants Received/NFGDP



Source: ABS unpublished data and Treasury data.

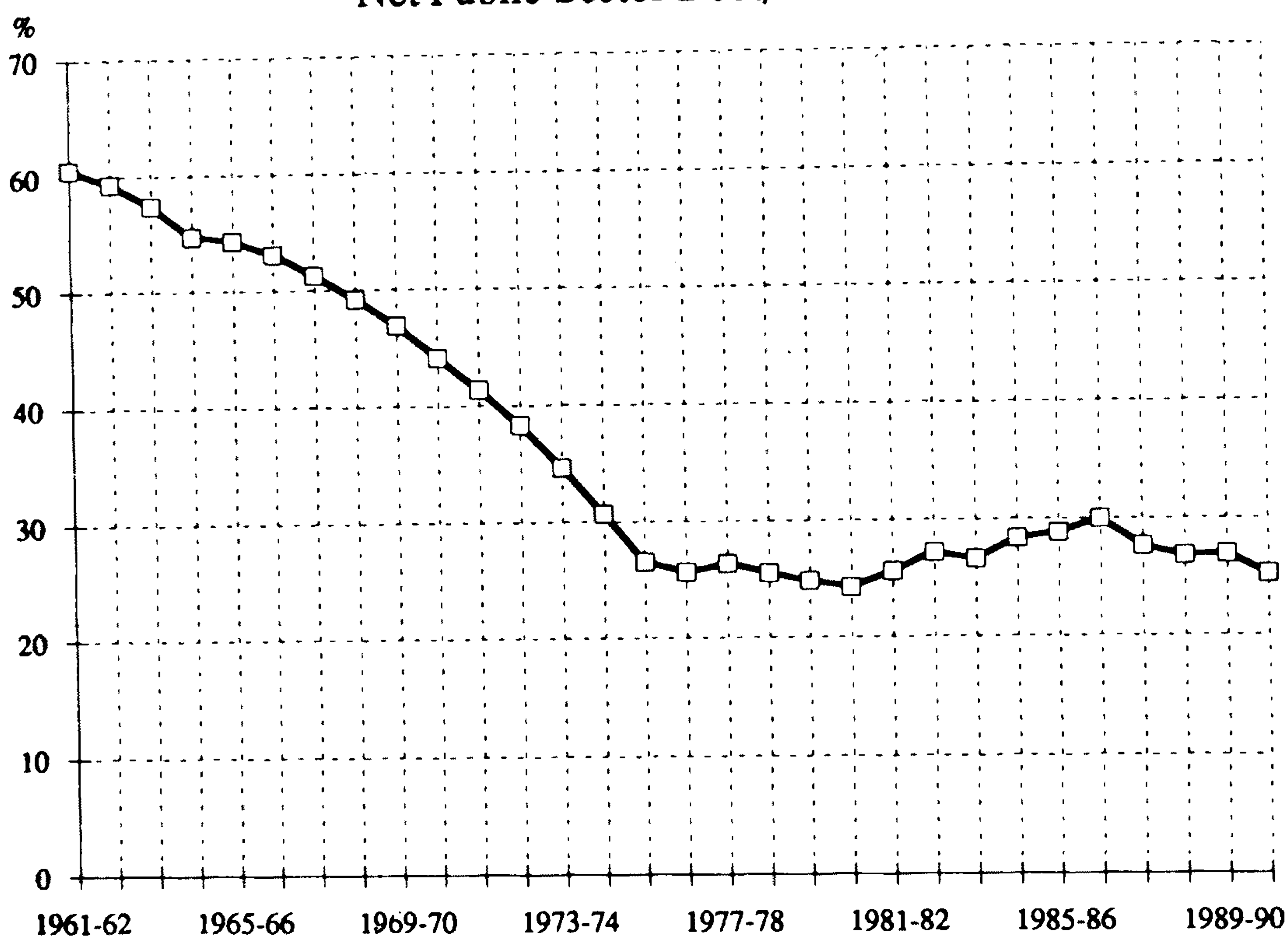
CHART 1.5
Net Advances/NFGDP



Source: ABS unpublished data and Treasury data.

expenditure funded by borrowing, as Commonwealth capital grants declined as a source of funding. During more recent years, the real decline in capital outlays has been accompanied by a real decline in borrowing and the increasing use of receipts from asset sales in 1990–91. Borrowing has declined sharply and the impact of a net retirement of debt of $2·6 billion will combine to drive the ratio down to 25·2 per cent.

CHART 1.6
Net Public Sector Debt/NFGDP



Source: ABS unpublished data and Treasury data.

Performance of Public Authorities in Victoria

Considerable national attention is being focused on the performance of Government Business Enterprises (GBEs) and their contribution to the national economy.

Such attention reflects, in part, concerns regarding lower projections of demand, the limited availability of public capital for new investment, appropriate levels of pricing, the delivery of community services peripheral to core businesses, rising environmental standards and the rapidity of market and technological change that is shaping the operating environment of the GBEs in the late 1980s and into the 1990s.

The emergence of these national pressures has resulted in new challenges for Governments to establish guidelines to strengthen the business performance and efficiency of GBEs whilst ensuring that there is effective accountability, especially where service delivery is not subject to competitive disciplines.

Public Authority Guidelines

Victoria was the first State to systematically review and strengthen the public authority reporting framework in the 1980s. Since 1982–83, the Government has introduced policy guidelines for the operations of the major public authorities. These include economic and financial guidelines, financial asset and liability management, accounting and reporting guidelines, non financial performance indicators and investment evaluation guidelines. In addition, there is an ongoing major program of tariff review to align pricing structures more closely to the costs of supply. At the heart of these policies is the notion that authorities should aim to achieve a target rate of return on assets and a return to equity holders via a dividend payment.

It is now five years since the introduction of Rate of Return Reporting for the State's major public authorities. The Annual Reports of the State Electricity Commission (SEC), Gas and Fuel Corporation (GFC), Board of Works (BW), Port of Melbourne Authority (PMA), and Grain Elevators Board (GEB), all carry audited Rate of Return Reporting statements which show the financial return on the written down current value of assets and the return on public equity. These statements eliminate the substantial distortions in measuring the rate of return in historic cost terms on relatively long lived assets. These measures have been supplemented by a wide range of non-financial performance indicators which are included in the authorities' Annual Reports. The Rate of Return guidelines require each of the major authorities to establish cost and price conditions consistent with the achievement of a target Real Rate of Return (currently 4 per cent) on the current value of assets, after covering all operating costs including current cost depreciation but before finance charges.

These guidelines have provided a stable long term basis for pricing, despite considerable variation in the level of internal funding and cash flow associated with major new investment by the authorities.

Assets of an authority which provide community services (such as parklands held by the Board of Works) are excluded from the public authority asset base for pricing and dividend purposes.

A determination of the Public Authority Dividend (PAD) payable by each authority is made subject to a ceiling equal to 5 per cent of the real value of public equity in the authority. Factors such as the nature and flexibility of the authority's capital program, trends in the debt/equity ratio and internal funds are also considered in determining the levels of PAD payable by the authority.

Public Authority Financial Performance

The strong performance of the State's major public authorities over the past five years should be noted. As set down in Table 1.3, the three major authorities have all achieved a real rate of return of more than 4 per cent on the written down current value of their assets in the period after 1986–87. Concerns have been raised by some commentators about the appropriateness of 4 per cent as a target for pricing purposes during periods of high real interest rates. This target recognises that asset lives are relatively long by private sector standards (up to 100 years in the water industry or 30 years for the power industry) and that the business risks of the authorities are relatively low reflecting the supply of services to a wide cross section of the State's economy.

TABLE 1.3

REAL RATES OF RETURN ON ASSETS
(per cent)

	1985–86	*1986–87*	*1987–88*	*1988–89*	*1989–90 (Prelim.)*
SEC	4·6	6·3	5·5	5·2	5·4
GFC	5·9	6·0	10·2[(a)]	6·5	6·0
BW	2·6	3·3	4·5	4·5	4·1
PMA[(b)]	2·7	−4·2	−0·6	1·9	2·8
GEB[(c)]	−1·0	1·4	−1·5	−19·0[(d)]	n.a.

(*a*) Includes accounting policy change. Result before change was 4·9%.
(*b*) Includes Port of Melbourne operations and World Trade Centre only.
(*c*) Financial year is from 1 October to 30 September.
(*d*) Includes accounting policy change. Result before change was −0·4%.
Source: Annual Reports for years to 1988–89. Agency data for 1989–90.

Table 1.4 shows that, in addition to the achievement of real rates of return over 4 per cent, the authorities have been able to deliver a significant benefit to industry and the community through substantial real price declines in recent years.

TABLE 1.4

AVERAGE PUBLISHED TARIFF INCREASES
(per cent)

	1985–86	*1986–87*	*1987–88*	*1988–89*	*1989–90 (Prelim.)*
Nominal					
SEC	5·0	6·2	4·4	2·7	4·5
GFC	5·4	6·9	4·8	3·9	5·0
BW	6·6	7·0	5·5	5·9	5·6
CPI[(a)]	8·5	9·4	7·3	6·8	8·4
Inflation Adjusted					
SEC	−3·2	−2·9	−2·7	−3·8	−3·6
GFC	−2·9	−2·3	−2·3	−2·7	−3·1
BW	−1·8	−2·2	−1·7	−0·8	−2·6

(*a*) Per cent increase in Melbourne CPI Index.
Source: Agency data.

Table 1.5 shows dividend payments by the authorities. It should be noted that 8 per cent of the dividend payments of the SEC, GFC, BW and Portland Smelter Unit Trust (PSUT) is payable to the VET Trustee.

Major productivity growth over recent years via measures such as structural efficiency reviews have strengthened the performance of the major authorities. In the period between 1984–85 and 1989–90, for example, SEC employee productivity (GWH sold per employee) increased by more than 64 per cent, while real prices for electricity have fallen by over 15 per cent. In the same period Board of Works employee productivity (employees per 1000 rated properties) has improved by 25 per cent, while real prices for water and sewerage services have fallen 8·8 per cent.

TABLE 1.5

DIVIDEND PAYMENTS

($ million)

	1987-88	1988-89	1989-80 Est. Actual	1990-91 Budget Estimate	1990-91 VET Prospectus
Consolidated Fund and VET					
SEC	94·5	100·0	116·0	120·0	120·0
GFC	51·6	50·5	56·8	67·7[a]	50·6
BW	77·0	85·0	92·0	114·2	70·0
PSUT	0	18·6	66·0	4·0	54·4
TOTAL	223·1	254·1	330·8	305·9	295·0
Consolidated Fund					
PMA	0	0	0	10·0	n.a.
GEB	2·5	2·5	0	0	n.a.

n.a.—not applicable.
(a) Includes $0·3 million of Preference Share Dividends which are not subject to VET.

These results caution against simplistic conclusions that the record of the authorities in delivering real price declines over a sustained period has been by excessive reliance on external funding and high financial exposures. Over the same period, interest cover and internal funding ratios have shown modest improvement. The need to continue to closely manage and control the financial exposures of the public authorities is well recognised. This includes debt management strategies and longer term strategies involving demand side measures to improve end use efficiencies and to defer new investment in supply capacity. The decision of the SEC to take no global borrowing allocation in 1990–91 is a clear indication of the Commission's intention in this regard.

Public Authority Performance in 1989–90

State Electricity Commission

Provisional results for the SEC in 1989–90 show a Real Rate of Return on assets of 5·4 per cent and continuing real price reductions.

Structural efficiency reforms had a major impact on SEC performance, with a 17 per cent reduction in full-time personnel during 1989–90. This resulted in significant savings in 1989–90 and in 1990–91 these savings are estimated at around $50 million. In 1989–90, structural efficiency reforms contributed to SEC estimated operating expenditure, excluding finance charges and depreciation, rising less than 3·0 per cent. Greater emphasis will be placed on multi-skilling and increased use of performance based remuneration and contract labour in 1990–91.

The proportion of capital expenditure funded from internal sources grew from 36·8 per cent to 40·2 per cent, with further increases budgeted for 1990–91.

The SEC has continued with its major commercial thrust which involves the operations being divided into three core Strategic Business Units (subsidiaries) of Generation, Transmission and Customer Services supported by market based transfer pricing.

In recognition of the substantial opportunities to promote higher end-use efficiency and to defer new power station construction in the longer term, an amount of $55 million has been committed over the next three years to implement Demand Management pilot programs and market research.

Board of Works

During 1989–90 the Board again achieved a provisional Real Rate of Return greater than 4 per cent while delivering a real reduction in consumer prices. Improved labour productivity was achieved together with a fall in the debt/equity ratio from 69 per cent to 64 per cent, representing reduced reliance on debt financing.

The Board revised its business plan "Framework for the Future" during 1989–90, reaffirmed the key components of its 1988–89 strategy (customer service, commercialisation and employee development) and added the new component of environmental management. This represents a significant commitment to public accountability for financial performance through the setting of comprehensive business targets against which future performance can be publicly assessed.

Business commitments include a minimum 4 per cent productivity improvement per year for the period to 1993–94, absorbing expected growth in serviced properties of 2 per cent per annum with a further 2 per cent annual reduction in operating expenditure. Key internal support functions are to be reconstituted on a business centre basis, charging a fee for service. Employment is expected to fall by about 300 persons per year up to 1993–94.

The Board's goal of improved environmental management includes commitments to review procedures for the management of environmental impacts relating to all phases of the Board's asset creation program and operations, to review the Port Phillip Bay program, and to develop a sewerage and urban drainage strategy for the Plenty Corridor.

Gas and Fuel Corporation

The GFC achieved a provisional real rate of return of 6·0 per cent in 1989–90. The average GFC tariff increase for 1989–90 of 5 per cent was more than three percentage points below the increase in the CPI for the year, delivering significant benefits to consumers.

There was strong revenue growth during 1989–90 attributable to colder weather conditions.

The Corporation's Business Goals and Strategies document outlines priorities for the years up to 1993–94 and emphasises a commitment to stimulating market growth, improving levels of customer service and diversifying gas supply into non traditional areas.

Actions designed to promote usage of natural gas have the direct benefit of contributing to the Government's greenhouse reduction goals. Accordingly, prospects for natural gas in the transport sector are being actively promoted. The Corporation has also released a discussion paper on Gas Demand Management, which outlines key areas of cost effective savings to be developed.

Other Authorities

Based on 1989–90 performance, the Portland Smelter Unit Trust is expected to pay a dividend of $4 million to the Treasurer in 1990–91, of which $0·3 million will be paid to VET. The sharp decline in PSUT earnings in 1989–90 reflected a 30 per cent fall in international aluminium prices from an average of $US2300 per tonne in 1988–89 to $US1600 per tonne in 1989–90.

The Port of Melbourne Authority (PMA) experienced buoyant trading conditions throughout most of 1989–90 and the introduction of a number of efficiency measures. The preliminary Real Rate of Return for 1989–90 is 2·8 per cent, representing a significant improvement over earlier years of -0·6 per cent for 1987–88 and 1·9 per cent for 1988–90.

The PMA devotes significant resources to long term port planning to ensure adequate facilities and service provision. Pricing policies have been reviewed and new tariffs are being implemented which more closely reflect costs. The PMA is playing an active role in assisting waterfront restructuring.

Profitability of the Grain Elevators Board (GEB) has declined in recent years, mainly due to reduced throughput. The reduced throughput reflects significant changes in wheat marketing and grower diversification away from cereal cropping. Accordingly, the GEB has been exempted from paying a Public Authority Dividend in 1989–90 and 1990–91. This exemption will allow the GEB to repay debt, thereby strengthening its capital and improving future profitability through reduced interest costs.

Public Financial Enterprises' Recent Performance

WorkCare

As a result of administrative and legislative changes over the last eighteen months, the WorkCare Scheme achieved a significant improvement in performance during 1989–90. Claims reported for the year ended June 1990 were 79 597, a reduction of 8·9 per cent on the previous year despite a year on year growth in Victorian employment of 4·1 per cent. WorkCare long term claims (that is, those of more than 12 months duration) also recorded a net reduction during the year despite a further 12 months of claims experience.

Provisional figures indicate that the WorkCare Scheme has improved its funding position (the ratio of assets to outstanding liabilities) from 12 per cent at June 1989 to 29 per cent at June 1990 with the estimate of unfunded liabilities reducing from $4·2 million to $2·4 million over the same period.

The Accident Compensation Commission completed the year with a cash surplus of $390 million and an operating surplus of $431 million, compared to $53 million and $46 million respectively in the previous year. Over the twelve months, the surplus of total assets and investments over liabilities, excluding outstanding claims liability, improved from $820 million to approximately $1 240 million. The scheme is now in a healthy positive cash flow position.

Transport Accident Commission

The Government inherited an unsatisfactory third party insurance system. While separate balance sheets for the system were not available until 1987, it is estimated that the system had experienced unfunded liabilities since at least 1979. The unfunded liability continued to deteriorate in the early years of this Government. Prior to reforming the third party insurance system in January 1987, the Government faced an unfunded liability of $1038 million.

The Government reduced this liability to $721 million as at June 1989 and the 1989–90 results are expected to show a further dramatic reduction in this liability since that time.

This yields a ratio of assets to liabilities of 94 per cent and indicates that the Commission should achieve full funding this financial year, some six years ahead of target. Strong asset growth has been evident, with the value of assets increasing from $1·3 billion in January 1987 to $2·5 billion today.

The significant improvement in the Transport Accident Commission's balance sheet is due to cost containment in claims and outstanding investment performance. The stock of old common law claims fell by 50 per cent last year to 11 500 and was substantially lower than the 50 000 claims in existence when the scheme commenced. Further, the rate of claims lodgements in the new scheme is less than 20 000 per annum, compared with 22 000 in the preceding years. An important factor in this decline has been the Commission's successful advertising campaign against drink driving and speeding.

The Commission's investment performance reflects its conservative long-term investment strategy which focuses on asset allocation and employs specialist fund managers to manage the asset classes in the portfolio. By 30 June 1990, investments totalled $2·5 billion, a growth of $1·3 billion since the scheme commenced in January 1987. The Commission is one of the largest institutional investment funds in Australia and achieved a return for the year of 14·7 per cent before fees. This was 28 per cent higher than the 11·5 per cent return achieved by leading pooled superannuation funds. For the three years to June this year, the Transport Accident Commission's investment earnings averaged around 9 per cent per annum, placing the Commission in the top quartile of investors.

As a result of this strong performance, premium increases have been significantly less than CPI. For example, the owner of a private registered vehicle pays $61 less in premium than would have applied if premiums had increased in line with inflation.

Rural Finance Corporation

The Rural Finance Corporation has just concluded a financially successful year, with a lending program for 1989–90 of $57 million, of which over $51 million was to the rural sector. Special attention was given to improving the productivity of grain growers with proven ability, in addition to catering for emergencies in Sunraysia and East Gippsland.

The Corporation's accounts for 1989–90 are being audited and indicate a substantial profit in the region of $25 million. This is the result of significantly higher than budgeted interest and principal recoveries of doubtful debt on the development finance portfolio. As a result, net assets are expected to be $208·8 million, compared with a budget figure of $184·6 million.

This result will further increase the Corporation's capital and its financial strength and allow the Corporation to meet the calls upon it this financial year from an enhanced base. The overall lending program for this year is $82 million, a target which can be reviewed upwards should circumstances so require, particularly for finance to rural and provincial Victoria.

Commonwealth-State Financial Relations

The Australian Federation is based on revenue sharing between the Commonwealth and the States, arising from the ceding of taxation powers by the States to the Commonwealth during the Second World War. In 1983–84 Victoria received 8·9 per cent of Commonwealth revenue by way of recurrent and capital grants and net advances. By 1990–91 this had fallen to 6·2 per cent. If Victoria had received the same proportion in 1990–91, its funds from the Commonwealth would have been $2 729 million higher than was actually the case. This is a measure of Victoria's contribution to national economic restraint and of the pressure from the Commonwealth on Victoria's budgetary situation. It is roughly equivalent to the total State spending on health, including hospitals.

The last five years have seen probably the most sustained reduction in Commonwealth financial support for the States in the history of Federation. The most important area has been in Commonwealth recurrent grants to the States. Commonwealth recurrent grants to Victoria averaged 5·6 per cent of Commonwealth revenue between 1974–75 and 1983–84 and, in 1983–84 were at that average level. Over the next seven years this share fell by 1·5 percentage points to 4·1 per cent in 1990–91. If the 1984–85 proportion had remained effective in 1990–91, recurrent grants from the Commonwealth to Victoria would have been $1 104 million higher in 1990–91 than was actually the case. This is equivalent to about 16 per cent of all recurrent revenue for Victoria in 1990–91.

On the capital side, both capital grants and advances provided through the Commonwealth Budget and permitted public sector borrowings under the global limit arrangements have been slashed over the past six years. If capital funds provided to the States had been the same proportion of Commonwealth revenues in 1990–91 as 1983–84, total funds would have been approximately $1015 million higher. The long term decline in support by the Commonwealth for State capital works is most marked in net advances from the Commonwealth to the States. As shown in Chart 1·5, net advances from the Commonwealth in 1975–76 amounted to nearly 1·5 per cent of GDP (about the same proportion of GDP as Victoria's total capital outlays in 1989–90), but they have fallen dramatically since then to the situation in which Victoria became a net repayer of advances to the Commonwealth to the tune of $83 million in 1989–90. These repayments are estimated to be $312 million for 1990–91.

While the Victorian Government accepts the need for fiscal constraint, it believes that it has made a significant contribution to that constraint. This is true for the States more generally. Commonwealth own purpose outlays in 1990–91 are projected to grow much faster than Commonwealth payments to the States and Territories, the figures being 8·6 per cent and 3·8 per cent respectively.

Since the introduction of uniform income taxation legislation, the Commonwealth government has become dominant in Australia's fiscal system, raising 80 per cent of total taxation revenue in the country. The States and the local government authorities have been restricted to a number of relatively narrowly-based taxes which do not rank highly on the criteria of efficiency and equity, yet they are responsible for over half of public sector outlays. This situation has created a high degree of vertical fiscal imbalance, which necessitates substantial Commonwealth payments to the other governments in Australia every year.

The cuts in Commonwealth payments in recent years were accompanied by the discontinuation, after 1985–86, of the intergovernmental agreements under which general revenue grants to the States were determined under longer-term agreements covering three to five years, in order to provide a degree of certainty and predictability. Under each of these agreements the level of general revenue grants in the following three or five years was linked to either the growth in Commonwealth taxation revenue, or to a formula that guaranteed a specified rate of growth in the grants. In 1985–86, however, these payments were set at the same level in real terms as in 1984–85. This decision was a part of the three year agreement which guaranteed 2 per cent real growth in each of the following two years. In 1987–88, however, the Commonwealth abandoned its legislated obligation to this agreement, and fixed the level of these grants at zero real increase over the previous year. Since then, the level of these grants has been determined by the Commonwealth on a yearly basis.

In its 1990 Premiers Conference/Loan Council "offer document" the Commonwealth Government indicated that it was prepared to maintain general revenue grants to the States and Territories in real terms for the three years 1991–92 to 1993–94, provided that there was no "major deterioration" in Australia's economic circumstances.

Such a commitment is clearly very important in providing greater certainty for the States and Territories in their budget planning. It is to be hoped that the commitment given above is more binding than that embraced in the agreement referred to above.

As net Commonwealth payments declined, the States' reliance on their own taxes and charges has increased in order to finance a given level of outlays. There has been no significant extension in the revenue sources available to the States during this period, with the result that a significantly higher proportion of the States' total receipts are now raised from the limited, and generally narrow-based taxes and charges. Thus, as against some 43 per cent of total receipts of the States in 1983–84, nearly 52 per cent was raised from their own taxes and charges in 1988–89. Given the relatively regressive and inefficient nature of State tax systems, this trend should be a matter of concern on tax incidence grounds.

One significant and valuable change to the Commonwealth/State and Territory taxation mix was reflected in the announcement by the Prime Minister that the Commonwealth had decided to relinquish debits taxation. The States and Territories had proposed this prior to the Premiers' Conference and Loan Council meetings, on the basis that taxation of financial transactions through measures such as the financial institutions duty (FID) which all States and Territories except

Queensland apply, was a relatively efficient area of State taxation and one which would best be left to them.

Unfortunately, the Government did not accept the argument at that time, but subsequently, and unilaterally, did so post Premiers' Conference and Loan Council and deducted from the financial assistance grants determined at those meetings the equivalent of the amount which it raised previously from the debits tax. The States have indicated to the Commonwealth the difficulty which this decision creates, not in principle but in practice, and will be seeking deferral of implementation to 1991–92. If this can not be achieved, the States and Territories will have to consider introduction of their own interim debits tax legislation for 1990–91. The Commonwealth has indicated that it would be prepared to act as a collection agent for the States and Territories in this regard. This outcome would clearly be a very inefficient one, but alternative adjustments, say to the FID rate, are difficult in the short term given that Victoria, NSW and the ACT had already agreed to similar changes and NSW is reluctant to increase the rate further unless Queensland decides to introduce FID itself.

The combined pool of general revenue grants and hospital funding grants, which together constitute nearly two-thirds of total net payments to the States, is distributed according to the assessments of the Commonwealth Grants Commission. The Commission's assessments are aimed at achieving fiscal equalisation among the States so that each State is able to provide a comparable range and level of services without having to impose a substantially different level of taxes and charges. On the basis of the Grants Commission's assessments, the two most populous States, New South Wales and Victoria, receive considerably less than their equal per capita shares of these grants, while the other States receive more. In 1990–91, $1 544 million will be redistributed from the two larger States to the other States and the Northern Territory through this mechanism.

The Commonwealth Grants Commission is now required to update the per capita relativities every year on the basis of a moving average of the budgetary data for the latest five years, whilst a major review, including possible revisions to the underlying methodology, is to be undertaken every five years from 1988.

There are two issues relating to fiscal equalisation in Australia that have not yet been properly examined. These are outlined below.

Fiscal Equalisation and Equity

The Australian version of fiscal equalisation is aimed at equity among the State governments; more specifically, at their relative ability to provide services to their citizens. While the equalisation entitlements for each State are calculated by the Commission after a detailed comparison of some 30 different sources of State revenue and some 74 different expenditure items, the general revenue grants—which include these entitlements—may be spent in any manner by the recipient governments. In other words, there is no direct link at all between the equalisation payments to the governments and their utilisation for interpersonal equity across the State boundaries. In this context, the precise link between fiscal equalisation and equity is unclear. Equalisation of fiscal capacities between governments has no basis in public finance literature. Interpersonal equity is not a concern of the

Commission. This issue has been raised by some of the States in the past but has not been subject to a detailed examination by the Commission.

Fiscal Equalisation and Allocative Efficiency

The issue of a possible conflict between fiscal equalisation and allocative efficiency has been raised both as part of the Commission's recent reviews and outside them. In recent reviews of relativities, Victoria, New South Wales and the Commonwealth Treasury have argued that certain aspects of the methodology of fiscal equalisation may cause a loss of allocative efficiency. The smaller States, and the Commission, have either denied the existence of such a conflict or argued that the conflict is unlikely to be significant.

Victoria, New South Wales and the Commonwealth Treasury have argued that equalisation in respect of location-based factors would lead to losses of efficiency as it would create an inequality between the marginal social benefits and the marginal social costs of State expenditures.

Clearly, both these issues strike at the foundation of fiscal equalisation as it is applied in Australia. That is precisely why these issues require an exhaustive and critical examination, not only by the parties directly involved in the equalisation process, but by all who are concerned about economic efficiency and equity in Australia.

TABLE 1.6

STATE AND COMMONWEALTH PUBLIC SECTOR GROWTH RATES 1983–84 TO 1989–90

(per cent Increase [a])

	Outlays	*Revenue*
Commonwealth	12·2[b]	32·5
Other States	10·0	20·5
Victoria	2·4	13·7

Source: ABS, *Government Financial Estimates, Australia 1989–90* (Re-issue), Catalogue No. 5501·0.
(*a*) Deflated by the Australian NFGDP implicit price deflator.
(*b*) Total Current and Capital Outlays less grants and net advances to State and Local Governments.

Victoria's Fiscal Performance During the 1980s Relative to Other States and the Commonwealth

The last eight years have seen unprecedented restraint in public sector spending in Victoria and sharp increases in public sector productivity.

Victoria has, for the past six years, exercised substantially greater restraint in outlays than either the Commonwealth or other States in total. As shown in Table 1.6 real public sector outlays in Victoria over the six year period, have grown by only 2·4 per cent in total, by comparison with 12·2 per cent and 10·0 per cent for the Commonwealth and for other States respectively. (Real outlays are defined here as total outlays deflated by the non-farm GDP deflator).

A major contributing factor to restraint in Victoria's public sector outlays was the slowing in investment in electricity after a peak in the early 1980s. Developments in the general government sector, as shown in Table 1.7, were similar.

As at 1989–90, Victoria has by far the lowest share of outlays in gross State product of any State. This means that the Victorian public sector is spending a smaller proportion of State GDP on services to the community and on new investment than other States. Whereas the Victorian share of outlays to State non-farm GDP was 16·2 per cent in 1983–84, it had fallen to 13·2 per cent in 1989–90 and, on present trends, will reach 12 per cent by 1992–93. The ratio of outlays to State GDP for the other States in total has been consistently well above that for Victoria and has been broadly stable rather than declining over the last two years.

Reflecting deliberate Government policy, public sector revenue has grown much more slowly in Victoria than in either the Commonwealth or the other States in total. Indeed, the figures here are dramatic, with real Victorian revenue growing by only 13·7 per cent over the six year period, while real revenue growth for the Commonwealth was 32·5 per cent and for the other States 20·5 per cent.

Thus the last six years have been a period of unprecedented restraint in Victoria, with tighter control of outlays in this State than in the case of other comparable Governments in Australia. Given the continuing growth in the population and in the demands by the community for public sector services, this restraint has been a major achievement.

TABLE 1.7

GENERAL GOVERNMENT SECTOR GROWTH RATES 1983–84 TO 1989–90

(per cent Increase [(a)])

	Own Purpose Outlays	*Revenue and Grants*
Commonwealth	9·5	29·7
Other States	18·8	16·9
Victoria	12·0	8·5

Source: ABS, *Government Financial Estimates, Australia 1989–90* (Re-issue), Catalogue No. 5501·0.
(*a*) Deflated by the Australian NFGDP implicit price deflator.

Efficiency Gains in the Budget Sector

The demands for services delivered by major budget sector agencies within Victoria have continued to increase (see Table 1.8). Some performance measures are given below:

—Passenger journeys on V-Line increased by 20 per cent, while freight carried, excluding grain, increased by 7·0 per cent.

—The number of inpatients treated in public hospitals rose in each year between 1986–87 and 1989–90 while the total number of staff employed within the public hospital system rose at a significantly lower rate of growth.

—The number of inpatients treated increased by more than 2·5 per cent while the total number of staff employed increased by less than 0·5 per cent.

—During 1989–90, for the second year in succession, the number of children enrolled in Government primary schools increased, reversing the trend of earlier years. While the total number of secondary enrolments within Government schools continued to fall, the number enrolled in the more resource intensive upper levels of Government schools continued to increase, lifting the apparent retention rate from year 7 to Year 12 within the Government system to 63 per cent in 1990, a marked improvement from 36 per cent in 1984. Between 1984 and 1989, the average class size in Government primary schools declined from 25·5 students to 23·9 students; over the same period the average size of an English class in Government High Schools declined from 22·2 students to 21·3 students.

These changes occurred against a background of an annual average decline of over 3 per cent in expenditure, expressed in constant dollars, and an average annual decline of over 1 per cent in the total number of staff employed within Government schools during the period 1984–85 to 1989–90.

—Within the TAFE system the total number of enrolments again increased during 1989–90. Over the period 1984–85 to 1989–90 the number of full time enrolments within the vocational streams of TAFE has risen by an annual average of more than 38 per cent while estimated expenditure, expressed in constant dollars, has increased by an annual average of less than 3 per cent. The number of staff employed, expressed in effective full time equivalents, has increased by less than 2·5 per cent per annum on average. A significant contribution to the improvement in productivity within TAFE was the agreement with TAFE teaching staff, negotiated in 1988, which increased the number of teaching hours.

—The number of passenger journeys during 1989–90 is not available. Prior to that, between 1984–85 and 1988–89 there was a trend for output within the Met system, as expressed in passenger journeys, to rise faster than staff numbers. The marked improvement in productivity within the passenger section of V-Line continued during 1989–90.

Use of Commonwealth Grants Commission Data

In recent months some commentators have claimed that the figures provided in the 1990 report of the Commonwealth Grants Commission show that Victoria's per capita expenditure in 1988–89 (the latest year to which these figures relate) is the highest among the States, and that a reduction of $1·0 billion could be made to maintain Victoria's parity with the other States.

TABLE 1.8

BUDGET SECTOR OUTPUT INDICATORS

	1985–86	*1989–90*	*% Change*
Public Hospitals			
Inpatients treated (thousand patients)	530·4	630·0	18·8
Public Transport			
Passenger journeys (million journeys)			
Metropolitan	287·0	n.a.	n.a.
Country	5·0	6·0	20·0
Freight carried (million tonnes, excluding grain)	7·1	7·6	7·0
Government Schools			
Primary enrolments (thousand)[(a)]	296·7	296·6	−0·03
Post primary and special education enrolments (thousand)[(a)]	249·0	228·3	−8·3
TAFE			
Teaching hours in vocational training streams (millions)[(b)]	29·6	41·9	41·6

(*a*) School enrolmenents as at February 1986 and February 1990.
(*b*) TAFE contact (teaching) hours relate to Calendar 1985 and Calendar 1989.

As the following set of figures from the Commission's same report show, these claims are misleading. In 1988–89, Victoria's per capita expenditure was $2304, the third lowest among all States; only New South Wales and Queensland had lower per capita expenditure levels.

	NSW	VIC	QLD	WA	SA	TAS	NT	AV
Per Capita Recurrent Expenditure ($)	2 127	2 304	1 747	2 432	2 316	2 318	5 462	2 192
Ranking	6	5	7	2	4	3	1	

However, the use of Commonwealth Grants Commission figures for such interstate comparisons is inappropriate as the Commission's figures cover only that part of each State's public sector to which fiscal equalisation is currently applied. Thus it excludes all capital expenditure, and recurrent expenditure on housing, roads and local government. Furthermore, the Commission makes some arbitrary judgements to include certain Government business undertakings and to exclude others. Consequently the Commission's figures do not comprehensively cover all State outlays and are not suitable for reliable comparisons.

In addition the Grants Commission differs from the ABS in its approach to classifications of transactions. An important example relates to the public authority dividends which are classified by the Australian Bureau of Statistics (ABS) as dividends rather than taxation but by the Grants Commission as taxes. Following the ABS definition of taxes, Grants Commission figures show that in 1988–89, Victoria's per capita taxation revenue was $898 which was the second highest level amongst the States behind New South Wales at $977.

Victoria's Economic Performance

Table 1.9 sets out some key indicators of the economic performance of Victoria and the rest of Australia during the 1970s and 1980s.

In Victoria during the 1970s, total business investment grew by 0·3 per cent in real terms per annum, exports grew by only 1 per cent and the total growth of employment was 1·6 per cent. By the end of 1980–81 the unemployment rate stood at 5·8 per cent. Economic performance during this decade was not strong elsewhere in Australia either, but Victoria's relative performance was poor on all these counts.

TABLE 1.9

KEY ECONOMIC INDICATORS

	1970–71 to 1980–81(a)		1980–81 to 1990–91	
	Victoria	Rest of Australia	Victoria	Rest of Australia
	% change, 1984–85 prices			
Private Business Investment	0·3	3·0	10·9	3·8
Exports	1·0	4·0	4·5	6·1
Gross Non-Farm Product	2·8	3·4	2·7	3·3
Real Disposable Income	3·1	3·7	2·6	2·7
	% change			
Employment	1·6	1·8	2·1	2·2
	% of labour force			
Unemployment	5·8	5·8	5·8	7·1

(*a*) Figures shown for this period are average annual percentages.
Source: Australian Bureau of Statistics, and Treasury estimates

During the 1980s there was a significant improvement in Victoria's economic performance. Over this period the annual average real rate of growth in Victorian real business investment was 10·9 per cent and in exports was 4·5 per cent. This has meant a startling change in the distribution of investment between sectors. The public sector share has almost halved from 27 per cent in 1982–83 to an estimated 15 per cent in 1990–91.

The large increase in business investment, particularly since 1982–83, has induced a strong sustained upturn in equipment production and construction sector activity. Manufacturing output, overall, increased broadly in line with GDP. The provision of both financial and business services also expanded strongly. Increases in the output of the mining sector have contributed significantly to growth in some States but not in Victoria. An offsetting influence on Victoria's GDP growth has been that crude oil production in Bass Strait, which accounts for most of Victoria's mining output, has declined some 30 per cent since 1984–85.

Employment growth strengthened during the 1980s. Since the 1982–83 recession, employment has increased by about 22 per cent or 390 000 persons and, by December 1989, unemployment had fallen to 4·5 per cent, less than half its 1982–83 level. Real disposable household income a broad measure of living standards, rose 2·6 per cent per annum during the 1980s in Victoria, similar to the increase in the rest of Australia. In the 1970s, real income grew more slowly in Victoria than in the rest of Australia.

The extent of the slowing in economic activity in Victoria over the past year has been similar to that in the rest of Australia. Employment growth in Victoria has matched that in the rest of the country over the past six months and Victoria's unemployment rate remains below that of the other States. Growth in GDP in Victoria last year was similar to growth in the rest of Australia and is forecast to be only slightly weaker this year.

At the beginning of the 1990s, Victoria is well placed to meet the very real challenges of this decade. The correction of Australia's external imbalance will require strong growth in exports to be maintained over the medium term as well as appropriate restraint in the expansion of domestic demand. The Victorian economy, with its broadly based manufacturing and service sectors, is well placed to contribute to export growth and diversification.

CONCLUSION

The 1990–91 Budget includes a range of revenue increasing measures, a moderate growth in outlays with a real decline in current outlays in particular, and reduces budget sector financing transactions significantly relative to 1989–90.

The constraint in borrowings and a very substantial business asset sales program will mean that budget sector debt will decline in nominal dollars over the coming year. The debt level measured in constant prices and the share of debt to State NFGDP will both decline markedly.

The outlays reductions which are embraced in the Budget have been generated as a result of a substantial expenditure review process. This process will continue throughout the year to ensure that budgeted outcomes are achieved and to examine the scope for further outlays reductions, provided that these can be put into place consistent with achievement of the Government's economic, social and conservation objectives. Given the extent of productivity improvements which have been made in the budget sector over recent years, the expenditure review process will be examining the extent to which some services currently provided in the budget sector might be dropped so that scarce resources cannot be directed towards the provision of goods and services which most warrant public provision.

For the public sector as a whole, financing transactions are also to be reduced.

While the economy is projected to slow over the short term there is no reason to assume that it cannot regain its strength over the medium to longer term, especially given the measures that the Government has put in place in its 1990–91 Budget to strengthen the current account of the budget over the longer term and to address its short term financial problems.