

VICTORIA

First Report

of the

AUDITOR-GENERAL

for the year ended 30 June 1985

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PART 1

BACKGROUND INFORMATION

1.1 **FORMAT OF REPORTS TO PARLIAMENT**

- 1.1.1 I intend to present to Parliament reports in respect of 1984-85 as indicated below. I may also present special reports on other matters as the occasion demands.
- 1.1.2 This First Report, accompanying the Treasurer's Statement for the year ended 30 June 1985 contains my report on that Statement as required by section 47 of the Audit Act 1958. It also contains comments on certain matters of special interest concerning the financial operations of State Government organisations.
- 1.1.3 A Second Report will be presented to Parliament early in 1986. It will contain audit observations and recommendations arising out of the audit of departments (administrative units) and public bodies.
- 1.1.4 This represents a change from previous years. The information contained in the Second Report was previously reported in up to 3 separate reports tabled during the period October to April. This change will enable Parliament to receive information from me in a consolidated form, and will also allow Parliamentary Committee consideration of the Report during the winter recess of Parliament. The inclusion of more matters of special interest in the First Report will also enable earlier Parliamentary consideration of such matters than previously.
- 1.1.5 A separate report on the operations and audited financial statements of the Office of the Auditor-General will be transmitted to the Premier for presentation to Parliament in accordance with the Annual Reporting Act 1983.

1.2 **ROLE AND FUNCTIONS OF THE AUDITOR-GENERAL**

General

- 1.2.1 The method of appointment, tenure, duties, responsibilities and powers of the Auditor-General are provided for mainly in the Audit Act 1958, with other provisions affecting the role and functions being contained in the Constitution Act 1975, the Public Account Act 1958 and the various enabling Acts establishing public bodies.
- 1.2.2 In Victoria, as in other places operating under the Westminster system of government, the Auditor-General is responsible for the external audit of the financial affairs and activities of government agencies, i.e., departments and most public bodies.
- 1.2.3 The primary objective of the Office of Auditor-General is to provide Parliament with the information it requires to oversee the financial operations of departments and public bodies. The Auditor-General therefore plays an important role in the accountability of the Executive to Parliament.

- 1.2.4 Under the Audit Act 1958 the Auditor-General has right of access to all relevant accounts, books and papers for the purposes of an audit.
- 1.2.5 The Auditor-General reports independently to Parliament on the results of audits undertaken by the Office. The Auditor-General is an office-holder under the Crown and is subject to removal only by resolution of both Houses of Parliament. The independence from control either by the Parliament or the Executive in the exercise of the functions is assured by very wide powers granted by statute. The staff of the Office of the Auditor-General, however, are employed under the provisions of the Public Service Act 1974.
- 1.2.6 The Auditor-General has no executive power to enforce improvements in financial management and procedures. It is the prerogative of Parliament and of the Executive to act on reports of the Auditor-General as they think fit.
- 1.2.7 The Auditor-General is not responsible for the audit of local government bodies, most companies established by public bodies, the State Bank and public hospitals.

Audit Objectives and Scope

- 1.2.8 To achieve the objective of providing Parliament with the information it needs to oversee the financial operations of government organisations, audits consisting of 3 components are undertaken by the Office, viz: attest, regularity and value for money.
- 1.2.9 Together, the 3 components of audit mentioned above comprise what is generally described as comprehensive auditing, involving the provision to Parliament of information necessary for it to assess the financial performance of government organisations in terms of fair presentation of financial statements, compliance with legal and other requirements, and maintaining in place adequate management systems to obtain economy, efficiency and effectiveness.
- 1.2.10 In an attest audit (sometimes referred to as a financial audit) the objective is the attestation of financial statements by expressing an audit opinion on the fairness of presentation of the financial statements. The role of audit in this case is to lend credibility to published annual financial statements.
- 1.2.11 In carrying out the attest audit the Auditor-General exercises functions similar to those of the external auditors of business organisations in the private sector.
- 1.2.12 However, consistent with the special reporting features of government auditing, the role of the Auditor-General in an attest audit embraces an additional external reporting component, namely, communication to Parliament on matters arising from the audit process. Information on such matters as significant weaknesses in controls within accounting systems and clear cases of waste or mis-management revealed during the attest audit is also reported to Parliament. As a by-product of this process the information is also reported separately to the management of the auditee organisation concerned.
- 1.2.13 The financial statements covered by this attest audit role are as follows:
- (1) in the inner Budget sector (covering the Public Account and departmental areas):

- the annual statement prepared by the Treasurer incorporating the transactions of the Consolidated Fund and the Trust Fund which cover the total financial transactions of the inner Budget sector;
- the annual financial statements prepared by each department under the Annual Reporting Act 1983.

(2) in the outer Budget sector (covering public bodies):

- the annual financial statements of outer Budget sector organisations as required by the legislation establishing such bodies or by the Annual Reporting Act 1983.

1.2.14 The regularity audit (sometimes referred to as a compliance audit) has the objective of reviewing the organisation's adherence to relevant financial legislation, regulations, directives and other rules of a binding nature and to inform Parliament of any departures from these requirements.

1.2.15 The value for money audit involves the review of the adequacy of management controls in providing full accountability for the operations of government organisations in terms of economy, efficiency and effectiveness. Emphasis is placed upon reviewing the adequacy of systems and procedures used to monitor and promote efficiency and to monitor effectiveness of operations.

1.2.16 One further activity of the Office is the provision of audit certificates to the Commonwealth Government concerning expenditure carried out by the State from funds provided by the Commonwealth.

1.3 ACKNOWLEDGMENT

1.3.1 I wish to record my appreciation of the assistance of the Government Printer in the preparation of this report.

PART 2

MATTERS OF SPECIAL INTEREST

2.1 ACCOUNTABILITY TO PARLIAMENT

2.1.1 In my previous reports to Parliament I have recognised the Government's commitment, in particular that of the Treasurer, to greater accountability to the Parliament on financial matters.

2.1.2 Responsibility and accountability by departments and public bodies to their Minister and through the Minister to Parliament on matters of financial administration were enhanced by the passing of the Annual Reporting Act 1983 and the promulgation of regulations relating to financial reporting by departments, and large trading and rating public bodies. The initiatives were complemented by the creation of a division in the Department of Management and Budget under the control of a Comptroller-General, the passing of the Administrative Arrangements Act 1983 and the introduction of new budgetary arrangements including program budgeting. These initiatives have placed Victoria in the forefront in public sector development of financial administration and management processes.

2.1.3 In my 4th Report for 1983-84 to the Parliament on 30 April 1985, I reported my concern regarding the breakdown in the accountability processes in respect of the establishment of subsidiary companies by Government departments and public bodies. My concerns arose from the significant level of public funds that may be involved in such companies and the deficiency in reporting on the use of such funds.

2.1.4 Similar views were also expressed by the Public Bodies Review Committee in its 3rd Report to the Parliament in 1981 on Audit and Reporting of Public Bodies. Under the heading, "The Problem - A Breakdown in Accountability", the Committee stated:

"The Westminster model of responsible government is based, among other things, on the assumption that there is a chain of accountability reaching from executive government through cabinet and parliament to the people.

The passage of comprehensible information, not least financial information, along this chain, is a requirement of its effective operation. A fundamental adjunct is a system of monitoring, including review and audit processes, designed to critically and independently assess and report on the executive activities to which the basic informational elements - the budget papers, annual reports, parliament questions and so on, relate."

2.1.5 It is therefore with regret that I find it necessary to make the following comments relating to 2 recent undertakings by the Government. These are the State's participation as from 31 July 1984 in a joint venture for the development of the Portland Aluminium Smelter and the formation of the Capital Works Authority by Order-in-Council on 28 May 1985.

2.1.6 The arrangements for the State's participation in the Portland Aluminium joint venture and the Order-in-Council creating the Capital Works Authority did not meet the criteria agreed by the Public Bodies Review Committee in that the accountability processes were circumvented by not having the operations of these 2 undertakings subject to the scrutiny of Parliament.

- 2.1.7 With respect to the State's participation in the Portland Aluminium Smelter, it is accepted that by reason of the commercial and competitive nature of the operation, certain information which would normally be expected from a Government activity would in this case generally be restricted. However, it should be noted that the shareholders of the other major joint venturer, Alcoa of Australia Ltd., will be provided with information relating to that company's investment and return on investment in the annual financial reports and statements of Alcoa of Australia Ltd. under the Companies Code. Further it is noted that the Trust Deed for the minor participant, First National Resource Trust, provides for audited financial statements to be forwarded to each unit holder within 3 months after the period ending on the last days of December and June each year.
- 2.1.8 I look forward to the necessary legislative action being taken to provide Parliament with regular financial information on the State's participation in the joint venture and for such information to be subject to the audit of the Auditor-General.
- 2.1.9 In the case of the Capital Works Authority this deficiency is to be remedied. The Treasurer has advised me that he has instructed the Authority to prepare an annual report on its operations which he proposes to table in Parliament, and that it is proposed that the Authority will be brought within the provisions of the Annual Reporting Act 1983. On 18 September 1985 the Treasurer requested me to undertake the audit of the Authority pursuant to section 3 of the Audit Act 1958.
- 2.1.10 Further details on these 2 undertakings follow.

Portland Aluminium Smelter

Introduction

- 2.1.11 In 1980 the Alcoa (Portland Aluminium Smelter) Act 1980 was passed. The Act ratified, approved and otherwise gave effect to an agreement between the Premier for and on behalf of the State of Victoria and Alcoa of Australia Ltd with respect to the establishment of an aluminium smelter at Portland in the State of Victoria and provided for the granting of certain other rights incidental to establishing and carrying on such a smelter and for other purposes.
- 2.1.12 The agreement was made on 2 September 1980 between the then Premier of Victoria and Alcoa of Australia Ltd. Subsequently, the principal Act was amended by the Port of Portland Authority Act 1981 and the Alcoa (Portland Aluminium Smelter) (Amendment) Act 1984.
- 2.1.13 On 1 August 1984 the Government issued a document titled, Economic Strategy for Victoria Statement No. 3, which gave an overview of the State's proposed participation in the undertaking.
- 2.1.14 On 31 July 1984 the Government entered into an agreement (Participants' Agreement) with Alcoa of Australia Ltd (Alcoa) to take a 25 per cent share of the Portland Aluminium Smelter Project. The Government has established a unit trust, Portland Smelter Unit Trust, to be the vehicle by which it takes an equity position in the project and has appointed Perpetual Executors Nominees Ltd. as trustee of the Trust.

2.1.15 A management company, Aluminium Smelters of Victoria Pty. Ltd., was incorporated to act as manager of the unit trust and to be responsible for the administration of the joint venture agreements on behalf of the Trust and for the financing of the Trust. The directors of the company are, in the main, government appointees from the Department of Management and Budget.

2.1.16 The following information has been obtained from the Economic Strategy for Victoria Statement No. 3 and from financial reports of organisations subject to my statutory audit. It does not purport to be an exhaustive review of the State's participation in the joint venture.

(1) The Joint Venture

The Portland smelter will be completed as an unincorporated joint venture between a number of parties. The Government at 30 June 1985 had contributed \$20 million or 50 per cent of its entry price from the Consolidated Fund under the State Development Program.

The remaining investment of the Trust is to be funded by borrowings in domestic and international capital markets backed by Government guarantees.

Alcoa has established a subsidiary company - Portland Smelter Services Pty. Ltd. - to manage the project on behalf of the participants.

The Joint Venture provides that each party will bear its respective share of capital and operating costs and be responsible for providing its share of the inputs (such as alumina) and for marketing its share of the metal. The Government has negotiated an alumina supply contract with Alcoa, the details of which are confidential and will also sign an aluminium marketing agreement with the company.

(2) Participants Agreement

The Participants Agreement of the 31 July 1984 allowed for the entry of third parties. However, in terms of the agreement the Government was required to share on a 50:50 basis the residual equity not taken up by third parties at 30 June 1985. The following table indicates the share of the Government's equity in the project.

31 July 1984	- Alcoa	45
	- Government	25
	- Unallocated Third Parties	30
		—
		100
		—

At the date of this report	- Alcoa	55
	- Government	35
	- First National Resource Trust	10
		—
		100
		—

(3) Portland Smelter Unit Trust

Under the Victorian Economic Development Corporation Act 1981, the Treasurer has power to provide guarantees of performance by and borrowing of the government's equity vehicle, the Portland Smelter Unit Trust.

(4) Contributions to New Expenditure at Portland

Based at June 1983 prices it was estimated that \$820 million would be required to complete the 2 potline smelter at Portland. The Victorian Government's share of expenditure at 31 July 1984 was \$205 million. I am unable to quantify the Victorian Government's current share of expenditure on the project.

(5) Loan Agreements

Based on 1983 prices, it was estimated by the Government in July 1984 that Alcoa's 45 per cent of future construction and pre-operating expenditure was \$370 million. The Government agreed to assist Alcoa in financing its pro-rata share of the construction expenditure over the next 2 years. I have been able to establish the following in relation to loans to Perpetual Executors Nominees Ltd. (trustee for the Government) and Portland Smelter Services Pty. Ltd. (a subsidiary of Alcoa):

- (i) On 31 July 1984 the Victorian Economic Development Corporation approved an advance of \$41.8 million, at 13.5 per cent interest to Perpetual Executors Nominees Ltd. The moneys were made available to the Corporation from the Consolidated Fund. The amount was advanced subject to the Treasurer's Guarantee which was received and the amount was repaid on 14 December 1984.
- (ii) On 31 July 1984 the Treasurer guaranteed an irrevocable letter of credit in favour of Portland Smelter Services Pty. Ltd. for \$215 million. The guarantee expired on 8 February 1985 as contemplated by Appendix K to the Participants Agreement between Alcoa of Australia Ltd., Portland Smelter Services Pty. Ltd., and Perpetual Executors Nominees Ltd.
- (iii) On 31 July 1984 the Treasurer guaranteed an irrevocable letter of credit in favour of Perpetual Executors Nominees Ltd. for \$130 million. The guarantee expired on 30 October 1984.

- (iv) On 26 September 1984 the Victorian Economic Development Corporation approved an advance of \$25 million at 11.7 per cent interest to Perpetual Executors Nominees Ltd. The moneys were made available to the corporation from the Consolidated Fund. The Treasurer's Guarantee dated 18 December 1984 guaranteed the due repayment by Perpetual Executors Nominees Ltd. (the borrower) to the Corporation. The moneys were repaid on 28 March 1985.
- (v) A guarantee was given by the Treasurer on 15 February 1985 in favour of the Victorian Public Authorities Finance Agency for the due repayment of yen 17.6 billion (\$A86.7 million) by the trustee. The moneys were borrowed by the Victorian Public Authorities Finance Agency and on-lent to Perpetual Executors Nominees Ltd.
- (vi) A covenant dated 10 May 1985 was given by the Treasurer in favour of the Victorian Public Authorities Finance Agency in respect of liabilities assumed by it as principal agent or otherwise in connection with the raising or borrowing of moneys or arranging other financial accommodation for Perpetual Executors Nominees Ltd.
- (vii) US\$150 million was raised by the Victorian Public Authorities Finance Agency on 30 April 1985 by way of a Eurobond Issue and the funds were on-lent to Perpetual Executors Nominees Ltd.

2.1.17 As indicated in the Treasurer's Statement, guarantees relating to the above mentioned loans totalling \$394.5 million have been issued by the Treasurer during the year and at 30 June 1985 there was a contingent liability for borrowings by Perpetual Executors Nominees Ltd. of \$401.8 million.

Compensation Payments

2.1.18 Due to the deferral of the smelter, it was necessary for the Government to provide compensation to the State Electricity Commission for bearing the costs of excess capacity of its generating units constructed in relation to the provision of electricity to Portland. The State Electricity Commission and Department of Management and Budget jointly estimated the net cost to the Commission of deferral of the smelter as \$162 million at December 1983 prices. As part of the agreement to reimburse the Commission for this net cost, the Government made an initial payment of \$38.6 million to the State Electricity Commission in 1983-84. The amount was repaid by the Portland Aluminium Unit Trust to the Consolidated Fund in 1984-85. Future payments are to be made by the Trust.

Capital Works Authority

2.1.19 The Authority was established by Order-in-Council dated 28 May 1985.

"The Order-in-Council provided that the Authority, at the request in writing of the Treasurer and in accordance with his request, shall from time to time:

- (a) negotiate contracts on behalf of the State of Victoria for the borrowing of money;

- (b) enter into and execute contracts on behalf of the State of Victoria for the borrowing of money; and
- (c) affix and authenticate the seal of the Treasurer to any contract which it is authorised to enter into and execute."

2.1.20 The Order-in-Council creating the Authority made no provision for the proper keeping of books and records, for the financial reporting of the operations of the Authority or for auditing of the Authority's affairs.

2.1.21 As at 30 June 1985 the Authority had incurred a liability through borrowings of \$87.25 million. These borrowings were undertaken on its behalf by the Victorian Public Authorities Finance Agency and the net borrowings totalling \$84.52 million were paid into the Works and Services Account in the Trust Fund.

2.2 OTHER MATTERS OF SPECIAL INTEREST

2.2.1 Matters of special interest detailed in Part 3 of this report are identified below:

<u>Subject</u>	<u>Paragraph Reference</u>
Surplus of Consolidated Fund at 30 June 1985 of \$44.5 million reduced to a deficit of \$0.5 million with the deposit of \$45 million in the Victorian Development Fund.	3.1.18
Collection of additional duty of \$4.3 million from car sales in 1982 and 1983 in instances where market value had been understated	3.2.10(2)
Budget shortfall of \$56 million in dividend paid by the State Electricity Commission	3.2.23 - 3.2.26
Repayment of \$12.8 million to the Insurer's Guarantee and Compensation Supplementation Fund by the Treasurer together with \$8 million on account of interest	3.3.9(5) and 3.3.15
Rebate of \$15.4 million to State Electricity Commission for the supply of electricity to Alcoa of Australia Ltd. at Point Henry	3.3.15
Reporting of long term liabilities	3.4.1 - 3.4.24
Review of the State Management Accounting and Financial Information System (SMAFIS)	3.9.1 - 3.9.10
Uncollected departmental revenue	3.10.1 - 3.10.6
Delays in payment of accounts by departments	3.11.1 - 3.11.8
Action by the Department of Management and Budget to improve the cash management of the State	3.12.2

2.3 STATUS REPORT

2.3.1 The following information relates to the status of observations and recommendations contained in my previous reports on the Treasurer's Statement.

<u>REPORT</u>	<u>PAGE</u>	<u>SUBJECT</u>	<u>STATUS AT DATE OF PREPARATION OF THIS REPORT</u>
1978-79 1979-80	7 9	Balance of Consolidated Revenue Deficits at 30 June 1970 still unfunded and temporarily financed from Public Account.	Position unchanged.
1982-83 1983-84	37 44	Action should be taken to include in the Treasurer's Statement information showing the total public debt of the State.	Position unchanged. However, Part 3.4 of this report expands on the issue.
1982-83	42	Loan raisings by the State Rivers and Water Supply Commission (now the Rural Water Commission) paid into the Works and Services Account were not specifically appropriated as required by Section 61A of the Water Act 1958.	Legislation amended.
1982-83	49	Need for disclosure in the Treasurer's Statement of unspent Commonwealth moneys previously held in Trust Accounts.	Position unchanged.
1983-84	29	It appeared that advances from the State Development Account to the Consolidated Fund were in excess of requirements for the year, leading to additional interest costs being incurred by the State.	Para. 3.5.8 makes reference to the balance within the Works and Services Account as at 30 June 1985.

PART 3

REVIEW OF TREASURER'S STATEMENT

3.1 INTRODUCTION

Statutory Reporting Requirements

- 3.1.1 Section 47 of the Audit Act 1958 requires that I make and sign a report explaining the Treasurer's Statement in full and showing particulars of the several matters referred to in sub-sections (1) and (2) of that section.
- 3.1.2 In practice, the requirement placed on me to explain the Statement in full is met by my presenting a general review of the main features of the State finances including the receipts and payments of the Consolidated Fund and the Trust Fund, details of the Balances of the State, the Public Debt of the State and other relevant financial issues.
- 3.1.3 This Part also contains information on general matters which are required to be reported to Parliament under specific provisions of the Audit Act 1958, or which otherwise warrant inclusion.
- 3.1.4 As required by section 46 of the Audit Act 1958, the Treasurer has included and distinguished in his Statement of the payments from the Consolidated Fund for the year, an amount spent for which no appropriation had been made on or before 30 June 1985. The relevant figures are included on the basis that parliamentary appropriation of the amounts will be made in due course.
- 3.1.5 In the Treasurer's Statement, the workers compensation insurance premium paid by the Department of Management and Budget on behalf of most departments, and the payments by the Public Works Department for rent, telephone, electricity, maintenance etc. have not been apportioned to departments.
- 3.1.6 The Treasurer's Statement has been examined by my officers and is in agreement with the accounts of the Treasurer.
- 3.1.7 Rounding of figures within this report may, in some instances, result in minor differences when those figures are compared with those shown in the Treasurer's Statement.

Content of Treasurer's Statement

- 3.1.8 The Treasurer's Statement contains details of the amounts credited to the Consolidated Fund from taxation, various other State sources and Commonwealth payments to the State for both recurrent and capital purposes. As such it covers the financial operations of the inner budget sector which includes government departments. These departments are financed by annual or special Parliamentary appropriations, and their financial operations are processed through or come under the control of the central accounting system operated by the Department of Management and Budget. The Treasurer's Statement does not cover the financial operations of the outer budget sector which comprises a large number of public bodies except to the extent that there have been receipts from and payments to the bodies from the Consolidated Fund or the Trust Fund.

3.1.9 The statement also details:

- (1) payments from the Consolidated Fund made under appropriations by Parliament pursuant to the Appropriation (1984-85, No. 1) Act 1984;
- (2) payments from Special Appropriations which are authorised in many enabling Acts;
- (3) details of the 165 accounts included in the Trust Fund in which transactions occurred in 1984-85; and
- (4) the balances of the State of Victoria.

3.1.10 In addition, appendices provide details at 30 June 1985 of the public debt of the State, advances from the Public Account and the contingent liability of the State in respect of guarantees issued by the Treasurer, and government guarantees in respect of borrowings by State instrumentalities and other bodies.

The Public Account

3.1.11 The Public Account Act 1958 defines the funds and accounts to be maintained by the State for the recording of its financial transactions. The funds and accounts to be maintained are the Consolidated Fund, the Works and Services Account and the Trust Fund. The Act also makes provision for special applications and temporary advances to be made from the Public Account which, although not defined, is considered to be the collective bank accounts of the State.

Legislative Changes Affecting the Content of the Treasurer's Statement

3.1.12 A number of legislative changes were made during the year. To a large extent they resulted from the following changes made to budgetary processes, namely:

- (1) as part of the Government's move to program budgeting, the introduction of appropriations to programs within each department, with expenditure displayed in terms of program totals rather than by division and sub-division of expenditure as previously; and
- (2) the introduction of a single Appropriation Act, covering both recurrent expenditure and works and services expenditure which were previously appropriated separately.

Audit (Amendment) Act 1984

3.1.13 The Audit (Amendment) Act 1984 brought the terminology in the section relating to warrants into line with the new program structure of the Appropriation (1984-85, No. 1) Act 1984 and simplified the procedures relating to warrants. Details of the amendments are as follows:

- (1) as warrants were required by section 21 of the Audit Act 1958 to show the division and sub-division of the moneys being issued from the Public Account, it was necessary to change this to a requirement for classification in the same program and sub-divisions of programs as appropriated under the Appropriation (1984-85, No. 1) Act 1984;

- (2) although the Constitution Act 1975 requires the issue of a warrant only for payments from the Consolidated Fund, it had been the practice over the years to issue warrants for payments from the Trust Fund. To bring Victoria into line with the Commonwealth and a number of other States, this practice was discontinued; and
- (3) prior to the amending legislation it was a requirement that warrants be issued on a monthly basis. The practice was seen as an unnecessary restriction once the legal availability had been provided by the Supply and Appropriation Acts. The requirement of monthly warrants created difficulties in accurately forecasting monthly expenditure rates for divergent types of government expenditure. The amending legislation provided that warrants be prepared as often as the occasion may require in a financial year.

Appropriation (1984-85, No. 1) Act 1984

- 3.1.14 The Appropriation (1984-85, No. 1) Act 1984 authorised the Treasurer to transfer funds between program sub-divisions within the overall departmental programs allocation and provided for such transfers to be reported in the Treasurer's Statement.

Public Account Act 1958

- 3.1.15 The Public Account (Amendment) Act 1984 which came into operation on 1 July 1984 provided for:
- (1) minor amendments to the warrant provisions of the Audit Act 1958 to allow warrants to be classified by programs and items as identified in the Supply (1984-85, No. 1) Act 1984 rather than divisions and sub-divisions;
 - (2) any part or the whole of the balance of the Works and Services Account, as the Treasurer directs, to be credited to the Consolidated Fund; and
 - (3) references in a number of Acts to the Works and Services Account to be taken as references to the Consolidated Fund.

- 3.1.16 The amendments outlined in (2) and (3) above were necessary for the introduction of a single Appropriation Act. Previously, certain borrowings by some public bodies were paid directly to the Works and Services Account and appropriated therefrom as part of the works program. The borrowings will continue to be paid to that account in future to preserve the distinction between borrowings of public bodies and those of the State. However, they will need to be subsequently transferred to the Consolidated Fund so that they can be appropriated as part of a single Act.

Summary of 1984-85 Financial Transactions

- 3.1.17 In the Budget for 1984-85, the Treasurer estimated that the total receipts of the Consolidated Fund would be \$8 902 million and that this amount would be fully expended. The actual receipts of the Consolidated Fund in 1984-85 totalled \$8 827.2 million, i.e. \$75 million less than estimated.
- 3.1.18 Payments from the Consolidated Fund totalled \$8 827.7 million for the year, \$0.5 million more than the receipts for the year i.e. a deficit of \$0.5 million. After allowing for the balance brought forward from 1983-84 of \$28.1 million the balance in the Consolidated Fund in the Treasurer's Statement at 30 June 1985 was \$27.6 million.
- 3.1.19 However, the deposit of \$45 million in the Victorian Development Fund on 28 June 1985 was treated as a payment from the Consolidated Fund, thereby reducing the surplus of the Consolidated Fund by \$45 million. But for this transaction, the reported deficit of \$0.5 million would have been a surplus of \$44.5 million and the balance of \$27.6 million would have been \$72.6 million.
- 3.1.20 The statement at para 3.1.33 gives details of the overall operations of the Consolidated Fund for the year.
- 3.1.21 In addition to the receipts required to be credited to the Consolidated Fund, receipts totalling \$34 400 million (1983-84, \$24 940 million) were credited to accounts within the Trust Fund. Payments from the Fund during the year totalled \$34 401 million (1983-84, \$24 852 million). The balance of the Fund at 30 June 1985 totalled \$331.6 million (30 June 1984, \$332.9 million).

The Consolidated Fund

- 3.1.22 The Consolidated Fund was established by the Public Account Act 1970. It is a consolidation of what was formerly the Consolidated Revenue and the Loan Fund.
- 3.1.23 The legislation provides that the total of the sums issued out of the Consolidated Fund in a financial year shall not exceed the amounts to the credit of the Fund. In this sense, a cash deficit cannot arise. For a number of years it was the practice to appropriate all moneys in the Consolidated Fund in excess of those required to meet payments pursuant to other parliamentary appropriations to the Works and Services Account in the Trust Fund. However, in recent years it has been the practice to retain a balance in the Consolidated Fund.
- 3.1.24 Whilst the Treasurer still has authority to transfer moneys from the Consolidated Fund to the Works and Services Account, the change to a single Appropriation Act has seen the transfer of moneys to the Consolidated Fund so as to allow for a single Appropriation Act which incorporates both recurrent and works and services expenditure.
- 3.1.25 However, it should be noted that the requirement not to incur a cash deficit, i.e. not to spend more than the receipts, does not limit the source of receipts and thus does not preclude borrowing. In fact, borrowings from the following sources formed part of the receipts for the past 2 years:

	1983-84	1984-85
	\$000	\$000
Loan raisings - Financial agreement	201 548	216 949
State Development Account	162 423	133 180
States (Works and Housing) Assistance Act 1982	44 488	45 082

3.1.26 To obtain a total picture of the inner budget sector, it is of course necessary to take into account the transactions of the Trust Fund as well as those of the Consolidated Fund. Details of the operations of the Trust Fund are discussed in para. 3.1.21 and section 3.5 of this report.

Summary of Significant Items in the Treasurer's Statement

3.1.27 Significant factors which are dealt with in this report are:

- (1) \$45 million deposited in the Victorian Development Fund on 28 June 1985 which reduced the surplus of the Consolidated Fund for the year from \$44.5 million to a deficit of \$0.5 million (refer para 3.1.19)
- (2) establishment of the Capital Works Authority and the borrowing of \$84.5 million from the Authority which was paid into the Works and Services Account in the Trust Fund (refer Part 2)
- (3) an increase in Other Stamp Duty of \$176.9 million due mainly to a 47.8 per cent increase in receipts of duty on transfers of land (refer para 3.2.10)
- (4) an increase of \$32 million in duty on the sale and resale of motor vehicles (refer para 3.2.10)
- (5) an increase of \$24 million, 68.4 per cent, in duty on share transactions (refer para 3.2.10)
- (6) an increase of \$40.8 million, 26.9 per cent, on petroleum licences (refer para 3.2.10)
- (7) an increase of \$20.8 million, 24.8 per cent, on tobacco licences (refer para 3.2.10)
- (8) an increase of \$66.4 million in miscellaneous receipts (refer para 3.2.27)
- (9) an increase of \$255 million in receipts from the Commonwealth mainly due to Medicare (refer para 3.2.30)
- (10) a reduction of \$239.8 million in the proceeds of the sale of transport assets. Borrowings by transport authorities increased by \$239 million (refer para 3.2.33)
- (11) an increase of 13.07 per cent in pensions (other than State Transport Authority) to \$205.9 million (refer para 3.3.9)
- (12) a transfer of \$12.8 million on 28 June 1985 to the Insurers Guarantee and Compensation Supplementation Fund (refer para 3.3.9)
- (13) an increase of \$83.4 million in transport expenditure (refer para 3.3.15)

- (14) an increase of \$138.6 million in Taxation receipts over the amount provided for in the Estimates of which \$90.9 million was from Other Stamp Duty (refer para 3.2.9)
- (15) a shortfall of \$35.6 million from the Budget estimate in the Recoveries of Debt Charges (refer para 3.2.11)
- (16) a shortfall of \$56 million from the Budget estimate in the Public Authority dividend paid by the State Electricity Commission as well as a refund of \$32.5 million of the dividend paid during the year (refer para 3.2.24)

Balances of the State of Victoria

3.1.28 The transactions and corresponding balances of the State of Victoria for the past 2 years are shown in the following statement:

	1983-84 \$000	1984-85 \$000
Balances 1 July	215 713	332 033
Receipts		
Consolidated Fund	7 780 985	8 827 256
Trust Fund*	24 940 119	34 399 878
	<hr/>	<hr/>
	32 936 817	43 559 167
	<hr/>	<hr/>
Payments		
Consolidated Fund	7 752 858	8 827 728
Trust Fund*	24 852 725	34 401 155
(Decrease)/Increase in advances	(799)	4 286
	<hr/>	<hr/>
	32 604 784	43 233 169
	<hr/>	<hr/>
Balances 30 June	332 033	325 998
	<hr/>	<hr/>

* The increases in the receipts and payments of the Trust Fund were due largely to the operations of the Cash Management Account, an account which was established to pool the liquid funds of the public sector for investment and lending purposes. The account recorded receipts and payments of \$27 565 million in 1984-85 (1983-84, \$17 933 million).

3.1.29 It is important to emphasise that the above balances cover only the inner budget sector and do not include any balances held by public bodies. In addition, the receipts of both the Consolidated Fund and the Trust Fund include various borrowings (see para. 3.1.25 concerning the Consolidated Fund) and the balances are therefore arrived at after such borrowings. Further, part of the balances are not available for general government purposes e.g. payroll deductions awaiting remittance to the Australian Taxation Office, unspent Commonwealth specific purpose grants and moneys held in trust for specific purposes.

3.1.30 The net effect of the year's transactions was a reduction in the total balances of the State of \$6 million, brought about by a decrease in the credit balance of the Trust Fund of \$1.3 million, an increase in advances from the Public Account of \$4.2 million, together with a reduction of \$0.5 million in the amount retained in the Public Account.

3.1.31 State balances as at 30 June 1984 and 1985 were as follows:

	30.6.84	30.6.85
	\$000	\$000
Trust Fund Balance	332 947	331 670
Balance retained in the Consolidated Fund	28 127	27 655
	<hr/>	<hr/>
	361 074	359 325
Less Advances from Public Account		
For Consolidated Revenue Deficits (prior to 1970)	21 782	21 782
For Departments and Other Purposes	7 259	11 545
	<hr/>	<hr/>
	29 041	33 327
	<hr/>	<hr/>
	332 033	325 998
	<hr/>	<hr/>

3.1.32 The balances were represented by:

	30.6.84	30.6.85
	\$000	\$000
Cash at Bank	16 688	(14 363)
Fixed Deposit Accounts	57 520	12 110
Short Term Deposits	130 000	88 500
State Bank Equity Contribution*	..	45 000
	<hr/>	<hr/>
	204 208	131 247
Investments - Trust Fund	127 825	194 751
	<hr/>	<hr/>
	332 033	325 998
	<hr/>	<hr/>

* \$45 million represents an advance from the Public Account for the purposes of Section 27B of the State Bank Act 1958. The funds are deemed to be government equity in the Bank, however as provided in the State Bank (Amendment) Act 1984 they are repayable to the Treasurer on demand and are to bear a rate of return determined by the Treasurer after consultation with the Bank. At the date of preparation of this report the terms and conditions of the advance had not been determined.

3.1.33 Details of the operations of the Consolidated Fund for the past 2 years are contained in the following table:

CONSOLIDATED FUND

CURRENT ACCOUNT SECTOR

	1983-84 \$000	1984-85 \$000	1983-84 \$000	1984-85 \$000
RECEIPTS				
State Taxation	2 492 811	2 826 254	1 216 104	1 334 719
Other State Sources	1 421 408	1 554 368	5 263 219	5 867 675
			6 479 323	7 202 394
Commonwealth			28 126	27 655
Tax Sharing Grant	1 926 238	2 019 927		
Health Grant	323 248	344 218		
Special Temporary Revenue Assistance	34 800	24 000		
Financial Agreement	4 254	4 254		
Other Commonwealth Payments accounted for through the Consolidated Fund	279 504	428 901		
	6 482 263	7 201 922		
Balance Brought Forward	..	28 126		
Total Current Account Sector	6 482 263	7 230 048	6 507 449	7 230 049

WORKS AND SERVICES SECTOR

Transfer from Works and Services Account	103 535	477 199	1 377 071	1 625 333
Proceeds of Loan Raisings	201 548	216 949		
State Development Account	162 423	133 180		
Sale of Transport Assets	293 469	59 826		
States (Works and Housing) Assistance Act 1982	44 488	45 082		
Loan Repayments	24 946	26 717		
Revenue Previously Paid Directly to the Trust Fund	27 012	24 872		
Sesquicentenary Grants	2 400	1 932		
Commonwealth Payments -				
Transport	229 127	267 466		
Housing	121 899	149 195		
Works Grant	123 019	131 016		
School Buildings Grants	68 391	89 696		
Other	..	2 204		
	1 402 257	1 625 334	1 377 071	1 625 333
Total Works and Services Sector				
TOTAL	7 884 520	8 855 382	7 884 520	8 855 382

3.2 CONSOLIDATED FUND RECEIPTS - OVERVIEW

3.2.1 In the Budget for 1984-85 the Treasurer estimated that the total receipts of the Consolidated Fund would be \$8 902 million. The actual receipts of the Consolidated Fund in 1984-85 totalled \$8 827 million, \$75 million less than estimated.

3.2.2 The following statement compares the receipts for 1984-85, as detailed in the Treasurer's Statement, with those for 1983-84 and with the Budget estimates for 1984-85:

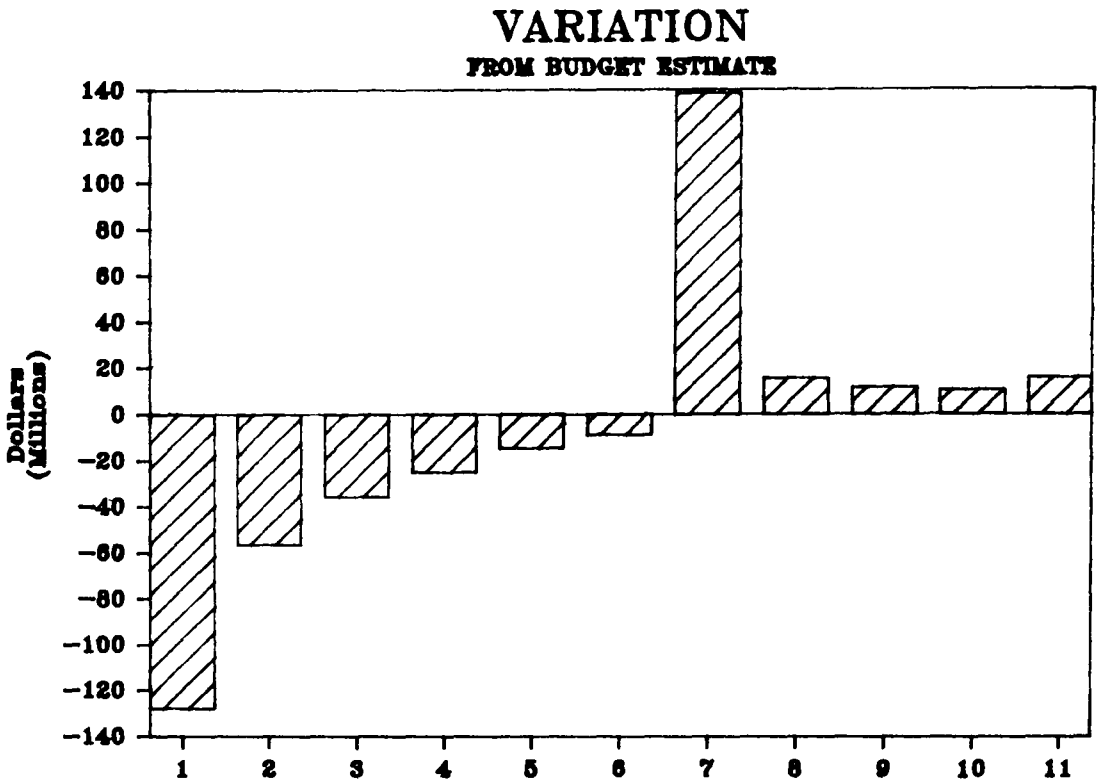
	Actual 1983-84 \$000	Actual 1984-85 \$000	Budget Estimate 1984-85 \$000	Variation from Budget Estimate \$000
HEADS OF RECEIPT				
Taxation	2 492 811	2 826 254	2 687 650	+ 138 604
Recoveries of debt charges	224 052	218 430	254 054	- 35 624
Land revenue	193 990	217 826	202 100	+ 15 726
Harbor revenue	9 850	11 287	10 360	+ 927
Fees and charges for departmental services	200 465	238 658	237 500	+ 1 158
Conservation, Forests and Lands - Forests Division	31 721	37 768	36 860	+ 908
Rural Water Commission	81 674	72 306	74 300	- 1 994
Public Authorities	372 227	370 675	427 017	- 56 342
Miscellaneous receipts	111 320	177 766	166 000	+ 11 766
Revenue previously paid directly to the Trust Fund (Recurrent)	196 108	209 652	210 756	- 1 104
Commonwealth payments	2 568 045	2 821 300	2 814 340	+ 6 960
Proceeds of loan raisings	246 036	262 031	262 031	..
Loan repayments	24 946	26 717	41 300	- 14 583
Works grant	123 019	131 016	131 016	..
School building grants	68 391	89 696	79 111	+ 10 585
Transport - Roads	229 127	267 466	265 979	+ 1 487
Housing	121 899	149 195	149 132	+ 63
Child Care Services	..	2 200	2 200	..
150th Anniversary Grant	2 400	1 932	1 932	..
Revenue previously paid directly to the Trust Fund (Capital)	20 879	24 872	20 545	+ 4 327
Sale of Transport Assets	299 602	59 826	65 400	- 5 574
State Development Account	162 423	133 180	158 227	- 25 047
Transfer from Works and Services Account	103 535	477 199	604 716	- 127 517
National Sewerage Program	..	4	..	+ 4
Total Receipts	*7 884 520	8 827 256	8 902 526	- 75 270

* The 1983-84 figures contained in the Treasurer's Statement have been restated to take into account the introduction of the single Appropriation Act. Details of the 1983-84 figures and the estimates for 1984-85 follow.

	1983-84 Receipts \$000	1984-85 Estimates \$000
(1) Transfer from Works and Services Account -		
Balance start of year	43 597	90 416
Receipts	150 354	514 300
	<hr/>	<hr/>
Transfer to Consolidated Fund	193 951	604 716
	103 535	604 716
	<hr/>	<hr/>
Balance at end of year	90 416	..
	<hr/>	<hr/>
(2) Consolidated Fund revenue recast to enable comparison with 1984-85		
Actual Receipts to Consolidated Fund 1983-84		\$000
Plus Transfer from Works and Services		7 780 985
		103 535
		<hr/>
		7 884 520
		<hr/>

Comparison with Budget

3.2.3 The following table illustrates the variations from Budget estimates:



Variation from Budget Estimate

	Shortfalls		Excesses
	\$000		\$000
1. Transfers from Works and Services Account	127 517	7. Taxation	138 604
2. Public Authorities	56 342	8. Land Revenue	15 726
3. Recoveries of Debt Charges	35 624	9. Miscellaneous Receipts	11 766
4. State Development Account	25 047	10. School Building Grants	10 585
5. Loan Repayments	14 583	11. Other	15 834
6. Other	8 672		
Net Shortfall	267 785		75 270
	267 785		267 785

Further comments on these variations are given in the following paragraphs:

3.2.4 In broad terms, the receipts of the Consolidated Fund derive from the following sources and compare with Budget estimates and with receipts of the previous year as shown:

	Actual 1983-84 \$000	Budget 1984-85 \$000	Actual 1984-85 \$000
<u>State sources</u>			
State taxation	2 492 811	2 687 650	2 826 254
Public authorities	372 227	427 017	370 675
Revenue previously paid directly to the Trust Fund	216 987	231 301	234 524
State Development Account	162 423	158 227	133 180
Sale of transport assets	299 602	65 400	59 826
Other State sources	956 607	1 585 891	1 451 241
	<hr/>	<hr/>	<hr/>
	4 500 657	5 155 486	5 075 700
<u>Commonwealth sources</u>			
excluding loan raisings	3 113 770	3 443 710	*3 463 818
Loan raisings and repayments	270 093	303 331	287 738
	<hr/>	<hr/>	<hr/>
	7 884 520	8 902 527	8 827 256
	<hr/>	<hr/>	<hr/>

* Includes Commonwealth contributions in 1984-85 of \$1 009 996 (1983-84, \$889 049) towards the cost of projects and services credited to the Consolidated Fund under the head of loan repayments.

Comparison with Actual Receipts for 1983-84

3.2.5 The actual receipts of the Consolidated Fund exceeded those of the previous year, \$7 884 million, by \$943 million. In 1984-85, there was a change in accounting for the Works and Services account, referred to in section 3.1 resulting in additional receipts of \$373.7 million being credited to the Consolidated Fund. Details of the variations between the 2 years are given in para. 3.2.2 of this report.

3.2.6 Receipts from State sources increased by \$575 million and constituted 57.5 per cent of the total compared with 57.1 per cent in the previous year. Receipts from Commonwealth sources were \$350 million more than in the previous year and represented 39.2 per cent as against 39.5 per cent for 1983-84. Loan raisings and repayments yielded \$17.6 million more than the 1983-84 total of \$270 million and comprised 3.3 per cent of the total receipts compared with 3.4 per cent in 1983-84.

RECEIPTS - STATE SOURCES

3.2.7 The major increases causing the overall increase of \$575 million in actual receipts from State sources compared with the previous year were:

	\$000
Transfer from Works and Services Account	373 664
Other Stamp Duty	176 879
Payroll Tax	100 643
Petroleum Licences	40 796
Fee and Charges - Departmental Services	38 193
Petroleum Royalties	23 769
Tobacco Licences	20 782

3.2.8 Comments on a number of items of revenue from State sources follow.

Taxation

3.2.9 Taxation receipts in 1984-85 increased by \$333 million over those of the previous year and were \$138.6 million in excess of the Budget estimates. Details of the variations are:

	Actual 1983-84 \$000	Actual 1984-85 \$000	Budget 1984-85 \$000	Variation from Budget Estimate \$000
Payroll tax	963 546	1 064 189	1 053 700	+ 10 489
Probate duty	30 061	8 475	11 200	- 2 725
Land tax	143 118	153 273	148 000	+ 5 273
Motor car third party insurance surcharge	19 024	10 343	10 000	+ 343
Totalizator commission	72 907	81 929	81 000	+ 929
Tattersalls duty	202 698	201 855	188 000	+ 13 855
Gift duty	175	24	100	- 76
Motor Car Act 1958 Section 7A fees	48 674	50 830	49 900	+ 930
Health levy	21 630	1	..	+ 1
Betting and bookmakers' turnover tax	12 824	13 562	13 500	+ 62
Duty on insurance business	114 699	124 992	118 800	+ 6 192
Other stamp duty	436 715	613 594	522 650	+ 90 944
Financial institutions duty	80 869	90 724	85 000	+ 5 724
Licencing fund payment	70 203	72 467	72 800	- 333
Licences				
Tobacco	83 802	104 584	107 000	- 2 416
Petroleum	151 648	192 443	184 100	+ 8 343
Motor Drivers	33 743	34 910	34 700	+ 210
Other	6 475	8 059	7 200	+ 859
	<hr/> 2 492 811	<hr/> 2 826 254	<hr/> 2 687 650	<hr/> + 138 604

3.2.10 The major variations from the previous year or from budget are discussed below:

Other Stamp Duty

Other Stamp Duty increased by \$176.9 million from \$436.7 million in 1983-84 to \$613.6 million in 1984-85. The duties which were mainly responsible for the large increase were:

(1) Land Transfers

Receipts from this source increased by 47.8 per cent from \$211 million to \$312 million due to:

- (i) the impact over a full year of increases in rates of duty on properties selling for amounts in excess of \$100 000 and the inclusion of the value of chattels for the purpose of duty assessment resulting from amendments to the Stamps Act 1958 made during the previous year.

- (ii) the growth in the volume of housing sales and increases in values and prices.

(2) Motor Vehicles

Duty on the sale and resale of motor vehicles increased by \$32.1 million in 1984-85 as follows:

	1983-84 \$000	1984-85 \$000	+Increase -Decrease
Duty collected by Stamp Duties Office	18 131	55 737	+ 37 606
Duty collected by Road Traffic Authority	83 028	77 499	- 5 529
	<hr/>	<hr/>	<hr/>
	101 159	133 236	+ 32 077
	<hr/>	<hr/>	<hr/>

The main reasons for the variations are as follows:

(i) Duty Collected by Stamp Duties Office

The increase in duty on used cars collected by the Stamp Duties Office was due to:

- the operation for a full year of changed arrangements whereby used car dealers became liable for the duty on sales of used cars and were required to remit the duty to the Stamps Office on a monthly basis.
- \$4.3 million received as a result of assessments issued in respect of 1982 and 1983 sales of used cars resulting from underdeclaration of market values, as detected by the "motor car duty task force".
- the former practice of undervaluing the purchase price of motor vehicles reduced as a result of continued inspection activities by the Stamp Duties Office.

(ii) Duty Collected by the Road Traffic Authority

The reduction of \$5.5 million in duty received by the Road Traffic Authority was due to the effect in a full year of the payment of duty to the Stamp Duties Office from registered used car dealers. Previously this amount was collected by the Road Traffic Authority.

(3) Share Transfers and Share Brokers Statements

Revenue from these sources rose from \$35.01 million in 1983 -84 to \$58.95 million in 1984-85, representing an increase of 68.4 per cent. The main reasons for the increase were greater market turnover and higher share values during the year. In addition a number of corporate reconstructions added to the duty from this source. (Further comment on this aspect is contained in Section 3.3 of this report).

(4) Mortgages

Mortgage duty increased by \$14.6 million, from \$23.9 million to \$38.5 million, reflecting the larger number of property market transactions during the year.

Financial Institutions Duty

Duty imposed under the Financial Institutions Duty Act 1982 increased from \$80.9 million in 1983-84 to \$90.7 million in 1984-85.

The increase of 12.2 per cent was due mainly to greater business activity.

Petroleum Products Licences

Revenue from petroleum licences increased from \$151.6 million in 1983-84 to \$192.4 million in 1984-85, an increase of \$40.8 million or 26.9 per cent.

This was due mainly to a rise in the values of petroleum products sold, price increases, and the full year effect of rate increases operative from 1 December 1983.

Tobacco Licences

Revenue collected from tobacco licences in 1984-85 totalled \$104.6 million (1983-84, \$83.8 million), representing an increase of 24.8 per cent.

The increase for the year was due mainly to the effect in a full year of the increased franchise applicable from 1 December 1983.

Motor Car Third-Party Insurance Surcharge

The Motor Car (Insurance Surcharge) Act 1984 abolished the \$8 surcharge on third party insurance premiums from 1 January 1985. As a result revenue from this source fell from \$19 million in 1983-84 to \$10.3 million in 1984-85.

Totalizator Commission

Receipts from this source increased 12 per cent from \$72.9 million in 1983-84 to \$81.9 million in 1984-85. This was due to a record level of betting turnover of \$1 280 million during the year.

Health Levy

The health levy was abolished on 1 April 1984 under the provisions of the Hospitals Benefits (Levy) (Amendment) Act 1983 and led to reduced collections of \$21.6 million.

Duty on Insurance Business

Revenue from this source increased from \$114.7 million in 1983-84 to \$124.9 million in 1984-85, an increase of \$10.2 million or 9 per cent.

The main reason for the increase was the greater volume of business and rise in premiums offset by the reduction in the stamp duty on workers compensation insurance from 7 per cent to 3.5 per cent from 1 January 1985 under the provisions of the Stamps (Amendment) Act (No. 2) 1984.

Payroll Tax

Payroll tax receipts in 1984-85 increased by \$100.6 million to \$1064.2 million.

The increase for the year was substantially higher than that in 1983-84 (\$32.1 million) and was due to a stronger growth in earnings and employment.

The increase occurred despite a 7.5 per cent rise in the basic exemption level to \$215 000 and the raising of the previous threshold of \$1 million to \$1.1 million from which the higher tax rate of 6 per cent was progressively introduced. The Payroll Tax (Amendment) Act 1984 gave effect to the above amendments.

Probate Duty

Collections of probate duty \$8.5 million (1983-84, \$30 million) continued to fall. The decrease is in keeping with the abolition of probate duty on estates of persons who died after 1 January 1984.

Land Tax

Receipts from land tax totalled \$153.3 million and exceeded the amount collected in 1983-84 by \$10.2 million. Land Tax receipts were slightly affected by the provisions of the Land Tax (Amendment) Act 1984 which provided a benefit to over 50 000 taxpayers at a cost of approximately \$3 million.

During 1983-84 the collections of the Office were seriously affected by a number of matters which were raised in my report on the Treasurer's Statement for 1983-84. However, during 1984-85 the Office employed additional resources and concentrated on correcting the information on the land tax data base and reducing the backlog of assessments that had occurred in 1984 and earlier years.

Taxation Assessed and Not Collected

Details of taxation assessed but uncollected at 30 June 1985 compared with 30 June 1984 are as follows:

	30.6.84	30.6.85
	\$000	\$000
Land Tax	43 500 *	51 809
Payroll Tax	13 421	13 925
Probate Duty	7 487	4 821
Gift duty	246	212
	<hr/>	<hr/>
	64 654	** 70 767
	<hr/>	<hr/>

* The reason for the increase in land tax outstanding at 30 June 1985 over the 1984 amount was that more assessments were issued in 1984-85 due mainly to the catch-up in the backlog of assessments and in the case of multiple years assessments extensions of time have been granted to the taxpayers to pay.

**Subject to audit verification at date of preparation of this report.

It should be noted that the amount likely to be collected from outstanding payroll tax debtors will be considerably less than the amount shown. The amount comprises \$4.4 million assessed in accordance with Section 18(2) of the Payroll Tax Act and \$7.3 million in arrangements and liquidations. Section 18(2) assessments are based on estimated wages paid by employers and therefore the amount outstanding as at 30 June 1985 is only an estimate. The estimated total amount outstanding in respect of arrangements and liquidations includes some amounts that are likely to be irrecoverable and in a significant number of other cases the amount realised will be less than the full 100 cents in the dollar.

Recoveries of Debt Charges

Transactions for the Year

3.2.11 The following statement sets out the variations in the recoupment of debt charges over the past 2 years:

	Actual	Actual	Budget	Variation
	1983-84	1984-85	Estimate	from Budget
	\$000	\$000	1984-85	Estimate
			\$000	\$000
Housing	76 005	77 742	77 993	- 251
State Development Program	12 886	35 215	33 000	+ 2 215
State Electricity				
Commission	69 231	26 460	26 476	- 16
Rural Finance Commission	12 986	26 336	11 695	+ 14 641
Melbourne and Metropolitan				
Board of Works	24 909	24 929	24 907	+ 22
Water and sewerage				
authorities	4 867	7 914	7 700	+ 214
Other	23 168	19 834	72 283	- 52 449
	<hr/>	<hr/>	<hr/>	<hr/>
	224 052	218 430	254 054	- 35 624
	<hr/>	<hr/>	<hr/>	<hr/>

3.2.12 The shortfall of \$35.6 million from the Budget estimate represents a 14 per cent variance from the estimate. There was also a \$17.2 million (7.1 per cent) shortfall in 1983-84.

Included in the figure of \$72.3 million above was an amount of \$35 million which was not allocated for recall from any specific organisation.

Para 2.2.13 of my report on the Treasurer's Statement for 1983-84 indicated that there was a failure to recall advances totalling \$20 million. \$35 million of advances were not recalled in 1984-85. In audit opinion budgetary considerations in this area require attention so as to ensure more accurate forecasting.

Land Revenue

3.2.13 Variations in land revenue over the past 2 years were:

	Actual 1983-84 \$000	Actual 1984-85 \$000	Budget Estimate 1984-85 \$000	Variation from Budget Estimate
Lands	12 527	10 882	12 600	- 1 718
Mining Royalties	877	858	1 000	- 142
- submerged lands	173 692	197 461	180 000	+ 17 461
- other	6 894	8 625	8 500	+ 125
	<hr/> 193 990	<hr/> 217 826	<hr/> 202 100	<hr/> + 15 726

3.2.14 Petroleum royalties paid by the licensees in 1984-85 amounted to \$293.9 million of which \$197.5 million was allocated to the State in accordance with the provisions of the Petroleum (Submerged Lands) Act 1967. This compares with the States 1983-84 share of \$173.7 million.

The increase in the State royalty revenue for the year of approximately 13.7 per cent has been brought about by the overall increase in Bass Strait production and also the weakening of the Australian dollar which has had the effect of increasing crude prices on the domestic market due to import parity pricing adopted by the Commonwealth. Increased production occurred as a result of the introduction of the partial allocation system in October 1984, which enabled export and free market sales to take place once domestic allocation requirements were satisfied.

Production of 'new oil', which attracts higher Government charges and provided the State with a substantial increase in royalty revenue in 1983-84, remained relatively stable during the current year.

Fees and Charges for Departmental Services

3.2.15 Fees and charges for departmental services amounted to \$238.7 million for 1984-85. This was \$38.2 million more than the figure in 1983-84 and exceeded the Budget estimate by \$1.2 million. The major increases were in fees collected by the Titles Office and the Corporate Affairs Office.

Titles Office fees increased from \$38.3 million in 1983-84 to \$46.6 million in 1984-85 and reflect the increased activities in the real estate market and the effect in a full year of increased fees payable from 1 January 1984.

Fees collected by the Corporate Affairs Office increased from \$27.2 million in 1983-84 to \$31.3 million in 1984-85. Higher registrations and the full year effect of higher fees imposed on 1 October 1983 were the main reasons for the increase.

Conservation, Forests and Lands - Forests Division

- 3.2.16 Forestry Division revenue increased from \$31.7 million in 1983-84 to \$37.8 million in 1984-85, an increase of 19 per cent due mainly to an increase in the volume of logs taken and a royalty rate increase in July 1984.

Rural Water Commission

- 3.2.17 Receipts of the Commission for the year of \$72.3 million were \$9.4 million less than those of 1983-84 and \$2 million less than the Budget estimate. The decrease in receipts was due mainly to:

Changed accounting arrangements resulting in:

- (1) salary recoups and oncost workshop recoveries which were previously paid to revenue and now directly charged to the appropriation; and
- (2) a reduction in other recoups.

The decrease was partially off-set by:

- (1) higher rates and charges imposed in all districts; and
- (2) revenue subsidies.

Public Authorities

- 3.2.18 Revenue under this item is derived from 3 sources:

- (1) dividends payable by certain authorities under the Public Authorities (Dividends) Act 1983;
- (2) a contribution by the Gas and Fuel Corporation under the Public Authorities (Contributions) Act 1966; and
- (3) a payment by the State Bank under the State Bank Act 1958.

The public authorities designated in the Public Authorities (Dividends) Act are:

Gas and Fuel Corporation
Melbourne and Metropolitan Board of Works
Port of Melbourne Authority
State Electricity Commission
Grain Elevators Board

- 3.2.19 Section 5 of the Act provides that each public authority shall transfer a dividend of a percentage (not exceeding 5 per cent) of the public equity of the authority to the Consolidated Fund in 1983-84 and subsequent financial years. The percentage is to be determined by the Treasurer after consultation with the Minister responsible for the public authority.

3.2.20 In addition to the dividend payable, the Gas and Fuel Corporation is required to pay 33 per cent of its total revenue to the Consolidated Fund on a monthly basis. Of the total amount of \$191.8 million paid to the Consolidated Fund, \$164.2 million represented the statutory contribution under the Public Authorities (Contributions) Act 1966 and the balance of \$27.6 million represented the dividend for the year. The increase of \$21.4 million in the contribution under the Public Authorities (Contributions) Act 1966 over the amount collected in 1983-84 was due to additional turnover of the Corporation.

3.2.21 Section 49A of the State Bank Act 1958 provides for the bank to pay to the Consolidated Fund:

"(a) an amount equivalent to the total amount of income tax that would have been payable by the Commissioners by or under any Act of the Commonwealth of Australia if the Commissioners of the State Bank of Victoria were not a State-owned commercial enterprise; and

(b) such amount by way of dividend out of profits or accumulated profits as is determined by the Treasurer after consultation with the Commissioners."

The amount paid to the Consolidated Fund by the Bank comprised \$30.4 million under (a) and \$10.7 million under (b).

3.2.22 For comparative purposes the following table shows the amounts paid by the various authorities, by way of dividends or contributions, during the past 2 years and the increase/decrease in 1984-85:

	1983-84	1984-85	Variance +Increase -Decrease
	\$000	\$000	\$000
State Electricity Commission	103 900	70 000	- 33 900
Gas and Fuel Corporation	167 800	191 810	+ 24 010
Melbourne & Metropolitan Board of Works	55 000	56 800	+ 1 800
State Bank	35 527	41 065	+ 5 538
Port of Melbourne Authority	6 000	6 000	..
Grain Elevators Board	4 000	5 000	+ 1 000
	<hr/>	<hr/>	<hr/>
	372 227	370 675	- 1 552
	<hr/>	<hr/>	<hr/>

3.2.23 The amount contained in the Budget estimate for 1984-85, the amounts realised by the authorities, and the variations, are as follows:

	Budget Estimate	Actual	Variance +Increase -Decrease
	\$000	\$000	\$000
Gas and Fuel Corporation	192 200	191 810	- 390
State Electricity Commission	126 000	70 000	- 56 000
Melbourne & Metropolitan Board of Works	56 800	56 800	..
State Bank	41 100	41 065	- 35
Port of Melbourne Authority	6 000	6 000	..
Grain Elevators Board	5 000	5 000	..

- 3.2.24 The dividend paid by the State Electricity Commission fell short of the Budget estimate by \$56 million. However, during the year the Commission had paid \$102.5 million to the Consolidated Fund on account of the dividend, and on 28 June 1985, the Department of Management and Budget refunded \$32.5 million to the Commission.
- 3.2.25 The refund resulted from a determination of the Treasurer after consultation with the Minister in accordance with the provisions of Section 5 of the Public Authorities (Dividends) Act 1983.
- 3.2.26 The main reasons for the reduced dividend were that in 1984-85 the real cost of debt to the State Electricity Commission of Victoria was greater than expected when the budget figures were estimated because of the higher than expected level of interest rates and the devaluation of \$A during the year.

Miscellaneous Receipts

- 3.2.27 Miscellaneous receipts increased in 1984-85 by \$66.4 million from \$111.3 million in 1983-84 to \$177.7 million. The major items contributing to this increase were:

	\$000
The repayment by the Portland Smelter Unit Trust of the payment by the Consolidated Fund to the State Electricity Commission in 1983-84 in respect of the Alcoa Portland Project.	38 600

Increased interest on the Public Account due to a more liquid situation in 1984-85 brought about mainly by the weekly funding of the tax sharing grant in lieu of the monthly funding and increased interest earnings arising from re-negotiated arrangements with the banks and other investments.	24 094
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Revenue Previously Paid Directly to Trust Fund (Recurrent)

- 3.2.28 Receipts under this item increased from \$196.1 million in 1983-84 to \$209.7 million in 1984-85. The main increase was in the Participation and Equity Program of \$8.9 million.

COMMONWEALTH PAYMENTS TO THE STATE

- 3.2.29 Details of the variations making up the overall increase of \$255.5 million in the actual receipts to the Consolidated Fund from Commonwealth sources are:

	1983-84	1984-85	+ Increase - Decrease
	\$000	\$000	\$000
Tax sharing grant	1 926 238	2 019 927	+ 93 689
Health grant	323 248	344 218	+ 20 970
Medicare	80 045	249 187	+ 169 142
Education - recurrent grants	135 407	142 302	+ 6 895
Special Temporary Revenue Assistance	34 800	24 000	- 10 800
Pre-school child education and care	9 015	9 015	..
Home care	10 087	7 384	- 2 703
Repatriation Hospital - Bundoora	6 250	7 114	+ 864
Pipeline grant	28 000	7 000	- 21 000
Drought assistance fodder	6 274	..	- 6 274
Interest-financial agreement	4 254	4 254	..
Water resources	870	950	+ 80
Other	3 556	8 149	+ 4 593
	<hr/>	<hr/>	<hr/>
	2 568 044	2 823 500	+ 255 456
	<hr/>	<hr/>	<hr/>

3.2.30 The major variations are discussed below:

(1) Tax Sharing Grant

The amount received under this entitlement during the year totalled \$2 019.9 million. This was a rise of \$93.7 million over that of the previous year.

The tax sharing grant of the State is determined under the provisions of the States (Tax Sharing and Health Grants) Act 1981. It is necessary in terms of the Act for the relevant Commonwealth authorities to determine the net amount received by the Commonwealth for the previous year of the taxes included in the agreement.

The amount determined by the relevant authorities as the total taxation receipts for 1983-84 was \$43 377 million. Of this sum, 20.323 per cent (\$8 815 million) was distributed as basic grants to the States in 1984-85 in accordance with section 11B of the Act.

As the amount distributed to the States was \$242.9 million less than the guaranteed minimum tax sharing amount determined in accordance with section 11A(1) of the Act, this additional amount was made available and distributed between the States (except New South Wales and Queensland). Victoria's share of this additional amount was \$26.5 million.

In summary, Victoria's share of the distribution was as follows:

	\$million
Basic tax sharing grant	1 993.4
Additional grant	26.5
	<hr/>
	2 019.9
	<hr/>

The main factor leading to the increase of \$93.7 million over the receipts for 1983-84 was the increase in the total taxation receipts of the Commonwealth.

(2) Medicare

Medicare grants to the State are designed to compensate the State for:

- . revenue losses associated with both the abolition of accommodation charges for public patients in public hospitals and of charges for public hospitals inpatient and outpatient care and the reduction in accommodation fees for private patients in public hospitals; and
- . costs arising from the increased requirement to provide medical services to public patients arising from the change in the numbers of patients with public rather than private status.

Grants in 1984-85 totalled \$249.2 million (1983-84, \$80 million). The increase of \$169.2 million in the grants received in 1984-85 was due to the operation of the arrangements for a full year.

(3) Health Grant

The health grant received under the States (Tax Sharing and Health Grants) Act 1981 increased from \$323.2 million in 1983-84 to \$344.2 in 1984-85. The increase of \$21 million was due to higher taxation receipts of the Commonwealth.

(4) Pipeline Grant

Receipts from the pipeline grant fell to \$7 million and represent the final instalment from the Commonwealth following the High Court judgement which ruled the Pipeline Licence Fee invalid.

LOAN RAISINGS, WORKS GRANT ETC.

3.2.31 The receipts derived from the items contained under this heading in the Treasurer's Statement for the past 2 years comprise:

	1983-84	1984-85	
	\$000	\$000	+ Increase - Decrease \$000
Proceeds of loan raisings	201 548	216 949	+ 15 401
Works grant	123 019	131 016	+ 7 997
School building grants	68 391	89 696	+ 21 305
Bicentennial Roads Program	72 604	82 487	+ 9 883
Commonwealth Roads Act	156 523	165 979	+ 9 456
Housing	121 899	149 195	+ 27 296
Sale of transport assets	299 602	59 826	- 239 776
State Development Account	162 423	133 180	- 29 243
Transfer from Works and Services Account	103 535	477 199	+ 373 664
Other	92 713	119 807	+ 27 094
	<hr/>	<hr/>	
	1 402 257	1 625 334	+ 223 077
	<hr/>	<hr/>	

NB: Loan raisings and advances from the State Development Account contribute to the State's public debt.

3.2.32 The actual receipts for 1984-85 exceeded those of the previous year by \$223 million, but still fell short of the Budget estimate by \$156.3 million.

The net shortfall of \$156.3 million was made up as follows:

	\$000	\$000
Shortfalls from Budget estimate		
Transfer from Works and Services Account	127 517	
State Development Account	25 047	
Loan repayments	14 583	
Other	<u>5 577</u>	172 721
Offset by items in excess of Budget estimate		
School building grants	10 585	
Other	<u>5 881</u>	<u>16 466</u>
		<hr/>
		156 255
		<hr/>

These variances are discussed in subsequent paragraphs.

3.2.33 Comments on certain of these items follow:

(1) Transfer From Works and Services Account

Actual receipts into the Works and Services Account in 1984-85 were \$436.6 million. These consisted of the proceeds of borrowings by the Transport Authorities and the Capital Works Authority under Loan Council arrangements. This compared with estimated receipts of \$514.2 million, a decrease of \$77.6 million on the Budget estimate.

In addition, a decision was taken by the Government to hold as a balance in the Works and Services Account an amount which represented unspent Commonwealth and State capital funds. The balance at 30 June 1985 was \$49.8 million compared with a balance of \$90.4 million at 30 June 1984. The combined effect of lower receipts and maintaining a balance in the account was that the amount to be transferred to the Consolidated Fund was \$127.4 million less than provided for in the Budget.

(2) State Development Account

Expenditure on State Development Program projects was less than originally estimated and, as a consequence, less funds than originally forecast were borrowed from this source. The lower expenditure reflected the strengthening of the economy and a tightening of the tendering position in the building and construction industry during the year, as a result of which new State Development Program projects were not cleared to proceed. In addition, progress was slower than expected on existing projects. The possible need for lower levels of capital expenditure in the Budget area as a result of strong recovery in the private sector was foreshadowed in the Treasurer's Budget speech in September 1984.

(3) Proceeds of Loan Raisings and Loan Repayments

Total receipts to the Consolidated Fund from loan raisings and loan repayments of \$287.7 million, exclusive of Commonwealth contributions, were \$17.6 million more than the comparable figure for 1983-84. The receipts consisted of \$216.9 million, the net proceeds of loans raised under Victoria's share of the works program approved by the Loan Council, \$45.1 million under the States (Works and Housing) Assistance Act 1982 and repayments totalling \$25.7 million in respect of advances made to various organisations by the State in 1984/85 and in prior years.

An examination of the loan repayments over the past 2 years indicates the following:

	1983-84 \$000	1984-85 \$000
Estimated receipts	66 697	41 300
Actual receipts	<u>24 946</u>	<u>26 717</u>
Shortfall of receipts compared with Budget estimates	<u>41 751</u>	<u>14 583</u>

The variance between the actual receipts from this item and those included in the Budget indicates that budgetary procedures in this area require attention so as to ensure more accurate forecasting. (Refer previous comments under Recoveries of Debt Charges para 3.2.12.)

(4) Sale of Transport Assets

The amount received in 1984-85 totalled \$59.8 million (1983-84, \$299.6 million).

The reduction of \$239.8 million in the proceeds from the sale of assets was due largely to the reduction in the availability of assets to sell. In contrast there was an increase in borrowings by Transport Authorities from \$113.1 million in 1983-84 to \$352.1 million in 1984-85 to finance their capital works.

3.3 CONSOLIDATED FUND PAYMENTS - OVERVIEW

3.3.1 Legislative authority for payments from the Consolidated Fund is contained in:

- (1) many Acts of Parliament which specifically authorise such expenses as debt charges, pensions, etc. on a continuing basis known as Special Appropriations;
- (2) the Public Account Act 1958 which authorises the Treasurer to make advances from the Public Account and to transfer moneys to the Works and Services Account from the Consolidated Fund; and
- (3) the relevant Appropriation Act which provides annual authorities for the recurrent and works and services expenditures of departments known as Annual Appropriations.

Introduction

3.3.2 For the purposes of my Report, the figures for the departments which were in existence at 30 June 1985 have been shown. Figures relating to previous departments which existed prior to the machinery of government changes have been incorporated into the new departments to give meaningful comparisons.

3.3.3 In relation to comments on variations between 1983-84 and 1984-85, I have used the recast figures contained in the Appropriation (1984-85, No. 1) Act 1984 which have been reconciled with the figures contained in the Treasurer's Statement for 1983-84.

3.3.4 In 1984-85, for the first time a single appropriation Act, the Appropriation (1984-85, No. 1) Act 1984 incorporated both the recurrent expenditures and the works and services expenditures of departments. As a result, there was no requirement for a Works and Services Appropriation Act as in previous years. This resulted in the transfer of \$477.2 million from the Works and Services Account in the Trust Fund to the Consolidated Fund for the purpose of works and services expenditures.

3.3.5 Details of the amounts applied compared with Budget estimates and with those of the previous year are as follows:

	Actual 1983-84 \$000	Budget 1984-85 \$000	Actual 1984-85 \$000
Special Appropriation			
Debt charges, pensions etc.	1 216 104	1 274 316	1 334 719
Recurrent Appropriations	5 263 219	5 873 829	5 867 675
Works and Services Appropriations	1 377 071	1 782 509	1 625 333
	<hr/>	<hr/>	<hr/>
	*7 856 394	8 930 654	8 827 727
	<hr/>	<hr/>	<hr/>

* Reconciliation between 1983-84 and 1984-85:	
	\$000
Payments as per Treasurer's Statement	
- 1983-84	7 752 859
Add Works and Services Account adjustment due to single Appropriation Act	103 535
	<hr/>
Adjusted Payments 1983-84	7 856 394
	<hr/>

DETAILED ANALYSIS OF PAYMENTS

3.3.6 A detailed review of payments under specific headings of expenditure appropriation follows.

Special Appropriations

3.3.7 Special appropriations for the payment of debt charges, certain salaries and general expenses, pensions and other services are provided for on a continuing basis in many Acts of Parliament. These appropriations are not required to be authorised annually by Parliament.

3.3.8 A comparison of the special appropriations for the 2 years under broad headings is given in the following statement:

	1983-84 \$000	1984-85 \$000	+ Increase - Decrease \$000
Debt charges			
Interest including exchange	518 073	551 262	+ 33 189
Repayment of advances - Cash Management Account and State Development Account	67 100	70 800	+ 3 700
National Debt Sinking Fund	45 706	47 618	+ 1 912
Repayment of advances - Commonwealth-State housing and soldier settlement	12 627	13 299	+ 672
Loan management, flotation expenses etc.	2 489	1 473	- 1 016
	<hr/>	<hr/>	
Total debt charges	645 995	684 452	+ 38 457
	<hr/>	<hr/>	
Salaries and allowances	13 922	14 906	+ 984
General expenses	1 924	8 156	+ 6 232
Other services			
Hospitals and Charities and Mental Hospitals Funds (Tattersalls Receipts)	201 313	200 680	- 633
Hospitals and Charities Fund (Totalizator Receipts)	72 907	81 929	+ 9 022
Insurers Guarantee and Compensation Supplementation Fund	7 000	18 035	+ 11 035
Criminal injuries compensation	4 232	4 392	+ 160

	1983-84	1984-85	+ Increase
	\$000	\$000	- Decrease
			\$000
Hospitals and Charities Fund (Hospital Benefits Levy)	21 630	..	- 21 630
Racing Act 1958	16 407	18 477	+ 2 070
Other	2 802	2 856	+ 54
	<hr/>	<hr/>	<hr/>
Total Other Services	326 291	326 369	+ 78
	<hr/>	<hr/>	<hr/>
Pensions			
State Transport Authority Pensions	45 861	49 953	+ 4 092
Pensions (other than State Transport Authority)	182 111	205 883	+ 23 772
	<hr/>	<hr/>	<hr/>
Total Pensions	227 972	255 836	+ 27 864
	<hr/>	<hr/>	<hr/>
Deposits - Victorian Development Fund	..	45 000	+ 45 000
	<hr/>	<hr/>	<hr/>
Total Special Appropriations	*1 216 104	1 334 719	+ 118 615
	<hr/>	<hr/>	<hr/>

* 1983-84 figures have been recast to reflect new treatment of Works and Services Account.

3.3.9 Comments on major variations for the year follow:

(1) Public Debt Charges

Debt charges on the public debt in 1984-85 totalled \$684 million compared with \$646 million in 1983-84.

Included in the sum of \$684 million are:

	\$000
Debt Charges - Financial Agreement	508 574
Other Debt - Commonwealth - State Housing and Soldier Settlement	62 752
Cash Management Account - Interest and Repayment of Advances	41 317
State Development Account - Interest and Repayment of Advances	71 810
	<hr/>
	684 453
	<hr/>

The main reasons for the increase of \$38.5 million were:

- . a \$24.4 million increase in debt charges under the Financial Agreement due to the higher level of Public Debt and interest charges thereon;
- . an increase of \$13.2 million in transactions with the Victorian Development Fund as follows:

Interest and Repayment of Advances

	1983-84	1984-85	+ Increase - Decrease
	\$000	\$000	\$000
State Development Account	30 041	71 809	+ 41 768
Cash Management Account	69 933	41 317	- 28 616

The State Development Account increase comprises increases in the repayment of advances of \$20.2 million and interest of \$21.6 million due to recoveries of funds advanced under the State Development Program.

Repayments of advances to the Cash Management Account fell by \$16.5 million and interest fell by \$12.1 million due to advances to the Consolidated Fund falling from \$2 684 million to \$158 million. The reduction in advances during 1984-85 was due to a more liquid situation brought about mainly by the weekly funding of the tax sharing grant in lieu of monthly funding, higher taxation receipts than estimated and improved cash management.

(2) Contributions to the Hospitals and Charities Fund - Hospitals Benefits Levy

The Hospitals Benefits (Levy) (Amendment) Act 1983 abolished the levy from 1 April 1984 and thus there were no funds to appropriate to the above Fund in 1984-85.

(3) Pensions (other than State Transport Authority)

Pensions payable under various schemes increased from \$182.1 million in 1983-84 to \$205.9 million in 1984-85, an increase of 13.07 per cent. The main reasons for the increase were:

- (i) an increase in the number of pensioners;
- (ii) the twice yearly C.P.I. adjustment to the pensions;
- (iii) the acceptance of the full C.P.I. adjustment by Commonwealth Aged Pensioners rather than the deferral of such adjustment due to the Department of Social Security deeming the deferred amount to be income for the purpose of Commonwealth Aged Pension Entitlement; and
- (iv) pensioners who died during the year had a low salary base, whereas new pensioners have a higher salary base which attracts a higher pension.

(4) General Expenses

General Expenses increased by \$6.2 million to \$8.2 million due mainly to the costs incurred in holding the State election. These costs amounted to \$6.9 million.

(5) Insurers Guarantee and Compensation Supplementation Fund

Payments to the Fund increased from \$7 million in 1983-84 to \$18 million in 1984-85. The main reason for the increase was the repayment by the Treasurer on 28 June 1985 of \$12.8 million to the Fund as the final repayment of moneys transferred to the Consolidated Fund in 1981-82.

Section 98A(3) of the Workers Compensation Act 1958 provides for the Treasurer to repay the moneys to the Fund if the balance to the credit of the Fund is at any time inadequate to defray any amount required to be paid therefrom.

At the date of the transfer, viz 28 June 1985, the Fund had a balance in excess of \$2 million.

Other comments on the Fund are contained in paras. 3.3.12 and 3.5.15.

(6) Deposits

On 28 June 1985 the Treasurer deposited \$45 million in the Victorian Development Fund. The effect of the payment was to reduce the surplus of the Consolidated Fund for the year, from \$44.5 million to a deficit of \$0.5 million.

Previous comment on this item was given in section 3.1 of this report.

(7) Works and Services Account

The payment to the Works and Services Account fell from \$1 299 million in 1983-84 to nil in 1984-85 due to changed appropriation procedures for works and services expenditure as detailed in section 3.1 of this report.

Annual Appropriations

3.3.10 Annual appropriations comprised the following:

(1) Appropriation (1984-85, No. 1) Act 1984

Departmental program payments for the year were authorised by this Act.

(2) Section 4 of the Appropriation (1984-85, No. 1) Act 1984

Section 4 of the Act authorised the Treasurer in 1984-85 to issue out of the Consolidated Fund such additional amounts as were necessary to meet increases in salaries and associated expenditure resulting from any Act or determination to the extent that the amounts provided in the Appropriation Act were insufficient. In 1984-85, \$20.3 million was authorised by the Treasurer, to meet increases in salary costs (1983-84, \$121.2 million).

(3) Treasurer's Advance

The Public Account Act 1958 authorises the temporary issue and application from the Public Account of any sums not exceeding in all \$30 million for advances to the Treasurer to enable him to meet urgent claims that may arise before parliamentary sanction is obtained. The Treasurer applied \$26.2 million from this source in 1984-85. In addition, a further sum of \$65 million was made available to the Treasurer in 1984-85, under the authority of the Appropriation (1984-85, No. 1) Act 1984 (Program No. 729). In 1984-85, \$64.9 million was expended from the Treasurer's Advance pending parliamentary sanction.

(4) Transfers under Section 19 of the Appropriation (1984-85, No. 1) Act 1984

As detailed in section 3.1 of this Report the Appropriation (1984-85, No. 1) Act 1984 provided the Treasurer with authority to transfer funds between sub-divisions of programs within the same Department.

In accordance with the Act, the Treasurer's Statement gives particulars of transfers approved during the year.

(5) Transfers under Section 25 of the Audit Act 1958

Section 25 of the Audit Act 1958 permits the appropriated amount of any item to be increased by the amount of an offsetting reduction in another item in the same sub-division.

Such transfers between items are authorised by the Governor-in-Council. During the year transfers totalling \$16.1 million were effected under section 25 of the Audit Act 1958. In compliance with this directive a statement containing the relevant information is submitted in Appendix 1 to this report.

(6) Block Funding

Departments may make transfers between the following sub-items with the approval of the Department of Management and Budget:

- . travelling and subsistence;
- . office requisites and equipment, printing and stationery;
- . books and publications;
- . postal and telephone expenses;
- . motor vehicles - purchase and running expenses;
- . fuel, light, power and water; and
- . incidental expenses.

During the year a number of such transfers were approved by the Department of Management and Budget.

(7) Administrative Arrangements Act 1983

Consequent upon the machinery of government changes announced by the Government subsequent to the 1985 elections, and other administrative decisions, Orders-in-Council were made under the provisions of the abovementioned Act transferring certain funds from appropriations made under the Appropriation (1984-85, No.1) Act 1984 to the appropriations of the Departments which assumed the responsibility for the functions transferred. Details of the transfers are given in Appendix 2 to this report.

Certain machinery of government changes which were announced by the Government have not eventuated as it has not been practicable to transfer the funds from one department to the other due to:

- (i) the need for clarification of the resources to be transferred;
- (ii) the completion of investigations by working parties to settle industrial and related issues; and
- (iii) establishment of an adequate staffing structure within the transferee department to administer the functions transferred.

3.3.11 A comparison of the annual appropriations for the 2 years is given in the following statement:

	1983-84	1984-85	+ Increase - Decrease
	\$000	\$000	\$000
Education	2 117 659	2 335 025	+ 217 366
Health	1 186 987	1 470 154	+ 283 168
Transport	1 346 377	1 429 761	+ 83 384
Treasurer	379 176	465 940	+ 86 764
Police and Emergency Services	339 023	367 247	+ 28 224
Housing	178 092	205 293	+ 27 201
Community Services*	157 555	175 079	+ 17 524
Attorney-General	136 279	162 084	+ 25 805
Conservation, Forests and Lands	144 825	158 884	+ 14 059
Water Resources	155 563	157 029	+ 1 466
Public Works	88 240	104 093	+ 15 853
Agriculture and Rural Affairs*	92 404	99 212	+ 6 808
Arts	71 483	85 674	+ 14 191
Industry, Technology and Resources*	76 940	82 384	+ 5 444
Employment & Industrial Affairs*	33 053	40 573	+ 7 520
Planning and Environment	23 848	29 780	+ 5 932
Premier and Cabinet	27 609	29 459	+ 1 850
Sport and Recreation*	18 766	22 834	+ 4 068
Property and Services	24 688	22 530	- 2 158
Tourism	13 621	18 956	+ 5 335
Parliament	11 794	13 036	+ 1 242
Local Government	10 807	11 111	+ 304
Consumer Affairs	2 932	3 802	+ 870
Ethnic Affairs	2 571	3 068	+ 497
Total Annual Appropriations	6 640 290	7 493 008	+ 852 718

Note: Table does not add due to rounding of figures.

* With effect from 21 March 1985 the following organisational changes were made:

- . Establishment of a new Department of Employment and Industrial Affairs resulting from an amalgamation and reorientation of the functions of the Ministry of Employment and Training, Department of Labour and Industry and Ministry of Industrial Affairs.

- . Changes of name to the Departments of Agriculture, Community Welfare Services and Youth, Sport and Recreation to reflect variation and reorientation of their functions. They are now known respectively as:
 - Department of Agriculture and Rural Affairs;
 - Department of Community Services; and
 - Department of Sport and Recreation.

With effect from 28 March 1985 the following organisational changes were made:

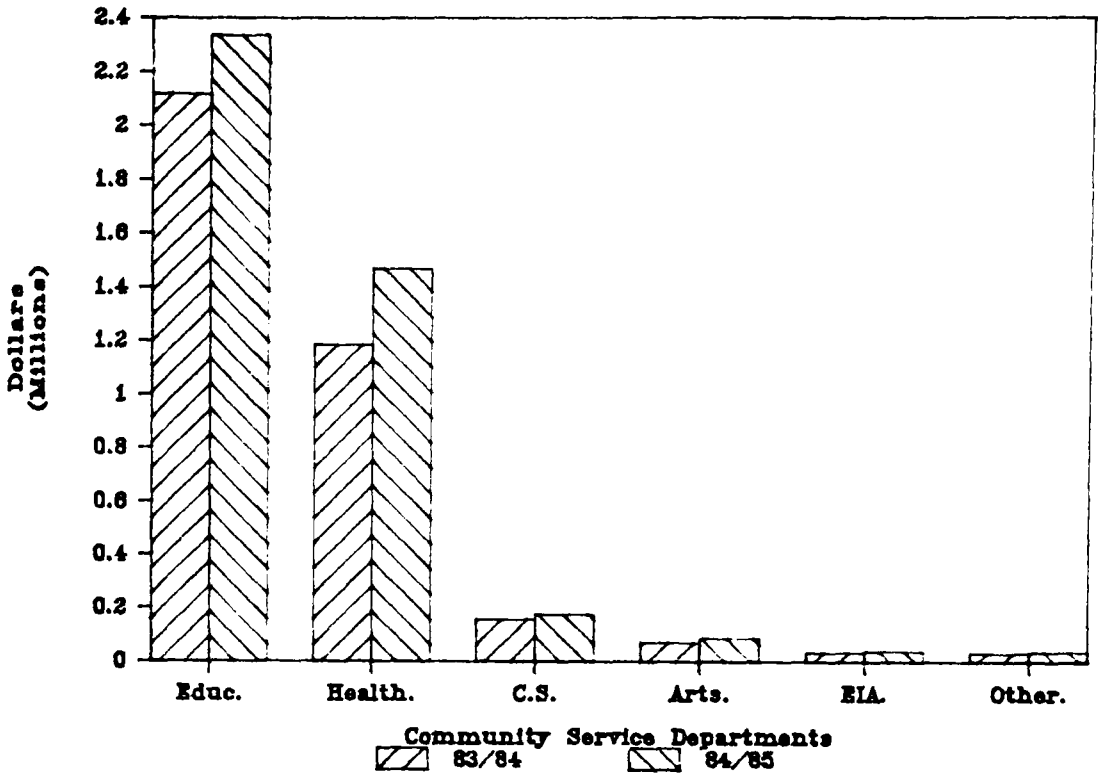
- . The Department of Industry, Commerce and Technology was renamed Department of Industry, Technology and Resources to reflect variation and re-orientation of functions.
- . The Department of Minerals and Energy was removed as a department and the Office of Minerals and Energy was created as an associated administrative unit within the Department of Industry, Technology and Resources.

3.3.12 In the summary shown at the end of this section, the actual payments for the year are compared with the amounts appropriated for the various departments and services.

3.3.13 Of the total increase of \$852.7 million in the payments made under annual appropriations for the year, payments made in the nature of salaries increased from approximately \$2 187 million in 1983-84 to \$2 370 million in 1984-85, i.e. an increase of \$183 million or approximately 8.4 per cent. The item includes salaries and allowances, overtime and penalty rates, payments for long service leave and retiring allowances payroll tax and certain superannuation contributions charged against the annual appropriations of the various departments shown in par 3.3.11.

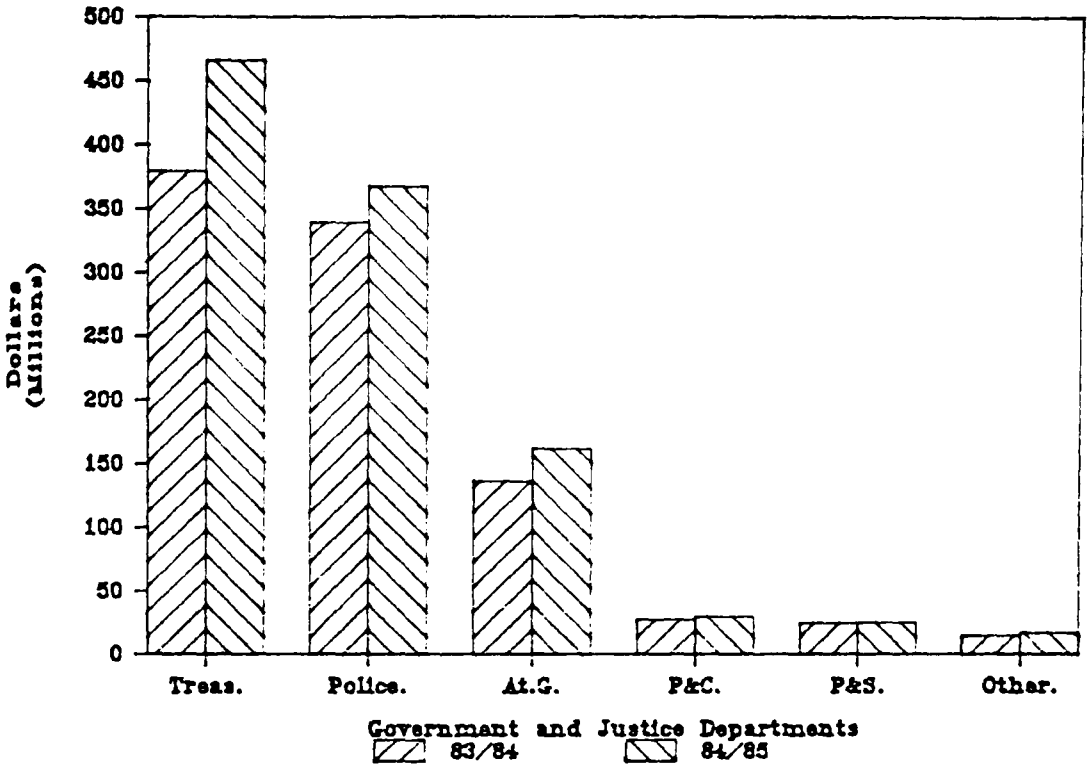
3.3.14 The following charts illustrate the payments made for the past 2 years under the 3 major program budget classifications.

COMMUNITY SERVICE DEPARTMENTS



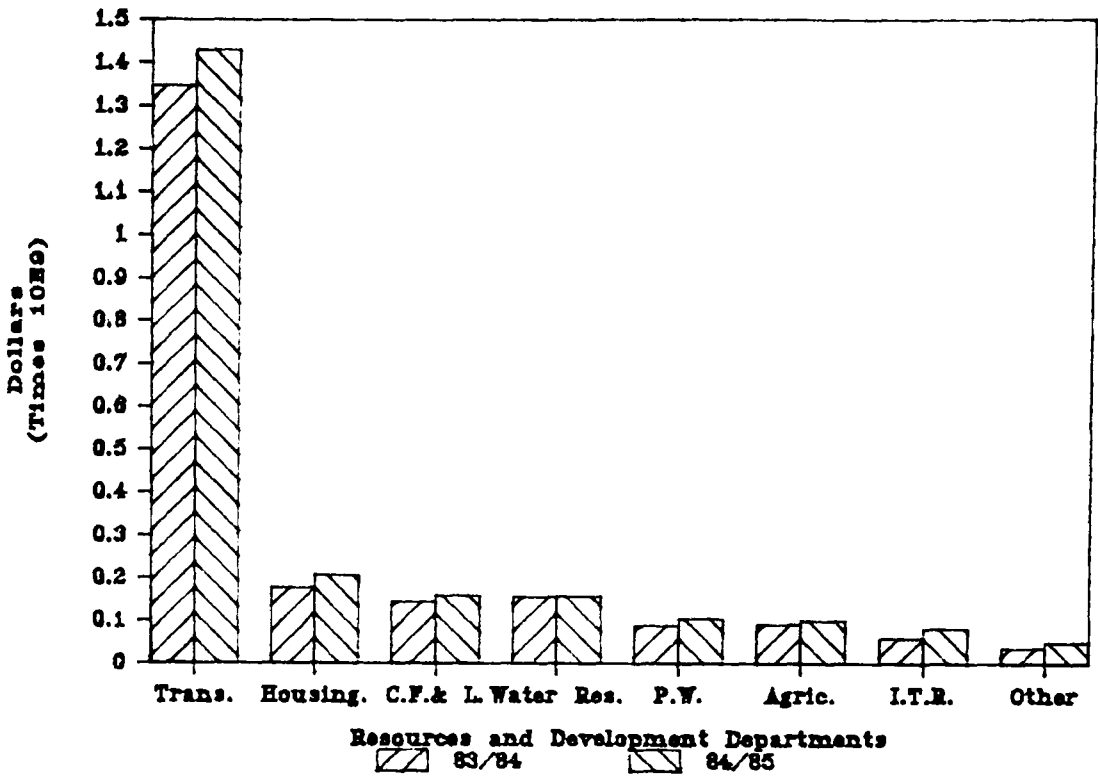
	<u>1983-84</u>	<u>1984-85</u>
	\$000	\$000
Education	2 117 659	2 335 025
Health	1 186 987	1 470 154
Community Services	157 555	175 080
Arts	71 483	85 674
Employment and Industrial Affairs	33 053	40 575
Sport and Recreation	18 766	22 834
Local Government	10 807	11 111
Ethnic Affairs	2 571	3 068

GOVERNMENT AND JUSTICE DEPARTMENTS



	<u>1983-84</u>	<u>1984-85</u>
	\$000	\$000
Treasurer	379 176	465 940
Police	339 023	367 247
Attorney General	136 279	162 086
Premier and Cabinet	27 609	29 459
Property and Services	24 688	22 530
Parliament	11 794	13 035
Consumer Affairs	2 932	3 801

RESOURCES AND DEVELOPMENT DEPARTMENTS



	<u>1983-84</u>	<u>1984-85</u>
	\$/000	\$/000
Transport	1 346 377	1 429 761
Housing	178 092	205 293
Conservation, Forests & Lands	144 825	158 883
Water Resources	155 563	157 029
Public Works	88 240	104 093
Agriculture	92 404	99 212
Industry, Technology & Resources	59 058	82 381
Planning and Environment	23 848	29 780
Tourism	13 621	18 956

3.3.15 Comments on the main variations for the year follow:

Health Commission

Payments made by the Health Commission in 1984-85 totalled \$1 470 million, which was an increase of \$283 million, 23.8 per cent, over the previous year and exceeded the amount provided for in the Budget by \$13 million. The main reasons for the increase were:

- (1) the transfer of an additional \$209 million to the Hospitals and Charities Fund to meet maintenance payments to hospitals;
- (2) additional salary costs of \$23.8 million, due mainly to national wage increases;
- (3) additional works and services expenditure of \$10 million for hospitals; and
- (4) additional subsidies to the Cancer Institute Board of \$4 million to meet running costs.

Education

Payments in 1984-85 increased by \$217.4 million, 10.3 per cent to a total of \$2 335 million. The major increases were:

- (1) an increase of 7.3 per cent in salary costs over 1983-84, amounting to \$95.4 million;
- (2) an increase of 13.7 per cent in operating expenditure and works and services payments amounting to \$53.6 million;
- (3) an increase of 18.8 per cent in grants for technical and further education, amounting to \$42.4 million; and
- (4) an increase of 41.8 per cent in funding for equal educational opportunities, amounting to \$10 million.

Treasurer

Payments from programs under the Treasurer increased from \$379 million to \$466 million, an increase of \$87 million or 23 per cent. However, the payments were \$80 million, 15 per cent, less than the amount provided for in the Budget. Comment on the major variations follow:

Works and Services Expenditure

Works and services expenditure of \$162.3 million under the Transfers and Other Payments Program was 56 per cent more than the amount expended in 1983-84 (\$103.9 million) but the amount fell short of the Budget estimate of \$276.7 million by \$114.4 million or 41 per cent.

The largest variance was in expenditure charged to the Capital Development Fund viz:

	Budget \$000	Actual \$000
State Development Program	179 303	126 427
Major Initiatives Program	65 000	20 000
	<hr/>	<hr/>
	244 303	146 427
	<hr/>	<hr/>

The 60 per cent shortfall from Budget was due mainly to:

- (1) spending on a number of projects in the State Development Program proceeding at a slower rate than expected; and
- (2) only \$20 million of the \$65 million allocated for the Major Initiatives Program being expended due to the failure of new projects to proceed to the implementation stage during the year.

The major single projects funded under the State Development Program in 1984-85 were:

	\$000
Melbourne and Metropolitan Board of Works	
- Western Trunk Sewer	30 809
Portland Smelter Unit Trust	20 000
Webb Dock Rail Link	11 403

Payments made under the Program on departmental projects are to be repaid to the Consolidated Fund (Recoveries of Debt Charges) and the interest and principal repayments on the funds provided have been included in the works and services expenditure of the relevant departments. At 30 June 1985 departments were liable to make repayments totalling \$149.3 million and public bodies \$115.3 million respectively.

Recurrent Expenditure

Recurrent expenditure of \$267.3 million under the Transfers and Other Payments Program was \$21.8 million (9 per cent) more than the amount expended in 1983-84 and exceeded the original Budget estimate by \$38.4 million (17 per cent). The main items which led to the increase over the Budget estimate were:

- (1) Ex-gratia Refund of Stamp Duties as a Result of Corporate Reconstructions

Under authority of the Treasurer's Advance ex-gratia refunds of \$13.6 million were made to Corporations where stamp duty had been paid on bona-fide corporate reconstructions. This item was not present in 1983-84.

(2) Interest - Insurers' Guarantee Compensation and Supplementation Fund

In terms of an undertaking given by the previous Treasurer to Parliament on 18 November 1981, that the government would pay "an amount that would accrue for interest" on the \$30 million transferred from the Fund to the Consolidated Fund in 1981-82, an amount of \$8 million, under the authority of the Treasurer's Advance, was credited to the Fund on account of interest. The amount of \$8 million is deemed to be an estimate of the interest owing and any adjustments will be made in future years.

(3) Rebate to the State Electricity Commission of Victoria in respect of Electricity supply to Alcoa of Australia at Point Henry under the Flexible Tariff Deed

In 1984-85 the Government for the first time paid a \$15.4 million rebate to the State Electricity Commission in respect of electricity supplied to Alcoa of Australia Limited at Point Henry under the Flexible Tariff Deed. It was necessary to utilise \$8.9 million of the Treasurer's Advance to make the payment. As the amount payable to the State Electricity Commission is tied to the world aluminium price, it would appear that the amount provided for in the Budget of \$6.5 million was based on a higher world market price of the metal than that which actually prevailed during 1984-85.

(4) Workers Compensation Insurance

Payments to the State Insurance Office in 1984-85 totalled \$41.7 million, an increase of \$20 million over the amount paid in 1983-84. Prior to 1984-85, the government's workers compensation policy was on a "cost plus" basis, however, for 1984-85 the "pay-as-you-go" basis was adopted. The Office estimated that the premium for 1984-85 would be \$44.8 million and after allowances for former employees of the Forests Commission and additional claims paid in May 1985, the final estimated payment due to the Office was \$45.5 million. Any balance due to the Office for 1984-85 will be paid in 1985-86 when the method of calculating the premium has been finalised and the actual payments for the year are known.

(5) Arrangements for the repayment of Pipeline Licence Fees

In terms of the agreement between the Government and Esso/BHP referred to in para 2.2.11 of my Report on the Treasurer's Statement for 1983-84 an amount of \$41.6 million was paid to Esso/BHP in 1984-85.

(6) Victorian Natural Disasters Relief Account

Payments to this account fell from \$22.5 million in 1983-84 to \$4.9 million in 1984-85. The decrease in the contribution was due to fewer natural disasters in Victoria in 1984-85.

(7) Motor Vehicle Purchase Incentives

The abolition of the \$250 rebate on new car purchases resulted in payments falling from \$8.7 million in 1983-84 to \$4.7 million in 1984-85.

(8) Government Printing Office Working Account

Amounts credited to this account increased from \$23.7 million in 1983-84 to \$27.8 million in 1984-85. The increase of \$4.1 million reflects the higher level of operations of the Office in 1984-85.

(9) Non-Recurring Items

The major non-recurring items that were present in 1983-84 were:

	\$000
Payment to the State Electricity Commission in respect of the net cost of the deferment of the Alcoa Portland Project (refer also para 3.2.27)	38 600
Payments under the Australian Lotto Bloc Agreement	30 603
Drought Assistance Fodder Subsidy	6

Transport

Expenditure on transport increased by \$83.4 million to \$1 429.7 million in 1984-85. The main reasons for the increase were:

	\$M
Increase in works and services expenditure (mainly funded by Authorities from sale of assets and borrowings)	53.5
Increase in contributions to operating expenses of transport authorities	9.2
Increase in subsidies to private bus operators	6.9
Increase in debt repayments and interest on moneys borrowed to finance the construction of the loop	4.8
Net increase in expenditure on special projects includes a loan of \$5 million to the State Transport Authority.	

Attorney-General

Payments made by the Attorney-General increased by \$25.8 million, from \$136.3 million in 1983-84 to \$162.1 million in 1984-85. The net increase was due mainly to:

(1) Correctional Services

- (i) Additional salary costs of \$10.6 million in 1983-84 a 29 per cent increase from \$36.8 million in 1983-84 to \$46.9 million in 1984-85 due to increases in staff.
- (ii) An increase of 113 per cent in works and services expenditure of \$6.3 million.

(2) Law Department

- (i) \$1.6 million increase in building and redevelopment costs of courts. Due to delays in the completion of certain major projects, only \$2.3 million was expended in the year from a budget allocation of \$4.2 million.

- (ii) \$1.3 million increase in professional assistance payments by the Office of the Director of Public Prosecutions.
- (iii) The contribution to the Legal Aid Fund fell from \$3.4 million in 1983-84 to nil in 1984-85 as this was a non-recurring payment.
- (iv) \$2.8 million decrease in building and civil engineering works, including maintenance costs of the Corporate Affairs Office.

Police and Emergency Services - Police

Total payments increased from \$339 million in 1983-84 to \$367.2 million in 1984-85, an increase of \$28.2 million or 8.3 per cent. The main reasons for the increase were:

- (1) Salaries and payments in the nature of salary increased from \$261.8 million in 1983-84 to \$279.5 million, an increase of \$17.7 million or 6.8 per cent. Staff numbers increased by 5 per cent during the year.
- (2) Expenditure on works and services increased from \$11.2 million in 1983-84 to \$15.6 million in 1984-85, an increase of \$4.4 million or 39.3 per cent. The major expenditures were on police communications \$4.1 million and the Forensic Science Laboratory \$2.1 million.

Housing

Payments made by the Ministry during 1984-85 totalled \$205.3 million. The amount was an increase of \$27.2 million over the 1983-84 payments of \$178.1 and represented an increase of 15.3 per cent.

The main reasons for the variation were:

- (1) expenses of the management of rental housing and related services increased from \$28.3 million in 1983-84 to \$34.9 million in 1984-85. The increase reflects additional funds available for housing and in particular:
 - (i) funds provided for expenditures associated with the Ministry's estate improvement sub-program; and
 - (ii) funds provided by the Commonwealth Government for the new local government and community housing program.
- (2) Costs of acquisition of accommodation for rental increased from \$124.1 million in 1983-84 to \$151.5 million in 1984-85. The additional spending reflects increased funds for housing from the Commonwealth under the Commonwealth-State Housing Agreement and the expanded program that has resulted.
- (3) The provision of home ownership assistance fell from \$23.2 million in 1983-84 to \$13.8 million in 1984-85 due mainly to transactions in this area being conducted outside the Consolidated Fund. The use of external borrowings and internally generated funds by the Director of Housing for the home purchase assistance program in 1984-85 led to this situation.

Community Services

Total payments by the Department increased from \$157.6 million in 1983-84 to \$175.1 million in 1984-85, an increase of \$17.5 million or 11.1 per cent. The main reasons for the increase were:

- (1) additional fare concessions to pensioners of \$2.6 million;
- (2) additional rate concessions to pensioners of \$5.1 million; and
- (3) additional grants and other payments relating to State wards, children in homes and non-government institutions of \$2.4 million.

Public Works

Payments made by the Department in 1984-85 totalled \$104.1 million, an increase of \$15.9 million or 18 per cent on those of the previous year.

The major increase of \$9.9 million or 36.1 per cent was in rents, allowances, municipal and other charges.

The increase was due to a general increase in rental charges and the provision of additional accommodation. Main increases were in respect of premises occupied by Police (\$2.8 million), Education (\$1.9 million), Health (\$1.7 million), Attorney-General (\$1.1 million) and Housing (\$1 million).

Ministry for the Arts

Payments by the Ministry increased from \$71.4 million in 1983-84 to \$85.7 million in 1984-85, an increase of \$14.3 million or 20 per cent.

The main reasons for the increase were:

- (1) the cost of Victoria's 150th Anniversary Celebrations - \$8.2 million; and
- (2) expenditure on works and services relating to Film Victoria which increased from \$2.6 million in 1983-84 to \$4.9 million in 1984-85.

Water Supply

Payments under this item increased only marginally from \$155.5 million in 1983-84 to \$157 million in 1984-85. However, there were a number of significant variations during the year:

- (1) Due to changed accounting arrangements for the Rural Water Commission, expenditure previously charged to appropriations and recovered as an on-cost and paid to Revenue is now directly charged to appropriations. This resulted in non-recurring items of \$14.1 million.
- (2) An increase of \$4.5 million in subsidies to urban water and sewerage authorities in instances where average bills exceed 1.2 times the State average was due to:
 - (i) replacement of interest subsidies on loans of the authorities with revenue subsidies; and

- (ii) subsidies to authorities to limit the increases in residential rate bills.
- (3) A 28 per cent reduction in works and services expenditure under the State Water Planning and Policy program from \$12.8 million in 1983-84 to \$9.2 million in 1984-85. The largest reduction was in advances to Authorities to undertake works, \$4.3 million; and
- (3) A 28 per cent reduction in works and services expenditure under the State Water Planning and Policy program from \$12.8 million in 1983-84 to \$9.2 million in 1984-85. The largest reduction was in advances to Authorities to undertake works, \$4.3 million; and
- (4) Increases of 30 per cent (\$6.2 million) and 25 per cent (\$4.7 million) respectively in the recurrent and works and services expenditure of the Water Resources Planning and Management program.

Conservation, Forests and Lands

Payments made by the Department in 1984-85 totalled \$158.9 million, an increase of \$14 million or 9.7 per cent over those of the previous year.

The main reasons for the increase were:

- (1) salaries and payments in the nature of salaries increased by \$5.2 million which included an additional contribution of \$1.76 million to the State Employee Retirement Benefits Board over that made in 1983-84;
- (2) costs of forest operations increased by \$1.7 million or 16 per cent;
- (3) the cost of compensation of \$1.2 million on the closure of the Newmarket saleyards; and
- (4) expenditure on fire suppression increased by \$6.2 million or 147 per cent as it was necessary to employ additional resources to minimise the effects of a disaster similar to that of Ash Wednesday.

ANNUAL APPROPRIATIONS UNDER PARLIAMENTARY AUTHORITY

	Appropriation	Expended under Parliamentary Authority	Unexpended	Expended from Treasurer's Advance	Payments 1984-85
	\$000	\$000	\$000	\$000	\$000
Annual Appropriation					
Parliament	13 745	12 523	1 222	512	13 035
Agriculture and Rural Affairs	99 836	95 988	3 848	3 224	99 212
Arts	85 539	85 182	357	492	85 674
Attorney-General	168 077	158 454	9 623	3 630	162 084
Community Services	175 075	172 253	2 822	2 826	175 079
Conservation, Forests and Lands	160 206	155 964	4 242	2 920	158 884
Consumer Affairs	3 852	3 802	50	..	3 802
Education	2 338 243	2 328 215	10 028	6 810	2 335 025
Employment and Industrial Affairs	40 051	38 526	1 525	2 048	40 573
Ethnic Affairs	3 405	3 064	341	4	3 068
Health	1 464 680	1 457 048	7 632	13 106	1 470 154
Housing	205 370	205 193	177	100	205 293
Industry, Technology and Resources	86 508	82 094	4 414	290	82 381
Local Government	11 417	10 831	586	280	11 111
Planning and Environment	30 552	29 406	1 146	374	29 780
Police and Emergency Services	373 164	366 367	6 797	880	367 247
Premier and Cabinet	28 944	28 309	635	1 150	29 459
Property and Services	24 021	22 213	1 808	317	22 530
Public Works	105 203	102 648	2 555	1 445	104 093
Sport and Recreation	23 911	22 523	1 388	311	22 834
Tourism	19 175	18 862	313	94	18 956
Transport	1 457 924	1 429 237	28 687	524	1 429 761
Treasurer	*598 215	417 395	*180 820	48 545	465 940
Water Resources	159 551	155 963	3 588	1 066	157 029
Total Annual Appropriation	7 676 664	7 402 060	274 604	90 948	7 493 008

* Includes \$65 million Program No. 729, Advance to Treasurer

Note: Due to rounding of amounts, the figures above may vary from those in the Treasurer's Statement and may not add.

3.4 LONG TERM LIABILITIES OF THE STATE

Introduction

3.4.1 In my last 3 reports on the Treasurer's Statement I have expressed the view that consolidated information on the long term liabilities of the State, comprising both the inner and outer Budget sectors, should be included in the Treasurer's Statement.

3.4.2 The 1984-85 Treasurer's Statement identifies the capital liability of the State to the Commonwealth and the contingent liability in respect of the borrowings by most public bodies. The Treasurer's Statement, however, does not disclose:

- the total public debt of the State covering both the inner and outer Budget sectors;
- the total annual debt servicing charges of the State comprising both interest and loan redemption; and
- the extent to which various State revenues are applied to debt servicing.

3.4.3 To assist Parliament in forming a view on the financial position of the State at 30 June 1985, I present the following information on long term liabilities.

3.4.4 For the purposes of my presentation I have grouped long term liabilities under the following categories:

	\$M.
1. Capital liability of the State to the Commonwealth reported as Public Debt in the Treasurer's Statement	4 385
2. Capital liability under Commonwealth-State Housing Agreements	1 336
3. Long term liabilities of public bodies	11 552
4. Long term leasehold commitments entered into by public bodies and the Department of Management and Budget	1 211
5. Other financing arrangements	not available
	<hr/>
	18 484
	<hr/>

3.4.5 I must emphasise that the presentation in my report of additional and consolidated information on the long term liabilities of the State must be viewed as being in the nature of an interim measure. I remain of the view that immediate action must be taken to consolidate the reporting of all long term liabilities of the inner and outer Budget sectors, to provide Parliament with the means of monitoring the financial viability of the State.

3.4.6 It should be noted that the information provided in this section in the main relates to public bodies and departments subject to my audit. It does not deal with long term liabilities incurred by such bodies as the State Bank of Victoria which do not come within the ambit of my statutory audit.

3.4.7 Comments on each group of long term liabilities follow.

Capital Liability of the State to the Commonwealth - \$4 385M

3.4.8 The public debt of the State as shown in the Treasurer's Statement arises from loans raised on behalf of the State by the Commonwealth under the Financial Agreement.

3.4.9 In accordance with the Commonwealth and this State's Financial Agreement, the loans raised by the Commonwealth for the State are approved by the Loan Council and consist of Commonwealth securities.

3.4.10 The Agreement placed the States' sinking funds under the control of the National Debt Commission which administers the National Debt Sinking Fund. The fund receives contributions from the Commonwealth and the States and applies them towards the redemption of the public debt.

3.4.11 Victoria's total liability for these loans as at 30 June 1985 was \$4 385.5 million. Of this amount, \$4 385.2 million represented Australian borrowing and \$0.3 million overseas borrowing. After allowing for cash at credit of the National Debt Sinking Fund, the State's capital liability to the Commonwealth under the Financial Agreement was \$4 385.1 million at 30 June 1985, compared with \$4 204 million at 30 June 1984.

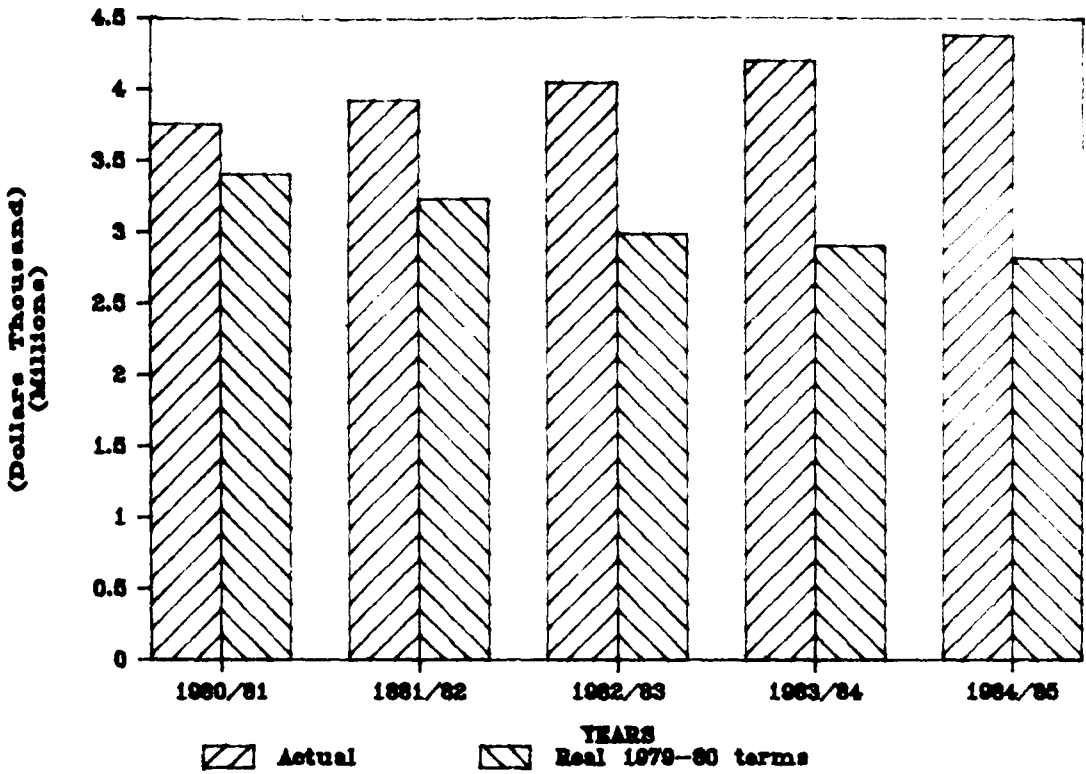
3.4.12 Details of the liability of the State to the Commonwealth in terms of the Financial Agreement and interest thereon for the past 5 years were:

<u>Year</u>	<u>Liability to Commonwealth Under the Financial Agreement as at 30 June</u> \$000	<u>Interest On Public Debt</u> \$000	<u>Average Rate</u> %
1980-81	3 758 134	318 572	8.48
1981-82	3 932 414	359 232	9.14
1982-83	4 045 328	401 873	9.93
1983-84	4 204 126	436 017	10.37
1984-85	4 385 141	459 483	10.48

3.4.13 The following charts illustrate the liability and the interest thereon both in actual and real 1979-80 terms.

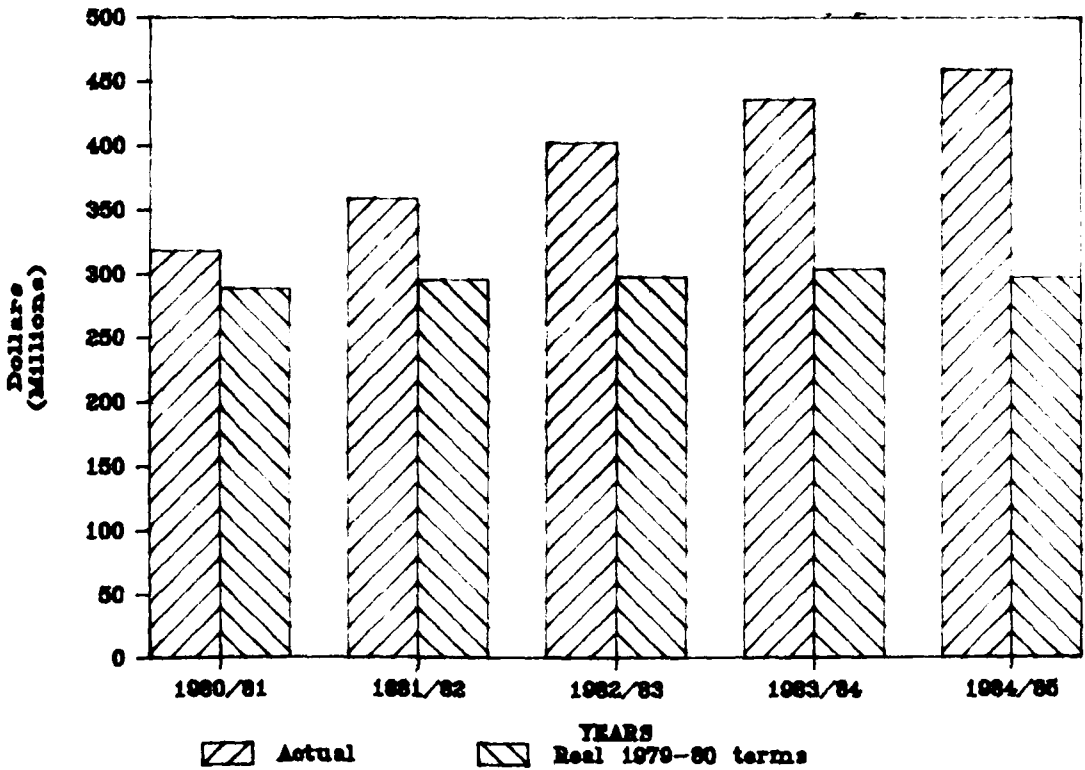
CAPITAL LIABILITY OF THE STATE TO THE COMMONWEALTH

FOR THE PAST 5 YEARS



INTEREST ON THE CAPITAL LIABILITY OF THE STATE

TO THE COMMONWEALTH FOR THE PAST 5 YEARS



3.4.14 Details of the transactions with the Commonwealth during the year and the liability of the State at 30 June 1985 in terms of the Financial Agreement, together with comparative figures for the previous year, are as follows:

	1983-84 \$000	1984-85 \$000
Liability to Commonwealth at 1 July	4 045 328	4 204 126
Loans raised for works	207 628	223 496
Loans raised for redemptions	430 875	584 001
	<hr/>	<hr/>
	4 683 831	5 011 623
Less		
Loans repurchased or redeemed		
By redemption loans	421 951	566 907
By National Debt Sinking Fund	57 760	59 270
	<hr/>	<hr/>
	479 711	626 177
	<hr/>	<hr/>
	4 204 120	4 385 446
	<hr/>	<hr/>
Increase in public debt during the year due to variations in exchange rates for conversion of face value of overseas securities to Australian currency	6	76
	<hr/>	<hr/>
Liability to Commonwealth as at 30 June	4 204 126	4 385 522
Less cash at credit of National Debt Sinking Fund	114	381
	<hr/>	<hr/>
Net liability to Commonwealth as at 30 June	4 204 012	4 385 141
	<hr/>	<hr/>

3.4.15 In addition, liability to the Commonwealth also exists in respect of advances made to the State for a variety of purposes pursuant to Commonwealth-State agreements and arrangements which are not included in the figure of \$4 385.1 million.

Capital Liability under the Commonwealth-State Housing Agreements
- \$1 336 million

3.4.16 State borrowings as disclosed in the Treasurer's Statement under the heading "Public Debt" do not include liabilities totalling \$1 172 million to the Commonwealth in respect of advances for housing purposes under Commonwealth-State housing agreements and \$163.6 million for housing under the States (Works and Housing) Assistance Act 1982. These liabilities are not considered part of the public debt in terms of the Financial Agreement.

Long Term Liabilities of Public Bodies - \$11 552 million

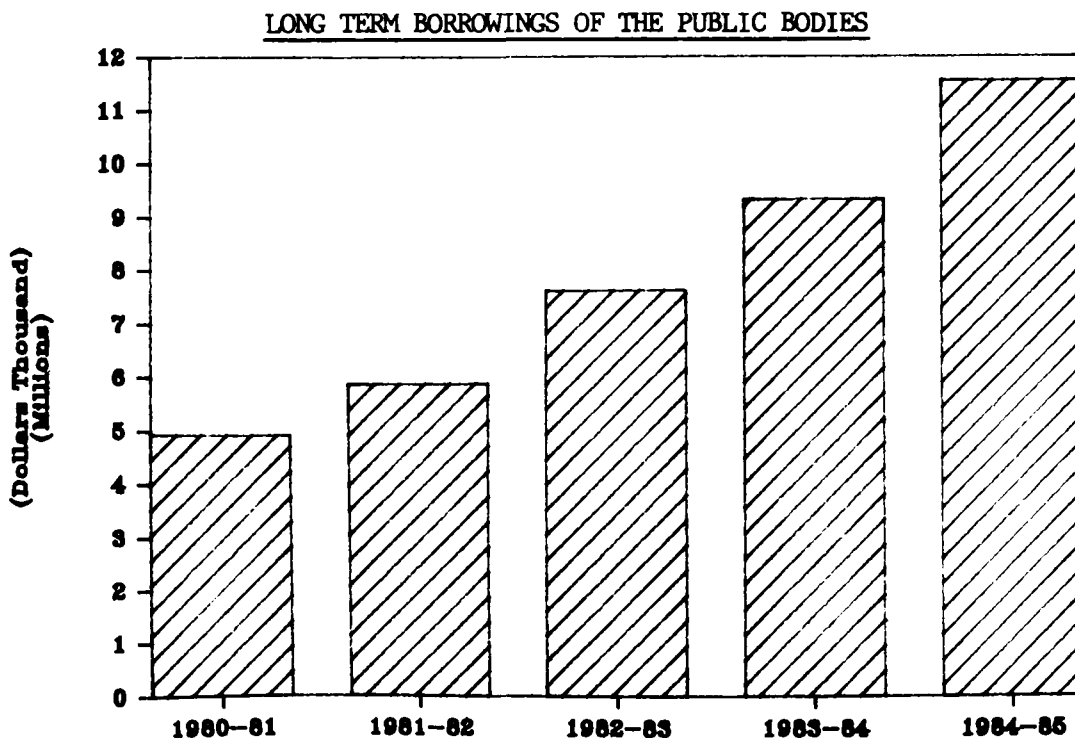
3.4.17 The long term liabilities of other public bodies as at 30 June 1985 were as follows:

	\$000
State Electricity Commission of Victoria	6 088 000
Melbourne and Metropolitan Board of Works	1 966 771
State Transport Authorities	1 774 931
Victorian Public Authorities Finance Agency	590 389
Gas and Fuel Corporation	510 413
State Development Account	403 124
Victorian Arts Centre	79 125
Rural Water Commission of Victoria	68 057
Victorian Economic Development Corporation	34 752
Melbourne Wholesale Fruit and Vegetable Market Trust	12 750
Rural Finance Commission	10 648
Health Commission (Hospitals and Charities)	8 313
Director of Housing	4 731
Other statutory authorities subject to audit by my Office (other than water bodies)	196
	11 552 200

3.4.18 For the purpose of this section I have limited the public authorities to the ones identified above. It should be noted that the figures are GROSS borrowings and do not take into account bank overdrafts nor cash and liquid assets held.

3.4.19 The figures have been provided by the various bodies and, have not in all cases yet been verified by my Office.

3.4.20 The following chart illustrates the long term liability of borrowings by public bodies at 30 June for the past 5 years.



3.4.21 Borrowings are also undertaken by local government and water bodies. Such borrowings do not give rise to a State Government liability and are not included in the above figures. The total borrowings of such authorities at 30 June 1985 were:

	\$000
Local Government	800 000
Water Bodies	384 666
	*1 184 666

*The figures are based on information provided by various bodies.

3.4.22 Long Term Leasehold Commitments - \$1 211 million

(1) Sale and Leaseback of Assets

In recent years a number of public bodies have raised funds to finance capital works programs through the sale of assets. Such assets have included trams, trains, buses, container cranes and coal dredges. As the assets sold are required for the day to day operations of the public bodies concerned, the public bodies arranged to lease back the assets. These leasehold liabilities are not disclosed in the Treasurer's Statement although they are reported in the financial statements of the individual public bodies.

Schedule A sets out the book value of the assets sold, the proceeds from the sale and the lease commitment as at 30 June 1985, i.e. the amount to be paid to the lessor during the period 1 July 1985 to the expiry of the lease.

The lease commitment is based on a principal and interest component. In addition, some leases are repayable in a foreign currency. Therefore, the lease commitment value could alter over the term of the lease due to changes in the interest component or in exchange rates. The values shown in the attached schedule are drawn from information available at the time of preparation of this report and may not necessarily agree with the figures shown in the financial statements of the public bodies.

(2) State Lease Facility

During 1984-1985 the Government, in carrying out its policy of keeping up to date with modern computing techniques, entered into an agreement, referred to as the State Lease Facility, to lease computer equipment to the value of \$50.3 million over the next 5 years. In 1984-1985 equipment to the value of \$11.8 million was leased. The Government has the option to buy the equipment either during or at the expiry of the lease agreement. If the equipment is retained for the duration of the lease period lease payments from 1 July 1985 onwards will amount to \$18.6 million. This amount will, however, be subject to variation in accordance with variations in the 90 day bill rate. Details of the repayment are shown on the attached schedule.

(3) Other Leases

A number of Government departments and public bodies have entered into lease arrangements for items such as buildings and equipment. Under these arrangements there is no option for the department or body to purchase the leased asset. For the purpose of this report it is not practical to ascertain the lease commitment of those transactions.

Other Financial Arrangements

3.4.23 In addition to the arrangements identified under the previous headings from a number of bodies have utilised such financing arrangements as deferred payments, overseas trade credits, security deposits and other repayable front-end capital contributions which are not included in the Treasurer's Statement. At the date of this report I have not been able to quantify these financing arrangements.

3.4.24 Supplementary Information on Long Term Liabilities

(1) Changed Arrangements for State Borrowings

State Government borrowings are undertaken under the provisions of the Gentlemen's Agreement under the Financial Agreement between the State and the Commonwealth. At the Loan Council meeting on 21 June 1984 it was agreed to introduce a 'global approach' to State and Commonwealth borrowings.

Under the new global approach, both the States and the Commonwealth agreed that new 'global' borrowings of money by State and Commonwealth authorities as well as government owned companies and local government (borrowings that include domestic deferred payments, overseas trade credits, conventional borrowings, financial leases, sale and leaseback arrangements, security deposits and other repayable front-end capital contributions as well as other ways of financing capital programs) would, on a voluntary basis, be limited to \$6 772.4 million in 1984-85 of which Victoria was allocated \$1 731 million. The allocation of this amount is determined by the State Government.

Besides the abovementioned 'global approach', the Loan Council agreed the following changed arrangements for 1984-85:

- (i) removal of present controls on borrowings made by 'larger' non-electricity authorities;
- (ii) removal of borrowing limits on individual 'smaller' authorities;
- (iii) an increase in the ceiling to \$1 200 million on total overseas conventional borrowings by State authorities;
- (iv) access by State authorities to the domestic \$US and Eurodollar public markets as well as the Swiss Franc public market and the domestic Yen and Euro-Yen public markets;
- (v) the continuation of the overseas trade credit outside the overseas borrowing ceiling;

- (vi) allowing for authorities to borrow on a temporary basis from overseas; and
- (vii) allowing for statutory marketing authorities to borrow overseas.

Regarding conventional borrowings undertaken overseas within the \$1 200 million ceiling:

- (1) approval is still required from the Loan Council for approaches to approved public markets, but individual government member approval is required for borrowing in non-public markets, providing the Loan Council has already received notice of intention to borrow; and
- (2) terms and conditions of individual borrowings regarding private placements in the Sterling, Deutschemark and Guilder market still need to be approved by the Loan Council.

The following table sets out borrowings over the past 4 years.

New Borrowing Programs - State, Semi and Local Government

A. Commonwealth Loan Raisings undertaken on behalf of the State - Loan Council	1981-82 \$000	1982-83 \$000	1983-84 \$000	1984-85 \$000 (est.)
Loan Council	218.9	222.9	246.0	262.0
Other (i)	55.7	85.3	65.5	20.2
Total	274.6	315.2	311.5	282.2
B. State Development Account and other Total State borrowings	..	129.6	162.4	208.2
C. Semi Government and Local Authorities - Electricity -				
Conventional	307.4	825.0	708.6	733.7(a)
Non-conventional	535.3	30.7
Transport -				
Conventional	136.5	109.7	131.6	388.0(a)
Non-conventional	26.6	147.6	267.7	..
Water and Sewerage -				
Conventional	163.1	205.0	93.0	283.1(a)
Non-conventional	2.0	2.2	101.5	..
Other (ii)				
Conventional	124.9	128.0	175.7	326.2(a) (iii)
Non-conventional	9.0	18.6	46.9	..
Total 'Global'	1 304.8	1 466.8	1 625.0	1 731.0
TOTAL VICTORIA (A + B + C)	1 579.4	1 911.6	2 098.9	2 221.4

NOTES TO TABLE (NEW BORROWING PROGRAM)

- (a) Include both "conventional" and "non-conventional" borrowings. Conventional borrowings include inscribed stock, debentures and promissory notes; nonconventional borrowings include leases, deferred payments and trade credits.
- (i) Housing for servicemen, growth centres, disaster relief etc.
- (ii) Excludes borrowing/financing authorities (Victorian Economic Development Corporation and Rural Finance Commission) which are now outside Loan Council.
- (iii) Includes unallocated funds.

(2) Foreign Currency Transactions

Overseas borrowings by statutory authorities in Victoria, based on preliminary figures available, were \$1 471 million as at 30 June 1985.

Foreign exchange losses of \$373 million were incurred during the year, the major contributing factor being the fall in the value of the \$A against all major currencies in February and March 1985. Of these losses, the sum of \$63 million was written off during the year and \$29 million was capitalised. The balance of \$281 million was carried forward to be amortised over the period of the loans. As at 30 June 1985 total unamortised losses were \$351 million.

As part of the foreign currency debt management, various hedging arrangements have been entered into by some of the statutory authorities, such as forward exchange contracts, currency swaps, options, etc. totalling \$415 million as at 30 June 1985.

Details of the foreign exchange transactions are incorporated in Schedule B.

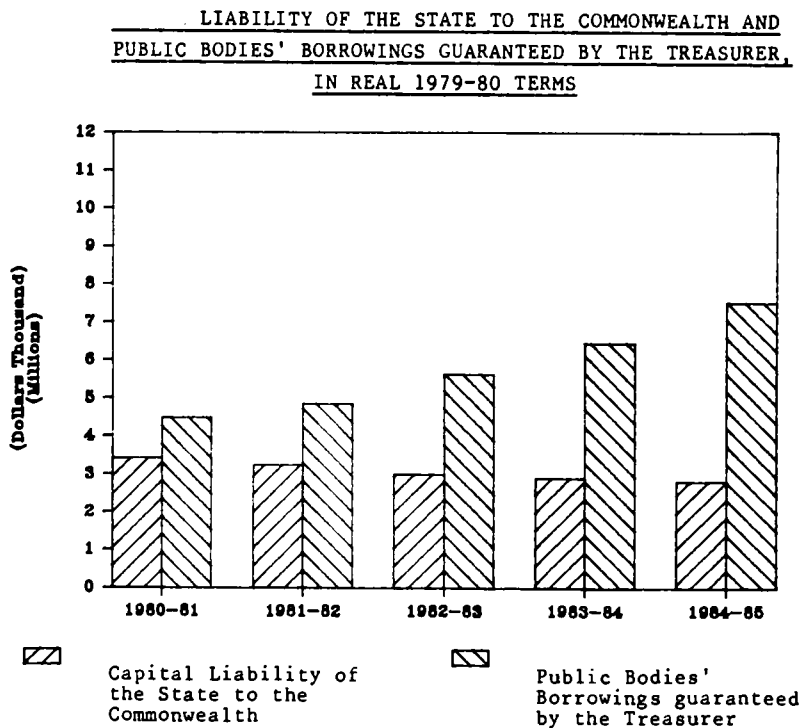
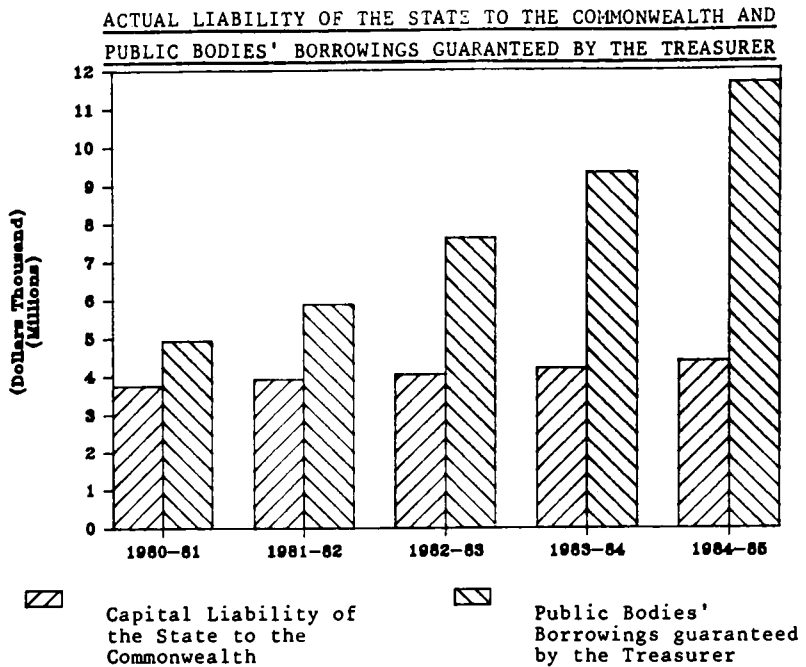
The accounting treatment adopted for these transactions follows the requirements of the Annual Reporting (Large Trading and Rating Bodies) Regulations 1984 and the draft Australian accounting standard about to be issued by the Australian professional accounting bodies.

In evaluating the information presented it should be noted that:

- (a) the unamortised losses are "unrealised" and may either increase or decrease in the future with currency variations; and
- (b) realised losses should be considered in relation to lower interest rates which may have been obtained through overseas borrowings.

(3) Inner and Outer Budget Sector - Comparison of Long Term Liabilities

The following tables illustrate the shift of liabilities from the inner to the outer Budget sector over the past 5 years:



For the purpose of these tables, liabilities under Commonwealth-State Housing Agreements, long term leasehold commitments and other financial arrangements have been excluded.

SCHEDULE A

<u>Sale and Leaseback</u>	<u>Book Value of Assets Sold</u>	<u>Proceeds of Sale</u>	<u>Lease Commitment 1 July 1985 On</u>	<u>Schedule of Lease Commitment Payments</u>		
				1985-86	1986-87	1987-90 1990 On
Metropolitan Transit Authority	184.8	199.4	375.1	31.3	31.2	97.1 215.5
Port of Melbourne Authority	7.7	9.1	18.1	1.4	1.5	6.2 9.0
State Electricity Commission	85.8	133.9	186.8	20.3	20.5	58.7 87.3
State Transport Authority	204.0	281.7	612.4	43.5	43.6	131.7 393.6
<u>State Lease Facility</u>						
Department of Management and Budget	Not Applicable	Not Applicable	18.6	3.0	3.0	8.4 4.2

SCHEDULE B

	<u>Total Overseas Borrowings at 30 June 1985</u> <u>\$A Million</u>	<u>Unamortised Foreign Exchange Losses as at 30 June 1984</u> <u>\$A Million</u>	<u>Foreign Exchange Losses incurred during 1984/85</u> <u>\$A Million</u>	<u>Written off during 1984/85</u> <u>\$A Million</u>	<u>Capitalised during 1984/85</u> <u>\$A Million</u>	<u>Unamortised Foreign Exchange Losses as at 30 June 1985</u> <u>\$A Million</u>
State Electricity Commission of Victoria	1 072	59	287	51	29	266
State Transport Authority	157	1	33	3	*	30
Melbourne and Metropolitan Board of Works	129	2	29	5	*	26
Port of Melbourne Authority	113	9	24	4	*	29
	<u>1 471</u>	<u>70</u>	<u>373</u>	<u>63</u>	<u>29</u>	<u>351</u>

The Victorian Public Authorities Finance Agency and the Victorian Transport Borrowing Authority have borrowed \$406 million and \$92 million respectively as principal and re-lent these funds to other public bodies and private sector organisations in the same terms, currencies and interest rates. Accordingly, any exchange losses will be borne by the recipient and not by these borrowing agencies. Where loans have been on-lent to other public bodies any exchange losses are shown in the above table against the relevant body.

3.5 THE TRUST FUND

Introduction

- 3.5.1 The Trust Fund may be described as the collective title accorded to a segment of the Public Account. Section 8 of the Public Account Act 1958 authorises the Treasurer to establish trust accounts and provides that all moneys standing to the credit of trust accounts shall be deemed to be moneys standing to the credit of the Trust Fund.
- 3.5.2 Trust Accounts are detailed in the Treasurer's Statement under 4 principal categories, namely:
- State Government Funds
Joint Commonwealth and State Funds
Commonwealth Government Funds
Prizes, Scholarships, Research and Private Donations.
- 3.5.3 The Trust Fund is one of the 2 components of the Public Account, the other being the Consolidated Fund. Trust accounts form a significant sector of the Public Account as the receipts passing through the Trust Fund in 1984-85 (\$34 399.9 million) far exceed those of the Consolidated Fund (\$8 827 million).
- 3.5.4 The Trust Fund is used to record the transactions of:
- (1) the considerable number of suspense and clearing accounts which have been established to facilitate accounting procedures and to improve cash management;
 - (2) the Victorian Development Fund, which consists of the Cash Management Account and the State Development Account;
 - (3) several Commonwealth and joint Commonwealth/State trust accounts, many of which are used for passing on specific Commonwealth grants e.g. to universities, colleges of advanced education and TAFE colleges;
 - (4) specific State trust accounts established by legislation, the balances of which are required to be expended for special purposes e.g. Hospitals and Charities Fund;
 - (5) the Treasury Trust Fund which is the account required to be maintained under the provisions of sections 18 and 19 of the Audit Act 1958 to receive certain private moneys collected under Acts of Parliament or by public servants; and
 - (6) accounts established for prizes, scholarships, research and private donations to ensure that the provisions of the enabling trusts are complied with.

REVIEW OF THE TRUST FUND

- 3.5.5 Summaries of the transactions and balances of the various trust accounts comprising the Trust Fund are given in the Treasurer's Statement.
- 3.5.6 Because of interfund and interaccount transfers, the same amounts may appear a number of times in the Treasurer's Statement. As an illustration, substantial amounts are specially or annually appropriated from the Consolidated Fund and are treated as receipts to the Trust Fund and thus are recorded in both the Consolidated Fund as payments and in the Trust Fund as receipts (e.g. the Hospital and Charities Fund \$1 209 million). The movement of funds from suspense and clearing accounts often has a similar effect, particularly funds relating to payrolls and revenue suspense accounts.
- 3.5.7 Although this accounting treatment leads to higher receipts and payments being recorded in the Treasurer's Statement, it does provide full disclosure of all transactions.
- 3.5.8 Matters Arising from Examination of the Trust Fund

(1) Works and Services Account

As detailed in para. 3.2.20 the balance of the Works and Services Account at 30 June 1985 was \$49.8 million. This balance was arrived at after borrowings totalling \$84.5 million were made from the Capital Works Authority. Further comment on the Capital Works Authority is contained in Part 2 of this report.

(2) Rural Water Commission Suspense Account

The new account established during the year was, in accordance with the approval granted by the Treasurer, required to have a nil balance at 30 June each year. At 30 June 1985, the account had a credit balance of \$3 603 299 due to the inability of the Rural Water Commission to identify and clear the items constituting the balance on a timely basis. At the date of preparation of this report the items have been identified. Audit recommended that in future the Commission complies with the terms of the Treasurer's approval for the operation of the account.

Operations of the Trust Fund

- 3.5.9 A summary of transactions within the Trust Fund during 1984-85, together with comparative figures for the previous year, is set out as follows:

	Balances at 1 July \$million	Receipts \$million	Payments \$million	Balances at 30 June \$million
State Government Funds				
1983-84	198.4	23 847.1	23 753.2	292.3
1984-85	292.3	33 303.6	33 309.1	286.8
Joint Commonwealth and State Funds				
1983-84	10.7	110.2	92.1	*28.7
1984-85	28.7	137.2	142.6	23.3
Commonwealth Government Funds				
1983-84	35.8	981.7	1 006.4	11.1
1984-85	11.1	957.9	948.4	20.6
Prizes, Scholarships, Research and Private Donations				
1983-84	0.7	1.1	1.0	0.8
1984-85	0.8	1.2	1.1	0.9
Total 1983-84	245.6	24 940.1	24 852.7	*332.9
Total 1984-85	*332.9	34 399.9	34 401.2	331.6

* 0.1 variance due to rounding

3.5.10 Included in the balance of \$331.6 million at 30 June 1985 were investments held on account of specific trust accounts totalling \$103.9 million compared with \$118.6 million at the beginning of the year. Other investments totalling \$90.9 million were held in the Treasurer's Investment Account General. The balance of \$136.8 million was held in cash and short term investments. Details of the investments are contained in the Treasurer's Statement.

3.5.11 Operations under the 4 categories of the Trust Fund are now discussed.

State Government Funds

3.5.12 There was a substantial increase in the number and magnitude of financial transactions of State Government funds during the year, arising from:

- (1) an increase of \$9 631 million in the receipts and payments of the Cash Management Account;
- (2) an increase of \$344 million in receipts to accounts established to receive moneys provided in the annual budget and record the expenditure thereof. The largest increases were:
 - . \$125.9 million in the Rural Water Commission Suspense Account which was opened during 1984-85 to record the accounting operations of the Rural Water Commission which was established on 1 July 1984.
 - . \$194 million in receipts of the Hospitals and Charities Fund;

- . \$20 million in receipts to the Insurers Guarantee and Compensation Supplementation Fund as follows:

	1983-84 \$000	1984-85 \$000
Special Appropriation	7 000	*18 035
Special Interest	..	** 8 000
Liquidators Dividends	3 777	4 724
Other	61	76
	<hr/>	<hr/>
	10 838	30 835
	<hr/>	<hr/>

* Includes the transfer of \$12.8 million on 28 June 1985 to the Fund being the balance of the \$30 million withdrawn from the Fund on 30 June 1982. The payment was provided for by Special Appropriation (refer also para 3.3.9).

** Allocation of interest totalling \$8 million to the Fund under the authority of the Treasurer's Advance (refer also para 3.3.15).

- (3) an increase in receipts in excess of \$388 million was recorded in the suspense and clearing accounts which are maintained to facilitate accounting procedures. Details of certain suspense accounts follow:

	1983-84 \$000	1984-85 \$000	+ Increase - Decrease \$000
Stamps Office Clearing Account	838 349	1 076 712	+ 238 363
Payroll Deductions Suspense Account	705 098	763 071	+ 57 973
Government of Victoria Drawings Account No. 1	478 264	531 636	+ 53 372
Government of Victoria Drawings Account No. 2	250 463	266 498	+ 16 035
Motor Accidents and Insurance Premiums Suspense Account	330 551	342 631	+ 12 080
Rural Water Commission Revenue Suspense Account	126 883	97 146	- 29 737

The reduction in the receipts of the Rural Water Commission Revenue Suspense Account is due to there being no loan raisings passing through the account (1983-84, \$37.2 million) and the effect of the changed accounting arrangements for the Rural Water Commission;

- (4) an increase in receipts to and payments from the State Development Account of \$68.3 million during 1984-85;
- (5) an increase in receipts and payments transacted through Agency and Deposit Accounts of \$10.9 million and \$34.6 million respectively.

- 3.5.13 There were a number of decreases in receipts passing through State Government trust accounts, e.g. the Works and Services Account showed a reduction of \$1 012.4 million in receipts due to the changed budgetary arrangements whereby no separate Works and Services Appropriation Act was passed in 1984-85 and the Appropriation (1984-85, No. 1) Act 1984 provided for both recurrent and works and services expenditures. Full details of the amending legislation are given in section 3.1 of this report.
- 3.5.14 There was therefore no special appropriation received by the Works and Services Account from the Consolidated Fund as in previous years.
- 3.5.15 The following borrowings were credited to the Works and Services Account during 1984-85:

	\$000
Road Construction Authority	9 000
Road Traffic Authority	4 000
Metropolitan Transit Authority - General	218 100
- Early Retirement	1 500
State Transport Authority - General	112 600
- Early Retirement	6 900
Capital Works Authority	84 521
	436 621

- 3.5.16 These moneys together with the balance brought forward from 1983-84 of \$90.4 million made a total available for transfer to the Consolidated Fund of \$527 million. The Treasurer determined that \$477.2 million be transferred to the Consolidated Fund to finance works and services expenditure. The balance of the account at 30 June 1985 was \$49.8 million.
- 3.5.17 The largest decrease in receipts to trust accounts established to receive moneys provided for in the annual budget was the reduction of \$9 million under the Employment Initiatives Program Trust Account due to the program finishing.
- 3.5.18 An overall decrease of \$2.6 million occurred in receipts to specific purpose operating accounts established for various authorities. Although overall there was a decrease, details of the major movements were:
- an increase of \$4.5 million in receipts credited to the Government Printing Office Working Account due to increased operations in 1984-85;
 - a decrease of \$5.6 million in receipts to the Public Offices Fund due to a lower level of property sales; and
 - a decrease of \$1.9 million in the Home Builders Account No. 2 due to the transfer of the operations of the account from the Trust Fund to the Director of Housing following the enactment of the Housing Act 1983.
- 3.5.19 The balance of State Government Funds at 30 June 1985 totalled \$286.8 million (30 June 1984, \$292.3 million).

Joint Commonwealth and State Funds

- 3.5.20 Receipts to these funds increased by \$27 million, while payments increased by \$50.5 million.
- 3.5.21 The major increase was in the Community Employment Program Account, where receipts and payments increased by \$60.6 million and \$80.5 million respectively.
- 3.5.22 The major reduction in receipts and payments to a trust account in this category was in the Victorian Natural Disasters Relief Account where receipts and payments fell by \$35.1 million and \$24.5 million respectively. The decrease in the receipts and payments of this account was due to fewer natural disasters in Victoria in 1984-85.
- 3.5.23 The balance of joint Commonwealth and State funds at 30 June 1985 totalled \$23.3 million (30 June 1984, \$28.7 million).

Commonwealth Government Funds

- 3.5.24 The Public Account Act 1958 empowers the Treasurer to credit suitable accounts in the Trust Fund with special grants made under any Commonwealth Act and to authorise payments for the purposes prescribed in the Commonwealth legislation. Most specific purpose payments by the Commonwealth to the State are included under this classification.
- 3.5.25 Funds passing through Commonwealth trust accounts fell by \$23.8 million in 1984-85 to \$957.9 million. The major variations were:

Decreases

(1) Commonwealth Wages Pause Employment Program

Receipts and payments passing through this account in 1984-85 fell by \$41.7 million and \$60.5 million respectively due to the scaling down of the program.

(2) Home Purchase Assistance Scheme

Receipts passing through this account fell by \$26.4 million in 1984-85. The main reason for the decrease was the transfer of the operations of the account from the Trust Fund to the Director of Housing following the enactment of the Housing Act 1983.

Increases

(1) Commonwealth Education for Unemployed Youth Trust Account

Grants totalling \$24.1 million (1983-84, \$13.3 million) were received under the above program. The increase of \$10.8 million was due to increased funding by the Commonwealth.

(2) Commonwealth Local Government Grants Trust Account

Grants to local government increased by \$6.9 million to \$123.8 million due to higher taxation receipts received by the Commonwealth of which 2 per cent is allocated to local government.

- 3.5.26 The balance of Commonwealth Government Funds at 30 June 1985 totalled \$20.6 million (30 June 1984, \$11.1 million).

Prizes, Scholarships, Research and Private Donations

3.5.27 Receipts and payments in 1984-85 totalled \$1.2 million and \$1.1 million respectively. The balance of the accounts at 30 June 1985 totalled \$892 407 (30 June 1984, \$772 442).

NEW TRUST ACCOUNTS

3.5.28 A number of new trust accounts were opened within the Trust Fund during the year. Details of the purposes for which they were established as stated in the Treasurer's approval are set out below:

<u>Account or Fund</u>	<u>Purpose for which Established</u>
Adult Migrant Education Trust Account	To facilitate the new arrangements between the Victorian Education Department and the Commonwealth Department of Immigration and Ethnic Affairs
Botanic Gardens Rejuvenation Trust Account	To record the receipt of donations and subscriptions for the rejuvenation and upgrading of Botanic Gardens and the expenditure of such funds towards furthering the purposes of the trust establishing the account
Commonwealth/State Bicentennial Commemorative Program	To record the receipt of Commonwealth and State funds and the disbursement of these funds allocated to specific projects under the program
Computers in Education - Software Purchases Account	To record the receipt and disbursement of funds as a working account for educational computer software packages for schools
Conservation and Lands Plant and Machinery Fund	To provide the financial mechanism for the operation of the charging of the cost of plant operated on activities of the Department of Conservation Forests and Lands
Conservation and Lands Stores Suspense Account	To provide a mechanism for the Department of Conservation, Forests and Lands for the charging of stores and operations of the Department
Foot and Mouth Eradication Trust Account	To record the receipts and disbursements of funds relating to the control and eradication of foot and mouth or other proclaimed diseases as provided for under Sections 40 and 41 of the Stock Diseases Act 1968
Jmara Elders Aboriginal Trust Fund	To record the receipt and disbursements of funds in accordance with the provisions of the Trust Deed
I.H.A.L. Trust Account	To receive funds in relation to a Retrenchment Benefits Deed executed by the Treasurer in relation to International Harvester Australia Ltd and to make payments to the trustees of I.H.A.L. in terms of the Deed

Lotteries Development Fund

To record the receipt and disbursement of funds under the Tattersall Consultations Act 1983 for the purpose of research and development in relation to the conduct of consultations and for or towards the acquisition of property for use in connection with the conduct of consultations

Minerals and Energy Revenue
Suspense Account

To record the daily receipt of public moneys received by the Collector of Imposts pending their allocation to the appropriate heads of revenue in the Consolidated Fund

Rural Water Commission
Suspense Account

To record as an initial charging account payments which are legally chargeable to appropriations. The account is not to be in net debit at any time and is to have a nil balance at 30 June each year

States Grants (Schools
Assistance 1984)
- Government Programs
- Non-Government Programs
- Joint Programs

To record the receipt and disbursement of funds received from the Commonwealth in relation to schools under the States Grants (Schools Assistance) Act 1984

Taxation Office Clearing
Account

To record the receipt of State Taxation Office revenue pending appropriation to the Consolidated Fund or return to the taxpayer

Victorian Prison Industries
Fund

To record the receipts and disbursements of the Victorian Prison Industries Commission as provided for under Sections 30 and 31 of the Victorian Prison Industries Commission Act 1983

ACCOUNTS CLOSED

3.5.29 There were no accounts closed during the year. However, there were a number of accounts operated on in 1983-84 which were not used in 1984-85. The accounts were not formally closed under the provisions of Section 8 of the Public Account Act 1958.

3.6 GUARANTEES

Introduction

- 3.6.1 In certain instances, authorities for guarantees have been provided by specific legislation such as that relating to co-operative housing societies. On other occasions, the State has been committed in respect of guaranteed bank overdrafts by the Executive without the specific authority of Parliament.

Guarantees Included in Treasurer's Statement

- 3.6.2 Particulars are given in the Treasurer's Statement of the contingent liability of the State in respect of guarantees issued by the Treasurer and authorised by statute, and of the contingent liability for Government guarantees in respect of borrowings by State instrumentalities. The amounts involved were: guarantees issued, \$707 million; contingent liability 30 June 1985, \$653.9 million (does not include Housing and Co-operative Societies figures for 1984-85 which were not available at the date of preparation of this report. At 30 June 1984 guarantees to the societies totalled \$292 million of which there was a contingent liability of \$140 million).
- 3.6.3 The increase in the value of guarantees issued at 30 June 1985 of \$232 million over that of 30 June 1984, was mainly due to the issues of guarantees totalling \$394.5 million to Perpetual Executors Nominees Ltd. in relation to Alcoa/Portland and the withdrawal of a guarantee to the Australian Barley Board of \$201.6 million.
- 3.6.4 The contingent liability for government guarantees in respect of borrowing by State instrumentalities was in excess of \$18 300 million. No figure is available for policies, contracts or arrangements of insurance made by the State Insurance Office which are guaranteed by the Government of Victoria.
- 3.6.5 As indicated in the Treasurer's Statement, the contents have been prepared from information provided by the instrumentalities and certain figures will be subject to audit verification at the time of audit of the organisations concerned.

3.7 DISALLOWANCES AND SURCHARGES

- 3.7.1 During the year a surcharge for \$30 845 was issued on the former Returning Officer for the Electoral District of Prahran in relation to the operations of the Office during 1982 State elections. A letter of demand has been issued by the Crown Solicitor.

3.8 TREASURER'S ACQUITTANCE

- 3.8.1 Sub-sections (1) and (2) of section 34 of the Audit Act 1958 require me to acquit the Treasurer, in the form of the eleventh schedule to the Act, for the amount of the public moneys spent which has been ascertained by me to have been duly and properly expended. Sub-section (3) of the said section excludes from the acquittance expenditure which is "the subject of query or observation or of show cause action or of disallowance or surcharge".

3.8.2 All moneys disbursed from the Public Account in 1984-85 were acquitted by me to the Treasurer except for \$6 468 934 which represented the value of advances to departments on hand at 30 June 1985.

3.8.3 At 30 June 1985 the following amounts remain unacquitted from prior years:

1982-83

\$2 110 118 paid as emergency grants by the former Department of Community Welfare Services to the victims of bushfires in Victoria and which were awaiting certification by the Department in accordance with the Department of Management and Budget Regulations 1981.

1983-84

- (1) \$8 899 being part of 2 advances to the Police Division of the Ministry for Police and Emergency Services for which insufficient vouchers were presented to support the payments.
- (2) \$2 400 being an advance made to the former Department of Community Welfare Services in relation to payments arising from the 1983 bushfires. The vouchers had not been certified by departmental officers.

3.9 STATE MANAGEMENT ACCOUNTING AND FINANCIAL INFORMATION SYSTEM (SMAFIS)

- 3.9.1 In my 1982-83 report to Parliament on the Treasurer's Statement I referred to steps being taken to reform the accounting systems in the State. A new State Management Accounting and Financial Information System (SMAFIS) was to be operational in the central agencies not later than 1 July 1984, and in other departments within 3 years.
- 3.9.2 A computer package for SMAFIS was selected and implemented by the Department of Management and Budget in November 1984. Its major features were to be the capability of running on both centralised and decentralised hardware, provision of automatic interface of specified data between departments and central agencies, centralised cash management, commitment control, flexible account aggregation, and management reporting capabilities.
- 3.9.3 Delay in introducing SMAFIS in the Department of Management and Budget was caused by staff shortages and uncertainties in relation to the accommodation planned for the new computer due to the discovery of asbestos in the building at 1 Treasury Place. This delay had an impact on the introduction of SMAFIS by other departments because a decision to recommend a particular computer package could not be made until the Department of Management and Budget was fully satisfied with its recommendation.
- 3.9.4 However progress has since been made, and it is planned to implement by July 1986 the recommended package in an additional 15 departments.
- 3.9.5 My Office has been involved with monitoring the purchase and implementation of the package and has addressed 3 reports to the Department of Management and Budget on the subject. These reports encompass a wide range of issues including comments on procedures to ensure effective implementation, adequacy of controls, security, audit trails and auditability. Although these reports were issued some time ago, I was disappointed to find that several of their major recommendations, including auditability issues and the need for greater user involvement early in the project had not been adequately addressed.
- 3.9.6 The implementation strategy was for the Department of Management and Budget to provide consultancy and practical assistance to departments based on the experiences, procedures, standards and training materials developed during its own implementation of SMAFIS. However, the inability of the Department of Management and Budget to fulfil this role has resulted in departments using external consultants to assist in the evaluation of their requirements and implementation of this standard system. Identified cost to the State of these consultants to 30 June 1985 was \$446 109 with further expenditure in the vicinity of \$173 000 also having been committed.
- 3.9.7 Steps are now being taken by the Department of Management and Budget to improve consultancy assistance. These include the provision of a central consulting service, development of a co-ordinating function to control implementation, negotiation of a State-wide contract for the use of consultants and purchase of the SMAFIS package, and initiation of an inter-departmental user group for the exchange of views and experiences.

3.9.8 Other than unanticipated consultancy costs, estimates for computing resources and manpower required to operate SMAFIS were substantially underestimated. SMAFIS, together with a payroll/personnel system, was originally estimated to cost \$4.55 million. This costing was arrived at by estimating that SMAFIS, together with a payroll/personnel system, would use a percentage of a total equipment purchase costing \$8.75 million. However SMAFIS, running by itself, has been found to require substantially more resources than estimated. This is reflected in 2 installations where the equipment needs to be wholly dedicated to running SMAFIS, and for an extra operating shift to be provided in one of them. Departments which are intending to operate systems additional to SMAFIS will be required to upgrade their equipment. In addition to the equipment costs I am unaware that any allowance has been made in SMAFIS costings for departmental administration of the installed SMAFIS system, although such additional administrative costs are being incurred.

3.9.9 In addition to the underestimation of required resources, provision of the central processing service envisaged for SMAFIS is likely to incur costs in excess of original estimates. The original cost estimates of \$8.75 million assumed that only 12 departments would install their own equipment while the remainder would run on a central processing service. Experience to date with SMAFIS has shown that the provision of this service, on which departments may run their SMAFIS system without installation of their own equipment, will cost substantially more than the \$25 000 per department allowed. If it is decided that this central processing service is not to be provided, and that all departments must install their own equipment, further costs will still be incurred.

3.9.10 In addition to the issues raised above, audit also observed the following matters in relation to existing implementations of SMAFIS:

- . An automatic interface of data between departments and central agencies was to have been available with SMAFIS. This is currently unavailable, and such interfacing is conducted manually, requiring additional time and cost. My Office was advised that such an interface facility will not become available until January 1986.
- . Effective implementation and use of any computerised system requires a proper training program; my officers have observed that this is a general weakness in the implementation of SMAFIS. As SMAFIS is to be implemented throughout the public sector, a proper training program must be designed to encourage a positive response to the system amongst users to ensure that it is used cost-effectively and to its full capabilities.

3.10 DEBTORS/UNCOLLECTED REVENUE

- 3.10.1 The Annual Reporting (Administrative Units) Regulations 1985 require that the financial statements of a department (administrative unit) include all amounts which are required or due to be collected by the department for payment into the Public Account as at 30 June but are uncollected at that date.
- 3.10.2 A review of debtors at 30 June 1985 of departments was carried out by audit with the objective of determining the period for which the debts had been outstanding, significant amounts owed by other departments and cases of failure to collect revenue on a timely basis.
- 3.10.3 The review disclosed that a majority of departments do not have documented standardised procedures for the collection, review and follow-up of uncollected revenue.
- 3.10.4 Outstanding debtors at 30 June 1985 amounted to \$113 152 161; set out in this section is a schedule of departments showing debtors outstanding at 30 June 1984 and 30 June 1985. The figures shown are those which were available at 9 September 1985 and in some cases are still subject to audit verification.
- 3.10.5 The following are significant amounts which are owed to some departments by other departments.

	Amount owed by other Departments	\$000
(1) Property and Services (\$3 958 728 Government Printing Office)		5 468 401
(2) Public Works Department		1 612 061
(3) Education Department		1 161 148
(4) Local Government Department		681 968
(5) Department of Agriculture and Rural Affairs		414 516
(6) Premier and Cabinet - Office of the Public Service Board		319 290
		<hr/> 9 657 384 <hr/>

- 3.10.6 Significant cases of failure to collect revenue on a timely basis are:

(1) Department of Conservation, Forests and Lands

At 30 June 1985 debtors of the Department totalled \$7 581 321. Of this amount \$5 484 608 related to the Lands Division and included \$3 597 752 land sales for which payments are due over the next 10 years. The balance of the Department's debtors were made up of \$1 587 461 Forests Division, \$129 945 Conservation Division and \$379 307 fees and miscellaneous debtors of both Forests and Lands Divisions.

(i) Lands Division

Renewal notices for grazing licences due and payable on 1 October 1984 amounting to \$628 802 were not issued by the Department until January 1985. Section 405 of the Land Act requires that Unused Road and Water Frontage licences are renewed on 1 January. However, renewal notices for 1985 for fees totalling \$1 850 770 for these licences were not issued by the Department until June 1985. Of the amounts due and payable on these licences \$191 644 was outstanding for grazing, \$696 304 for Unused Road and \$410 777 for Water Frontage licences at 30 June 1985.

(ii) Forest Division

Information relating to the length of time debtors at 30 June 1985 had been outstanding was not readily available at the time of the audit. However, details provided for audit of debtors outstanding at 15 May 1985 indicated that less than 2 per cent of debtors had been outstanding for more than 3 months.

(iii) Conservation Division

Of the total of \$129 945 outstanding at 30 June 1985, according to audit calculations, approximately 77 per cent was outstanding for over 3 months.

As at 26 August 1985, the last review of debtors by the Division was in October 1984.

The Department needs to review and update its procedures in relation to the issue of renewal notices for licences and the recording and collection of outstanding revenue.

(2) Attorney General - Law Department

Debtors of the Department at 30 June 1985, (\$564 647) do not include debtors of the Courts Administration for all outstanding court penalties.

In previous years, audit reports issued to the Department, which referred to debtors other than outstanding court penalties, have commented on the fact that the Department does not have an effective debtors control system. Despite the Department's stated intention to take corrective action, the position has not improved in 1984-85.

(3) Department of Community Services

Of a total of \$162 278 outstanding at 30 June 1985, \$143 037 relates to amounts outstanding in excess of 12 months and of this amount \$113 000 relates to overpayments of family assistance which may be irrecoverable.

(4) Department of Property and Services

Of the \$7 277 062 outstanding at 30 June 1985 \$5 550 008, which includes \$1 464 072 for which invoices had not been issued to clients for goods delivered and services provided, relates to the Government Printing Office. Due to the way its debtors records are structured the Government Printing Office was unable to provide audit with information regarding the length of time debtors had been outstanding. \$3 958 728 or 71 per cent of Government Printing Office debtors were other Government departments.

A Department of Management and Budget circular issued on 4 May 1981 directed departments to pay the Government Printing Office accounts within 30 days. In my supplementary report to Parliament for 1980-81 I commented on the fact that this instruction was not being followed and the majority of debts due to the Government Printing Office were other departments. The position has remained unchanged and as a consequence in June 1984 the Office did not have sufficient funds in its Working Account to recoup the Consolidated Fund for salaries amounting to \$1 135 005. The amount was recouped in 1984-85.

Failure by Departments to comply with the Department of Management and Budget circular resulted in the Treasurer on 27 June 1985 writing to all Ministers, requesting that they ensure that the Government Printing Office's accounts are paid promptly.

(5) Education Department

Of the amount of \$5 503 973 outstanding for periods in excess of 12 months \$5 416 799 relates to debts resulting from breaches of studentship agreements which in some cases are being paid by instalments or providing alternative services to that in the agreements.

In previous reports to Parliament, I have referred to inadequate monitoring procedures relating to non-compliance by ex-students with certain conditions of studentship agreements and the absence of regular follow-up action to collect repayments due under the agreements. Subsequent to my reports, a working party comprising representatives of the Education Department and the Department of Management and Budget examined the issues raised and made certain recommendations. During 1984-85 a review of procedures relating to the collection and recording of broken bond debts was carried out by the audit and review unit of the Department. As at 9 September 1985 the report is in the process of being finalised.

(6) Public Works Department

Debtors outstanding for a period in excess of 3 months, after allowing for rental debts of \$558 583 which are subject to dispute, amounted to \$410 089 or 22 per cent of total debtors.

In relation to those debts in dispute, the major portion of which relate to Government organisations, the Department has either referred the matter to the Department of Management and Budget for advice as to possible write-off, or to a solicitor, or is continuing to seek payment.

Of the total amount due to the Department at 30 June 1985 approximately 80 per cent is owed by Government organisations.

(7) Ministry of Transport

Of the \$369 320 debtors outstanding for more than 3 months \$179 949 represents debts subject to legal action, and \$158 593 represents amounts owed by companies in liquidation.

SCHEDULE OF DEBTORS/UNCOLLECTED REVENUE

Department	Debtors at 30/6/84	Debtors at 30/6/85	Outstanding at 30/6/85 For 3-12 months	Less than 3 months	Over 12 months	Approximate percentage of debts outstanding for 3 months and more
	\$	\$	\$	\$	\$	
Department of Premier and Cabinet	74 641	20 107	14 885	5 206	16	74.1
Office of the Public Service Board	150 227	328 790	41 207	278 618	8 965	15.3
Office of the Auditor-General	198 188	48 087	580	47 206	301	1.7
Department of Industry, Technology and Resources	432 894	891 205	Nil	891 205	Nil	-
Office of Minerals and Energy	6 061	23 282	990	22 292	Nil	4.3
Department of Agriculture and Rural Affairs	1 212 239	1 739 539	104 728	1 377 212	257 599	20.8
Ministry for the Arts	61 144	10 791	Nil	10 791	Nil	-
Attorney-General	377 945	564 647*	74 018	354 097	63 249	24.3
Law Department	437 665	70 348	168	67 020	3 160	4.7
Office of Corrections	157 155	162 278	Not avail	Not avail	143 037	88.1
Department of Community Services	7 275 225	7 581 321	Not avail	Not avail	Not avail	Not avail
Dept. Conservation Forests & Lands	1 798	1 808	414	1 394	Nil	22.9
Ministry of Consumer Affairs	8 810 151	7 962 665+	179 759	1 392 081	5 503 973#	71.4
Education Department						
Department of Employment and Industrial Affairs	30 239	72 836	1 306	68 610	2 920	5.8
Ethnic Affairs Commission	6 511	7 379	2 075	5 001	303	32.2
Health Commission	4 852 259	9 178 621	10 139	9 164 931	3 551	.1
Local Government Department	49 088	717 862	192 006	525 856	Nil	26.7
Ministry for Planning & Environment	195 873	356 063	35 748	313 388	6 927	12.0
Ministry for Police & Emergency Services	570 883	633 503	15 000	541 794	76 709	14.5
Department of Property & Services	6 455 604	7 277 062	Not avail	Not avail	Not avail	Not avail
Public Works Department	992 787***	1 853 961	504 467	885 289	464 205	52.2
Ministry of Transport	1 435 920	1 387 126	25 091	1 017 806	344 229	26.6
Department of Management & Budget	65 442 081	72 133 784**	Not avail	Not avail	Not avail	Not avail
Department of Sport and Recreation	188 405	129 096	11 648	117 448	-	9
TOTAL	99 414 983	113 152 161				

REMARKS: * Includes \$73 283 court costs for which no details available of period outstanding.
 Excludes outstanding court penalties.
 + Includes \$886 852 overpaid salaries. No details available of period outstanding.
 # \$5 416 799 relates to breaches of studentship agreements.
 ** See further reference at para 3.2.10 of this report.
 *** Audit considers amount understated but is unable to determine the extent.

3.11 DEPARTMENTAL PAYMENTS

Introduction

- 3.11.1 During July/August 1985, an examination was undertaken within a number of government departments to determine whether there were unacceptable delays in payments of accounts for goods and services.
- 3.11.2 The review concentrated on 20 departments which use the Financial Recording and Reporting (FRAR) system, a central computerised ledger operated on behalf of the Department of Management and Budget by the Government Computer Service. The purpose of the review was to identify the period of time which had elapsed between the date of invoice and the date of payment.
- 3.11.3 The examination covered payments during the 6 month period 1 January to 30 June 1985. The payment records of the departments, maintained by the Government Computing Service, were analysed by means of a software package which identified the period which had elapsed between date of invoice and date of payment. Approximately 281 000 invoices processed by the departments during the 6 month period were reviewed.

Summary of Findings

- 3.11.4 Audit found that while some departments processed invoices promptly, others did not and evidence of long delays existed. The review indicated that 68 per cent of invoices were paid within 8 weeks of the invoice date whilst the balance were paid between 8 and 40 weeks. Details are:

	%	<u>Number of Invoices</u>	<u>\$000</u>
Between 8 to 12 weeks	18.54	55 488	31 170
Between 12 to 16 weeks	6.40	19 176	11 741
Between 16 to 20 weeks	2.96	8 860	5 215
Between 20 to 30 weeks	2.74	8 207	4 934
Between 30 to 40 weeks	0.97	2 910	2 100
	-----	-----	-----
	31.61	94 641	55 160
	-----	-----	-----

- 3.11.5 The above details are based on invoice date. It was noted that not all invoices were received in close proximity to date of invoice.

Reasons for Delays in Payments

- 3.11.6 The many reasons given by departments for delays in payment included:
- . invoice and/or goods received by department after date stated on invoice;
 - . shortage of staff to process invoices;
 - . delay in authorisation to pay by responsible officer;
 - . amount recorded on invoice in dispute with creditor;

- . shortcomings in the existing FRAR system which is currently being replaced by SMAFIS (State Management Accounting and Financial Information System).

Audit Comments

- 3.11.7 Failure to pay accounts within normal credit terms may enable departments to circumvent expenditure controls which operate only on cash payments and not on commitments. It may thus lead to the build-up of an unacceptable level of commitments to be met in the subsequent financial year as well as possibly causing financial hardship to some suppliers of goods and services.
- 3.11.8 It is pleasing to note that the Premier has recently initiated action to ensure prompt payment to suppliers and guidelines have been issued by the Department of Management and Budget to all departments.

3.12 CASH MANAGEMENT

3.12.1 In my report to Parliament in October 1984 on comprehensive audits, I identified the need for the Department of Management and Budget to review the current cash management procedures operating within government departments and in particular to:

- (1) enter into negotiations with banks which maintain the Public Account with a view to obtaining the best possible net return on the State's banking business;
- (2) take action on the authority given by the Treasurer on 31 March 1983 to investigate the current banking arrangements and alternative cash forecasting systems so as to minimise the holding of cash balances in the Public Account;
- (3) develop performance indicators that will enable the Department to monitor the extent to which the best possible net return is being obtained;
- (4) immediately review the present remittance procedures for all Collectors of Imposts with a view to improving the cash flow to the Public Account;
- (5) give high priority to implementing a central cash management system which will remove the need for advance accounts. In addition, I recommended that the Department as an interim measure should:
 - (i) negotiate with the banks with a view to obtaining interest on all advance accounts; and
 - (ii) set clear objectives in relation to the funding of advance accounts to ensure that balances are kept to a minimum; and
- (6) review the current practice of settling interdepartmental transactions by cheques.

3.12.2 Since the audit examination of departmental cash management, which was conducted in 1983-84, the Department of Management and Budget has taken the following steps to improve the cash management of the State:

- (1) Undertaken extensive negotiations with the banks and, as a result, obtained a higher rate of interest of the Public Account. Most of the large advance accounts are now earning a higher rate of interest.
- (2) Commenced a review of funds management within the public sector, the initial stage involving an examination of the department's current policies, practices and systems in this area.
- (3) Commenced the development of performance indicators to monitor the rate of return on cash investments being obtained by the department.

- (4) Carried out a major review of the remittance procedures of revenue collectors who remit their collections to the department at intervals specified by the Treasurer.

The review resulted in the collection cycles of many collectors being shortened. However, it is noted that a number of major collectors were still not banking directly to the Public Account.

- (5) Issued a circular to all departments directing that:
- (i) balances in departmental advance accounts be kept to a minimum;
 - (ii) advantage be taken of any discounts offered by suppliers, regardless of whether payment is made from the departmental advance account or the Public Account;
 - (iii) payments to other organisations financed from the Public Account be made on a needs basis rather than on a regular basis; and
 - (iv) the balances of any suspense accounts examined and any funds that are not required for daily use be transferred to the Trust Fund.

3.12.3 In audit opinion the above steps taken by the Department have enhanced the cash management of the State. However, it is anticipated that further substantial improvements in cash management should result from the review presently being undertaken by the department.

APPENDIX 1

Statement setting out briefly the effect of the Orders in Council issued under the provisions of sub-section (1) of section 25 of the Audit Act 1958.

Particulars	Program No.	Sub-Div.	Item	Parliamentary Appropriation	Appropriation after Variation by Governor in + Council -		Increase Decrease
					\$	\$	
Agriculture and Rural Affairs	122	1	2100	829 600	845 910	+	16 310
			3147	170 000	180 000	+	10 000
			3411	41 700	15 390	-	26 310
	123	1	3151	23 000	25 230	+	2 230
			3302	3 100	2 370	-	730
			3303	1 500	-	-	1 500
+							
-							28 540
Arts	144	1	3502	6 510 000	6 475 000	-	35 000
			3511	766 000	801 000	+	35 000
			5000	212 000	199 000	-	13 000
		2	7200	540 000	-	-	540 000
			7230	615 000	1 168 000	+	553 000
			+				
-							588 000
Attorney-General							
Law Department	165	1	1104	310 000	510 000	+	200 000
			2100	1 091 300	1 115 300	+	24 000
			3132	2 500 000	2 276 000	-	224 000
Office of Corrections	188	1	1102	24 531 901*	24 356 901	-	175 000
			1105	225 000*	250 000	+	25 000
			3121	1 424 000*	1 574 000	+	150 000
189	1	1102	6 062 000*	6 012 000	-	50 000	
		1104	100 000*	150 000	+	50 000	
+							
-							449 000
Community Services	183	2	7120	1 160 000	969 800	-	190 200
			7130	60 000	250 200	+	190 200
	187	1	3122	20 000*	30 000	+	10 000
			3303	12 000*	2 000	-	10 000
+							
-							200 200

Particulars	Program No.	Sub-Div.	Item	Parliamentary Appropriation	Appropriation after Variation		Increase or Decrease	
					by Governor	in + Council -		
				\$	\$	\$		
Conservation, Forests and Lands	202	1	1108	559 500*	691 500	+	132 000	
			3115	279 000	207 000	-	72 000	
	2	2	3120	804 510*	744 510	-	60 000	
			5000	1 896 000*	2 006 000	+	110 000	
			7120	520 000	550 000	+	30 000	
			7150	240 000	215 000	-	25 000	
			7490	210 000	235 000	+	25 000	
			8000	349 000*	209 000	-	140 000	
	203	1	1102	6 950 800*	7 363 050	+	412 250	
			3111	395 000*	282 750	-	112 250	
			3120	7 424 050*	7 124 050	-	300 000	
		2	7220	6 650 000*	6 710 000	+	60 000	
			7230	247 000*	230 000	-	17 000	
	204	1	7250	275 000	232 000	-	43 000	
			3111	678 770*	630 770	-	48 000	
			3115	2 000	10 000	+	8 000	
		2	3120	512 450*	452 450	-	60 000	
			3141	550 000*	650 000	+	100 000	
			5000	672 000*	688 000	+	16 000	
			6100	1 750 000	1 615 000	-	135 000	
7310			422 000	597 000	+	175 000		
7470			3 678 000*	3 622 000	-	56 000		
205			1	1102	14 528 400*	13 948 440	-	579 960
	1108	730 500		1 076 270	+	345 770		
	3103	1 590 460*		1 708 720	+	118 260		
	3111	280 000*		352 270	+	72 270		
	2	3115	138 040*	181 700	+	43 660		
		7140	263 000*	441 000	+	178 000		
		7220	450 000	400 000	-	50 000		
7410	1 100 000*	622 000	-	478 000				
7420	4 000 000*	4 350 000	+	350 000				
							+	
							-2 176 210	
Education	282	1	3114	210 000	208 330	-	1 670	
			3120	7 200	8 870	+	1 670	
	2	5000	1 932 000*	1 995 000	+	63 000		
		7150	6 000 000	5 937 000	-	63 000		
	283	1	1102	1 205 964 000*	1 204 714 000	-1	250 000	
			3124	114 332 000*	113 082 000	+1	250 000	
		2	5000	142 346 000*	145 176 000	+2	830 000	
			7160	4 855 000*	4 625 000	-	230 000	
			7170	390 000*	190 000	-	200 000	
	7180	10 800 000	8 400 000	-2	400 000			
								+
								-4 144 670

Particulars	Program No.	Sub-Div.	Item	Parliamentary Appropriation	Appropriation after Variation		Increase or Decrease		
					by Governor	in Council			
				\$	\$	\$			
Health	362	2	5000	18 425 000*	17 034 000	-1 391 000			
			7110	13 524 000*	15 310 000	+1 786 000			
			7140	874 000	1 551 000	+ 677 000			
			7150	644 000	307 000	- 337 000			
			7160	1 300 000*	1 632 000	+ 332 000			
			7170	1 475 000*	876 000	- 599 000			
			7190	1 100 000	673 000	- 427 000			
			7200	6 500 000	7 320 000	+ 820 000			
			7210	283 000	107 000	- 176 000			
			7220	330 000*	250 000	- 80 000			
			7230	2 189 000	1 995 000	- 194 000			
			7300	950 000*	539 000	- 411 000			
			364	2	5000	119 000*	100 000	- 19 000	
					7110	9 856 000*	9 875 000	+ 19 000	
	365	2	5000	806 000*	518 000	- 288 000			
			7110	1 532 000*	1 855 000	+ 323 000			
	366	2	7140	35 000	-	- 35 000			
			5000	20 000*	17 000	- 3 000			
	367	2	7110	1 263 000*	1 266 000	+ 3 000			
			5000	346 000*	332 000	- 14 000			
	369	2	7110	2 602 000*	2 616 000	+ 14 000			
			5000	2 840 000*	2 752 000	- 88 000			
	371	2	7110	5 127 000*	5 665 000	+ 538 000			
			7140	1 565 000	1 115 000	- 450 000			
			5000	84 000	23 000	- 61 000			
				7110	3 331 000*	4 729 000	+1 398 000		
				7140	1 495 000	158 000	-1 337 000		
						+			
						-5 910 000			
Housing	407	2	7210	1 800 000*	1 600 000	- 200 000			
			7250	800 000*	1 000 000	+ 200 000			
						+			
						- 200 000			
Police and Emergency Services	581	1	2100	175 600*	193 100	+ 17 500			
			3307	432 000	414 500	- 17 500			
						+			
						- 17 500			

Particulars	Program No.	Sub-Div.	Item	Parliamentary Appropriation	Appropriation after Variation by Governor in + Council -		Increase - Decrease
					\$	\$	
Premier	603	2	5000	66 000*	85 500	+	19 500
			7102	29 000	9 500	-	19 500
							+
							- 19 500
Treasurer	726	1	3106	3 500 000	3 536 769	+	36 769
			3107	1 850 000	2 260 000	+	410 000
			3119	9 700 000	10 600 000	+	900 000
			3127	18 200 000	16 617 231	-1	582 769
			3142	4 500 000	4 736 000	+	236 000
							+
							-1 582 769
Water Supply	761	2	7100	3 000 000	3 490 000	+	490 000
			7110	4 200 000	4 495 000	+	295 000
			7120	765 000	565 000	-	200 000
			7150	970 000	385 000	-	585 000
							+
							- 785 000

* Parliamentary Appropriations may have also been changed by either transfers authorised under Sections 7(3) and/or 19(1) of the Appropriation (1983-84, No. 1) Act 1984 or under the Annual Reporting Act 1983.

APPENDIX 2

Orders in Council issued under the Administrative Arrangements Act 1983 which transferred funds from one Appropriation to another.

Administrative Arrangements

Order No.	Functions Transferred	Item	Amount	Transferred From	Transferred To
			\$		
23	The operations of the Office of the Agent-General of Victoria in London and the Office of the Commissioner for the Government of Victoria in Japan, were transferred from the Department of Premier and Cabinet to the Department of Industry, Commerce and Technology effective from 17 February 1985.	1	241 200	603.1.1102	463.1.1102
		2	4 600	603.1.1107	463.1.1107
		3	3 300	603.1.1110	463.1.1110
		4	81 760	603.1.2109	463.1.2109
		5	242 910	603.1.3120	463.1.2107
		6	6 230	603.2.5000	463.2.5201
24	The operations of the Department of Minerals and Energy were transferred to the Department of Industry, Technology and Resources effective from 28 March 1985.	1	626 791	522.1.1102	465.1.1102
		2	7 228	522.1.1104	465.1.1104
		3	826	522.1.1108	465.1.1108
		4	326 515	522.1.2100	465.1.2100
		5	67 280	522.1.3101	465.1.3101
		6	500	522.1.3301	465.1.3301
		7	2 347	522.1.3303	465.1.3303
		8	17 300	522.1.3508	465.1.3508
		9	261 188	522.2.5000	465.2.5000
		10	81 000	522.2.7120	465.2.7120
		11	1 242 872	523.1.1102	466.1.1102
		12	15 216	523.1.1104	466.1.1104
		13	2 986	523.1.1105	466.1.1105
		14	79 880	523.1.1107	466.1.1107
		15	11 447	523.1.1108	466.1.1108
		16	560 764	523.1.2100	466.1.2100
	17	2 000	523.1.3101	466.1.3101	
	18	1 576	523.1.3301	466.1.3301	
	19	956 116	523.2.6000	466.2.6000	
	20	269 860	524.1.1102	467.1.1102	
	21	11 671	524.1.1104	467.1.1104	
	22	15 420	524.1.1107	467.1.1107	
	23	5 727	524.1.1108	467.1.1108	

Administrative Arrangements

Order No.	Functions Transferred	Item	Amount	Transferred From	Transferred To
			\$		
		24	297 513	524.1.2100	467.1.2100
		25	1 366	524.1.3101	467.1.3101
		26	294 767	524.1.3120	467.1.3120
		27	1 240	524.1.3301	467.1.3301
		28	62 547	524.1.3401	467.1.3401
		29	282 089	524.1.3518	467.1.3518
		30	120 000	524.2.5000	467.2.5000
		31	127 885	525.1.1102	468.1.1102
		32	9 557	525.1.1107	468.1.1107
		33	10 901	525.1.2100	468.1.2100
		34	241 594	526.1.1102	469.1.1102
		35	13 101	526.1.1107	469.1.1107
		36	44 684	526.1.2100	469.1.2100
		37	141 598	526.1.3101	469.1.3101
		38	520	527.1.1107	470.1.1107
		39	19 000	527.1.1108	470.1.1108
		40	40 800	527.1.2100	470.1.2100
		41	594 325	527.2.7150	470.2.7150
		42	12 846	528.1.1102	471.1.1102
		43	20 526	528.1.2100	471.1.2100
		44	171 500	528.2.7160	471.2.7160
25	Functions relating to the operations of land monitoring services were transferred from the Department of Property and Services to the Department of Management and Budget from 21 March 1985. The effective date of the Order was 12 May 1985.	1	65 750	622.1.1102	723.1.1102
		2	3 725	622.1.1107	723.1.1107
		3	2	622.1.2100	723.1.2100
26	Functions relating to the operations of the Office of Corrections were transferred from the Department of Community Welfare Services to the Law Department from and including 17 February 1985. The effective date of the Order was 21 March 1985.	1	869 858	187.1.1102	177.1.1102
		2	101 319	187.1.1104	177.1.1104
		3	35 744	187.1.1107	177.1.1107
		4	4 818	187.1.1108	177.1.1108
		5	380 515	187.1.2100	177.1.2100
		6	789	187.1.3122	177.1.3122
		7	12 000	187.1.3303	177.1.3303
		8	16 000	187.1.3503	177.1.3503
		9	267 949	187.2.5000	177.2.5000
		10	9 371 331	188.1.1102	178.1.1102
		11	3 367 223	188.1.1104	178.1.1104
		12	60 455	188.1.1105	178.1.1105
		13	738 267	188.1.1107	178.1.1107

Administrative Arrangements

Order No.	Functions Transferred	Item	Amount	Transferred From	Transferred To
			\$		
		14	1 969 474	188.1.2100	178.1.2100
		15	73 800	188.1.3101	178.1.3101
		16	283 414	188.1.3121	178.1.3121
		17	5 368 257	188.2.5000	178.2.5000
		18	425 501	188.2.7100	178.2.7100
		19	3 029 811	189.1.1102	179.1.1102
		20	20 973	189.1.1104	179.1.1104
		21	177 801	189.1.1107	179.1.1107
		22	849 047	189.1.2100	179.1.2100
		23	15 000	189.1.3127	179.1.3127
		24	4 074	189.1.3126	179.1.3126
		25	48 365	189.1.3305	179.1.3305
		26	1 677 661	189.2.5000	179.2.5000
27	Functions relating to the Ministry of Industrial Affairs were transferred to the Department of Employment and Industrial Affairs from and including 21 March 1985.	1	99 937	442.1.1102	334.1.1102
		2	931	442.1.1104	334.1.1104
		3	121 967	442.1.2100	334.1.2100
		4	60 345	442.1.3302	334.1.3301
		5	72 792	443.1.1102	327.1.1102
		6	4 991	443.1.1104	327.1.1104
		7	25 587	443.1.1107	327.1.1107
		8	3 500	443.1.1110	327.1.1110
		9	16 420	443.1.2100	327.1.2100
		10	184 071	443.1.3111	327.1.3111
		11	95 998	444.1.1102	328.1.1102
		12	365	444.1.1104	328.1.1104
		13	14 890	444.1.1107	328.1.1107
		14	62 831	444.1.2100	328.1.2100
		15	164 594	445.1.1102	329.1.1102
		16	2 300	445.1.1104	329.1.1104
		17	19	445.1.1105	329.1.1105
		18	21 217	445.1.1107	329.1.1107
		19	25 545	445.1.2100	329.1.2100
		20	296 697	446.1.1102	330.1.1102
		21	2 300	446.1.1104	330.1.1104
		22	26 666	446.1.1107	330.1.1107
		23	25 913	446.1.2100	330.1.2100
28	Functions relating to the operations of the Government Employee Housing Authority were transferred from the Ministry of Housing to the Department of Property and Services from 21 March 1985.	1	840 000	407.2.7210	630.2.7210
		2	247 400	407.2.7250	630.2.7250

Administrative Arrangements

Order No.	Functions Transferred	Item	Amount	Transferred From	Transferred To
			\$		
29	Functions relating to the operations of the Department of Labour and Industry were transferred to the Department of Employment and Industrial Affairs from and including 21 March 1985.	1	249 945	482.1.1102	333.1.1102
		2	2 232	482.1.1107	333.1.1107
		3	42 775	482.1.1105	333.1.1105
		4	1 972	482.1.1110	333.1.1110
		5	43 311	482.1.2100	333.1.2100
		6	25 036	482.2.5000	333.2.5000
		7	496 105	484.1.1102	331.1.1102
		8	13 986	484.1.1104	331.1.1104
		9	60 086	484.1.1107	331.1.1107
		10	28 857	484.1.2100	331.1.2100