

PART 5: DEVELOPMENTS IN THE CONSOLIDATED NON-FINANCIAL PUBLIC SECTOR

No economy has escaped the effects of the global recession and the state economies are no exception.

It is anticipated that most States will see large falls in their own-source revenues, creating challenges in delivering productivity-enhancing infrastructure and necessary public services. Reflecting these declines in revenue, the States will, in aggregate, face shrinking net operating balances, growing fiscal deficits and increasing net debt.

The Commonwealth and State governments have acted, individually and collectively, on many fronts to address these issues, including through the Nation Building and Jobs Plan, and the Economic Security Strategy. These packages include a range of stimulatory programs, such as the First Home Owners Boost, designed to underpin key economic sectors whilst delivering important social services and incentives.

The guarantee of state and territory borrowing is a further step taken by the Commonwealth to protect Australia's economic security, which will ensure that the States have the capacity to raise debt to undertake their infrastructure projects.

INTRODUCTION

This part provides a framework in which to consider developments in the Commonwealth's budget through consideration of the fiscal position of all Australian Governments.

It discusses trends in key fiscal indicators including the operating balance, fiscal balance, cash balance, gross fixed capital formation, balance sheet data (net debt, net financial worth and net worth), and net interest payments at the Commonwealth and state/local levels of government, and together at the consolidated level. These indicators are discussed in greater detail in Budget Paper No. 1, Statement 9.¹

For further information on the data used in the charts and tables in this part, see Appendix A. Additional data tables can be found in Appendix C.

OVERVIEW

State economies have slowed as a result of the global financial crisis and global recession. It is anticipated that most States will see large falls in their own-source revenues, creating challenges for States trying to deliver productivity-enhancing infrastructure and necessary public services.

The state/local general government sector has, in aggregate, been running net operating balance surpluses over the majority of the past decade. The net operating balance measures the gap between a State's recurrent expenses and its revenues. A net operating balance surplus indicates that a State's revenues exceed its expenses. Notwithstanding the global recession, in 2008-09 the States, in aggregate, still expect to maintain a positive net operating balance, but at a significantly lower level than in recent years. However, as only three of the eight States released their 2009-10 budgets before the Commonwealth, this picture could change over the next few months as other States release their budgets with revised estimates of their fiscal positions.

The state aggregate general government fiscal balance was in a small surplus as a per cent of GDP prior to 2007-08. The fiscal balance measures a government's investment-savings balance. A fiscal surplus indicates that a government is saving more than enough to finance all of its investment spending and is therefore not contributing directly to the current account deficit. A fiscal deficit indicates that a

1 The data in this part come from 2008-09 mid-year financial reports except for Victorian, Australian Capital Territory and Northern Territory data, which are drawn from 2009-10 budgets. This means that expected fiscal impacts flagged in some state financial publications since mid-year financial reports, for instance, those from the Queensland economic and fiscal update, have not been incorporated.

government needs to borrow or liquidate financial assets in order to fund its capital and/or recurrent expenditures.

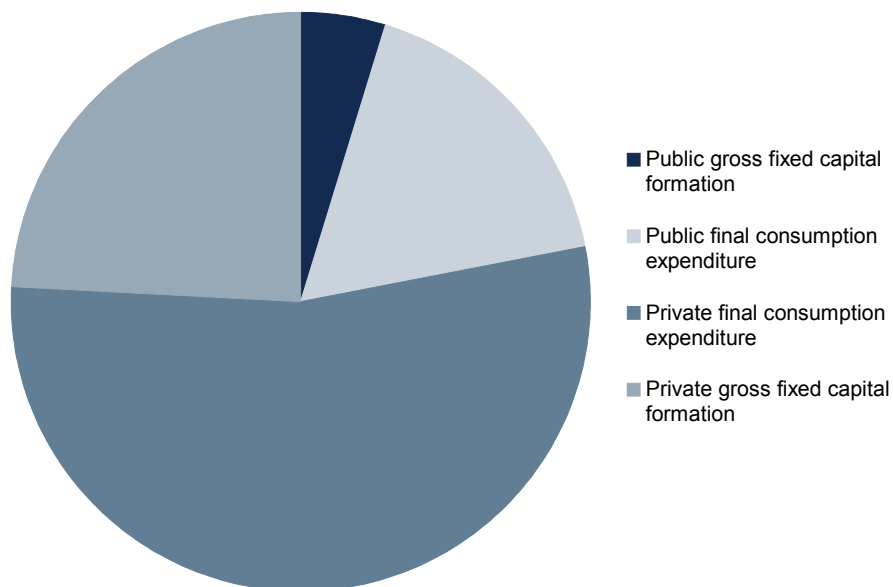
The fiscal balance differs from the net operating balance through the inclusion of net capital investment. The relatively low levels of fiscal surpluses, as a percentage of GDP, in recent years and the expected fiscal deficits in 2008-09 and 2009-10 show, in conjunction with positive net operating balances, that state governments have been borrowing to fund infrastructure expenditure.

THE PUBLIC SECTOR

The public sector constitutes a significant portion of the Australian economy, around 22 per cent of domestic final demand (as shown in Chart 5.1). The Commonwealth accounts for around 33.7 per cent of public final demand, while the state/local level of government accounts for 66.3 per cent.

Domestic final demand consists of public final demand (which comprises public gross fixed capital formation and public final consumption expenditure) and private final demand (which comprises private gross fixed capital formation and private final consumption expenditure).

Chart 5.1: Contribution of public and private sectors to domestic final demand



Source: ABS cat. no. 5206.0, as at December 2008.

The global recession has seen a fall in private demand and subsequent decline in private sector investment activity. To help fill the gap, Government economic stimulus packages are expected to increase the contribution of the public sector to domestic final

demand. The cooperative arrangements developed with the States have enabled these stimulatory measures to be delivered in a timely and targeted manner.

A significant portion of these stimulus packages are targeted towards investment in critical nation-building infrastructure. This type of government activity is chiefly undertaken by the public non-financial corporations sector, most of which is at the state/local level of government.

Box 5.1: Structure of the public sector

The non-financial public sector (NFPS) comprises the general government sector and the public non-financial corporations (PNFC) sector. The general government sector provides non-market goods and services such as policing, health and education. The PNFC sector comprises government-controlled corporations engaged in providing market goods such as electricity and public transport, but not financial services. For further information see Budget Paper No. 1, Statement 9, Appendix A.

STATE GENERAL GOVERNMENT SECTOR NET OPERATING BALANCE

The net operating balance measures, in accrual terms, the gap between a State's recurrent expenses and revenue for a given period. This is the headline measure used by most States and provides an indication of the medium-term sustainability of the existing level of government services. In the short-term, the net operating balance is subject to cyclical movements. As such, in times of slowing economic growth, it could be expected that a State's net operating balance would deteriorate as a result of a reduction in revenue without a corresponding reduction in expenses.

In the current economic climate, States' own-source revenues are declining. While expenses as a percentage of GDP are expected to remain relatively constant over the forward estimates, several States are expecting to deliver net operating deficits in 2009-10.

With the exception of Victoria, the Australian Capital Territory and the Northern Territory, state estimates are based on 2008-09 mid-year financial reports. Victorian, the Australian Capital Territory and the Northern Territory estimates are based on 2009-10 budgets.

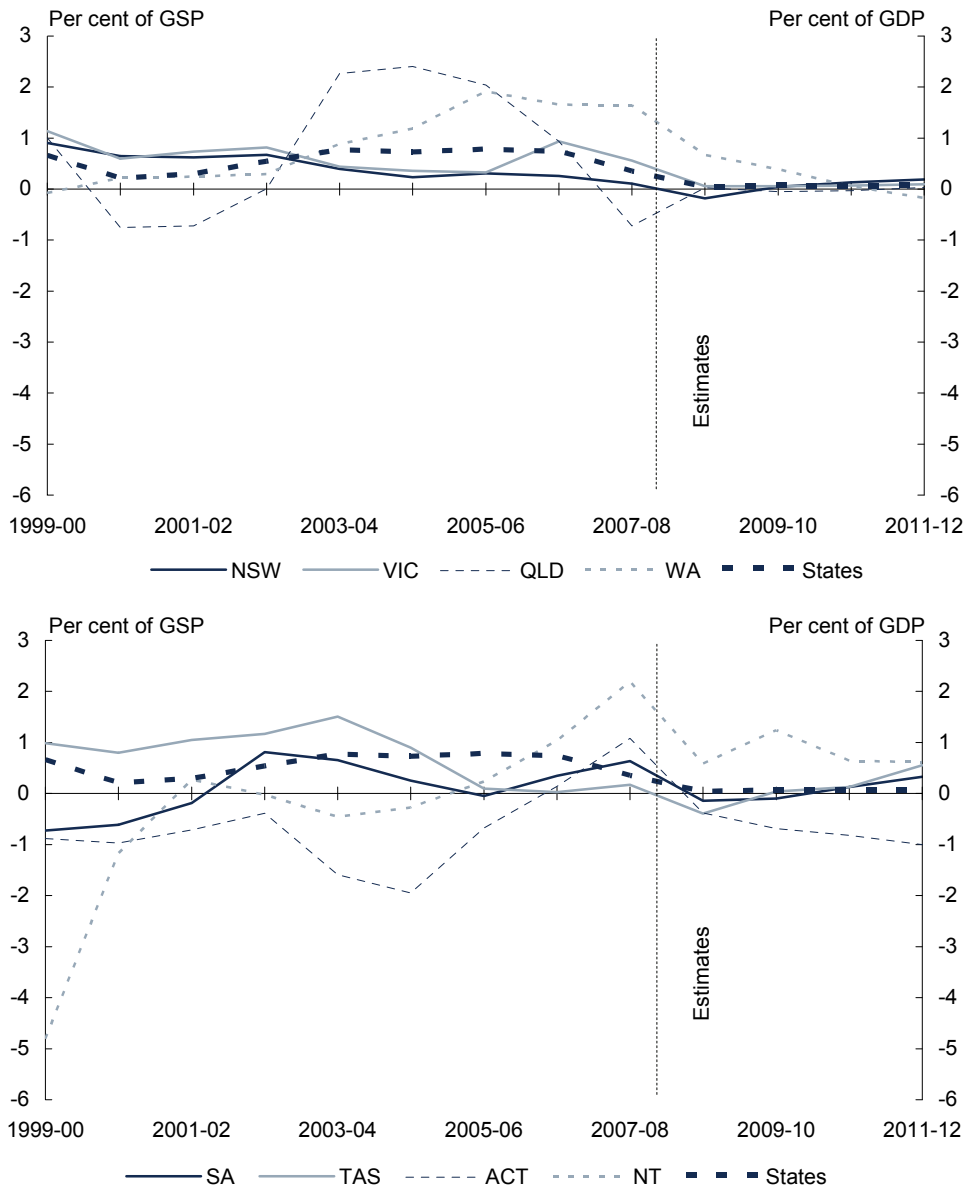
The aggregate state general government sector net operating balance position is expected to be a surplus of \$493 million (0.04 per cent of GDP) in 2008-09, and a surplus of \$906 million (0.1 per cent of GDP) in 2009-10.

Based on available 2009-10 state budget estimates, both the Australian Capital Territory and the Northern Territory indicate a downward trend in net operating

balances from 2009-10 over the forward estimates. While Victoria indicates a small improvement in net operating surpluses over the forward estimates, these surpluses are much smaller than those recorded prior to 2008-09.

As noted, the remaining States' estimates are based on 2008-09 mid-year financial reports and therefore do not reflect the continuing effects of the global recession on the Australian economy or particular state economies. It is likely that, following the release of the remaining state budgets, a further deterioration in the aggregate state general government sector net operating balance position will occur. In particular, any shift in the positions of the larger states, Queensland, Western Australia and New South Wales, could be expected to significantly alter the aggregate state net operating balance position.

Chart 5.2: State general government sector net operating balance^{(a)(b)}



- (a) States' net operating balances are expressed as a percentage of Gross State Product (GSP) (left-hand axis) and the aggregate state net operating balance is expressed as a percentage of Gross Domestic Product (GDP) (right-hand axis).
- (b) Estimates for Queensland are based on their mid-year fiscal and economic review and do not reflect the changes flagged in their economic and fiscal update.

FISCAL BALANCE

The fiscal balance measures, in accrual terms, a government's investment-savings balance. It is calculated as the gap between government savings (plus net capital transfers) and investment in non-financial assets. A fiscal surplus indicates that a government is saving more than enough to finance all of its investment spending and is therefore not contributing directly to the current account deficit. A fiscal deficit indicates that a government needs to borrow or liquidate financial assets in order to fund its capital and/or recurrent expenditures.

As the fiscal balance includes capital transfers and investment in non-financial assets, which are not included in the net operating balance, the difference between the fiscal balance and the net operating balance is the effect of investment in infrastructure.

The fiscal balance of the Commonwealth general government sector is expected to be in deficit in 2008-09, 2009-10 and over the forward estimates.

The state/local general government sector fiscal balance is expected to be in a deficit of 0.9 per cent of GDP in 2008-09 and 1.1 per cent of GDP in 2009-10. The forecast deficits reflect smaller operating surpluses and higher levels of planned capital investment over the forward estimates compared to previous years. As with the aggregate state net operating balance, the release of the remaining state 2009-10 budgets is likely to impact the aggregate state/local fiscal balance.

The consolidated general government sector fiscal balance is expected to be in a deficit of 3.9 per cent of GDP in 2008-09 and 5.7 per cent of GDP in 2009-10.

The consolidated PNFC sector fiscal balance is expected to be in a deficit of 1.6 per cent of GDP in 2008-09 and 1.6 per cent of GDP in 2009-10. The increase in the consolidated PNFC sector deficit in recent years mainly reflects increased capital expenditure by PNFCs at the state/local level.

Consolidated PNFC sector revenue and expenses have decreased significantly as a share of GDP since the late 1990s. This is partly attributable to the privatisation of PNFCs by both the Commonwealth and state/local governments. For example, Telstra no longer forms part of the PNFC sector following the sell-down of the Commonwealth's interest in Telstra in 2006-07. Although state/local PNFCs have historically dominated the consolidated PNFC sector, the difference has increased significantly since the sell-down of Telstra.

Fiscal balance deficits at both the Commonwealth and state/local levels of government result in the consolidated NFPS being in fiscal deficit in 2008-09 and 2009-10.

CASH BALANCE

The principal difference between the accrual-based fiscal balance and the cash balance is the timing of transactions. Whereas accrual accounting captures forward commitments before they actually occur, cash-based accounting captures payments and receipts as they occur.

A cash surplus reflects the extent to which cash is available to a government to increase financial assets or decrease liabilities, assuming no revaluations or other changes occur. A cash deficit indicates a government's need to call on financial markets to meet its budget obligations, either through running down its financial assets or by borrowing.

General government

As shown in Chart 5.3, the consolidated general government sector cash balance is expected to be in deficit in 2008-09 (3.3 per cent of GDP) and in 2009-10 (5.7 per cent of GDP). This position is expected to improve over the forward estimates to a cash deficit of 3.8 per cent of GDP in 2011-12.

The Commonwealth general government sector cash balance has recorded strong surpluses over recent years. In the short-term however, it is expected to be in deficit. This deterioration largely reflects lower taxation revenues and lower than expected returns from investments as a result of the global recession. The cash deficit also reflects the Commonwealth's response to the global recession, including through the spending associated with the Economic Security Strategy, the Government's infrastructure investment strategies, as well as the \$15.2 billion COAG funding agreement with the States.

As a result of this increase in Commonwealth funding, grants to state and local governments have increased. The transfer of these funds has minimal impact on the state/local cash balance, as this funding affects both receipts and payments.

The state/local general government sector maintained a cash surplus each year from 1994-95 to 2005-06, with the exception of 1998-99. Average cash deficits of 0.6 per cent of GDP are expected from 2008-09 to 2011-12 (Panel A, Chart 5.4). Flowing from the downturn in economic activity, these cash deficits reflect decreases in key revenue bases, in particular, decreases in GST revenue and revenues related to the property sector. The state/local cash position is expected to be in deficit in 2008-09 (0.6 per cent of GDP) and 2009-10 (0.8 per cent of GDP), improving to a deficit of 0.4 per cent of GDP in 2011-12.

Public non-financial corporations sector

As shown in Chart 5.3, the consolidated PNFC sector maintained a cash surplus through much of the 1990s.

A cash deficit of 1.9 per cent of GDP is estimated for the consolidated PNFC sector in 2008-09, improving slightly to a deficit of 1.8 per cent of GDP in 2009-10.

The Commonwealth's PNFC sector is small compared to that at the state/local level, where the majority of PNFCs are located. This reflects the role of State and local governments in the provision of essential services in areas such as electricity, gas, water and transport. As capital investment activity is greater in the PNFC sector, the bulk of expenditure on infrastructure is usually delivered at the state/local level. This infrastructure construction is being supported by all levels of Australian Government.

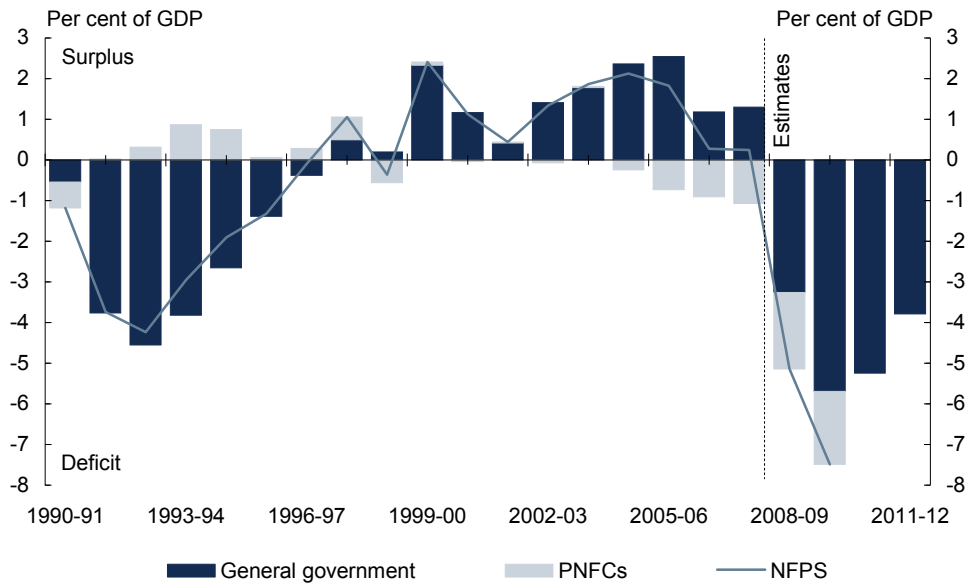
Cash deficits are expected at the state/local level, of 1.8 per cent of GDP in 2008-09 and 1.6 per cent of GDP in 2009-10. Cash deficits at both the Commonwealth and state/local levels of government are driving the expected PNFC sector cash deficits at the consolidated level.

Non-financial public sector

It is estimated that the consolidated NFPS will record a cash deficit of 5.1 per cent of GDP in 2008-09 and 7.5 per cent of GDP in 2009-10. The expected state/local NFPS deficit is predominantly a result of the large capital expenditure programs being delivered by state/local PNFCs. This expenditure includes States' own investment programs, as well as Commonwealth-funded programs under the Commonwealth's stimulus packages. The Commonwealth NFPS cash deficit also reflects funding under the \$15.2 billion COAG package.

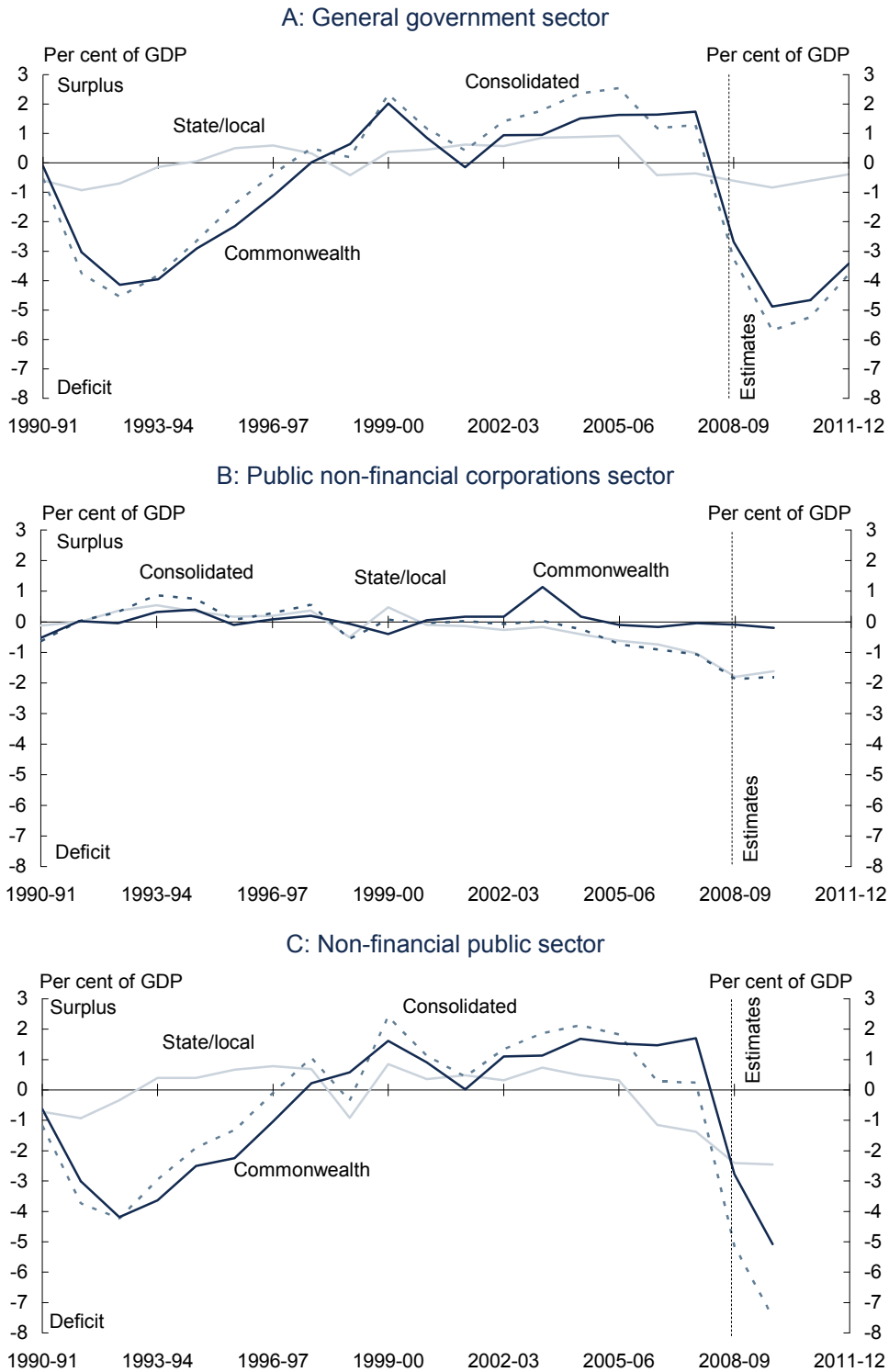
As noted previously, it is likely that, following the release of the remaining state budgets, the aggregate state/local cash balance will change.

Chart 5.3: Consolidated cash balance by sector^(a)



(a) Data for the PNFC sector (and therefore the NFPS) are not available beyond 2009-10.

Chart 5.4: Cash balance by sector and level of government^(a)



(a) Data for the PNFC sector (and therefore the NFPS) are not available beyond 2009-10.

Receipts and payments

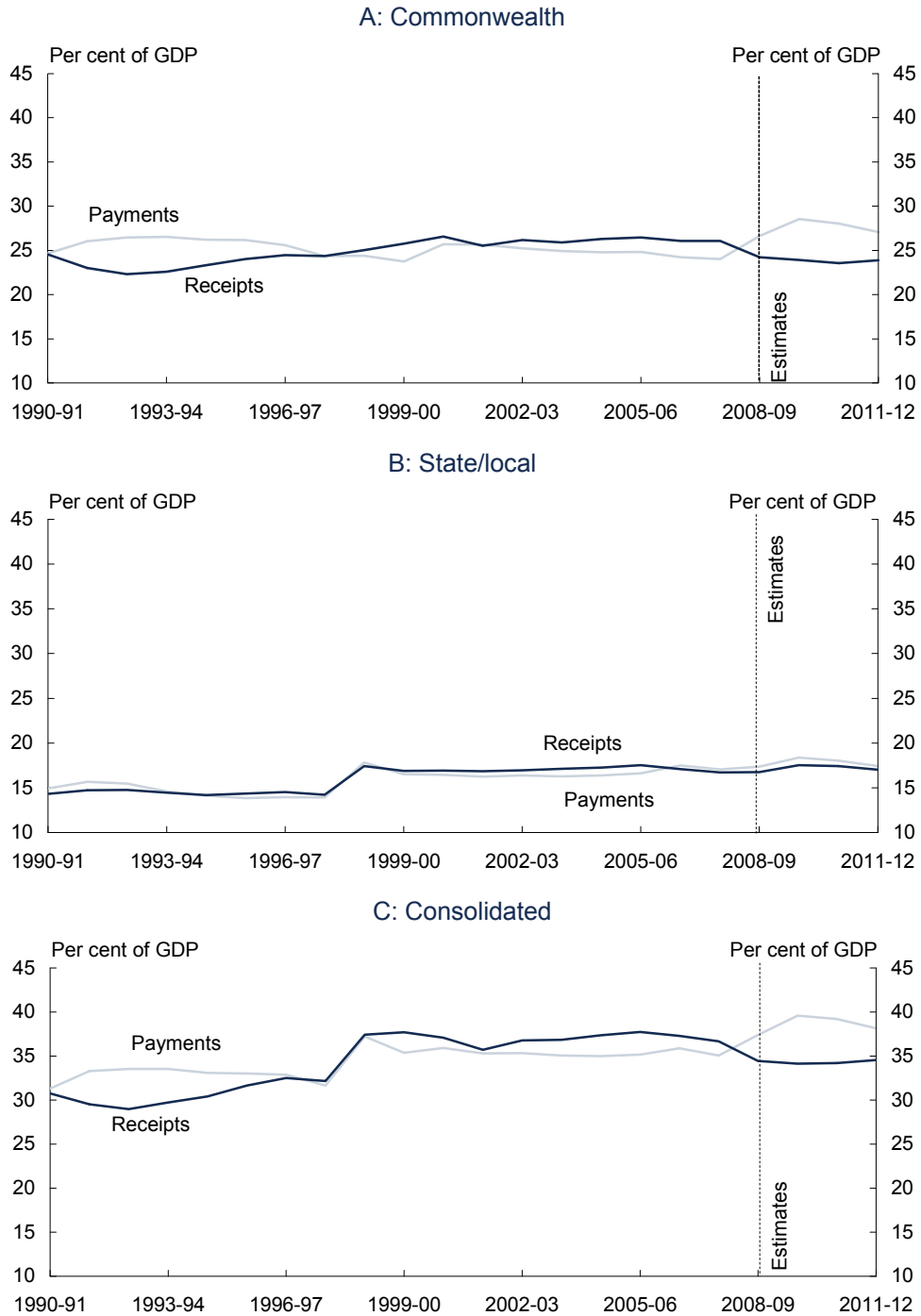
Chart 5.5 shows the trend in general government sector cash receipts and payments at the Commonwealth, state/local and consolidated levels of government, which underpin the developments in cash balances explained above. The general government sector is an appropriate focus for an assessment of public sector receipts and payments as it is the sector that collects taxes and provides non-market public services. The general government sector also accounts for the majority of NFPS receipts and payments.

Estimates of Commonwealth receipts and payments in Panel A of Chart 5.5 are inclusive of GST receipts and the associated payments of GST revenue to the States. The increase in payments in 2009-10 reflects the increased payments to the States under the Nation Building and Jobs Plan.

With the exception of Victoria, the Australian Capital Territory and the Northern Territory, state/local estimates, as shown in Panel B of Chart 5.5, are based on 2008-09 mid-year financial reports. These do not include Commonwealth funds paid through the States for infrastructure investment under the Nation Building and Jobs Plan, the Economic Security Strategy and, for Western Australia, the \$15.2 billion COAG package.

The PNFC sector is an important provider of economic infrastructure and contributes revenue to the general government sector, mainly in the form of dividends. State/local governments account for the majority of total PNFC sector receipts and payments.

Chart 5.5: General government sector receipts and payments by level of government^(a)



(a) The increases in receipts and payments in 1998-99 for the state/local sector, and in 1999-2000 for the Commonwealth, were predominantly due to the move to an accrual accounting framework and the subsequent 'grossing up' of cash receipts and payments. Prior to 1999-2000 some cash receipts were netted off payments.

INFRASTRUCTURE INVESTMENT

The global financial crisis has affected financial markets around the world, and state government borrowing is no exception. The spread between the cost of the benchmark Commonwealth Government Securities and state-issued semi-government bonds has increased along with competition for a shrinking pool of available credit. These factors have contributed to less liquid credit markets and to increasing difficulty for States attempting to access those markets.

In recent years, State governments have generally maintained a positive net operating balance. State borrowing has occurred, particularly in the PNFC sector, to fund infrastructure.

Given the situation facing state borrowing, and the potential implications for infrastructure spending if the States were unable to access credit markets, the Commonwealth Government has responded to ensure that the States have the capacity to raise debt. The guarantee of state and territory borrowing will underpin the ability of State governments to access the credit market.

Box 5.2: Guarantee of state and territory borrowing

The guarantee is available for both existing and new issuances of securities, but does not extend to securities denominated in foreign currencies. The guarantee is available over a range of maturities, allowing the States to more readily structure their finances to meet their longer term infrastructure plans.

A fee will be charged for the use of the guarantee. The fee on new issuances will be 30 basis points for AAA/Aaa-rated States and 35 basis points for AA+/Aa1-rated States. Existing securities can be guaranteed for 15 basis points for AAA/Aaa-rated States and 20 basis points for AA+/Aa1-rated States.

The Australian Loan Council will provide an additional level of transparency and rigour to the operation of the guarantee, as state borrowing requirements will continue to be considered by the Loan Council through the Loan Council Allocation process.

Gross fixed capital formation

Gross fixed capital formation is the value of acquisitions less disposals of new or existing fixed assets. The level of gross fixed capital formation is useful as a measure of investment in infrastructure.

Owing to the States' responsibilities in a range of capital intensive areas, such as electricity, gas, water and transport, including both rail and port infrastructure, the states have a large share of consolidated gross fixed capital formation. This section relates to state gross fixed capital formation.

The figures reported in this section include funding provided by the Commonwealth under the Nation Building and Jobs Plan for Victoria, the Australian Capital Territory and the Northern Territory, as reported in their budgets released on 5 May 2009. The data for the remaining States are based on their most recent mid-year financial reports, which do not include funding under the Nation Building and Jobs Plan. Funding under the Nation Building and Jobs Plan is described in more detail in Part 2 of this Budget Paper.

General government sector

Gross fixed capital formation in the aggregate state general government sector as a share of GDP has increased strongly over recent years. From 1 per cent of GDP in 2003-04, gross fixed capital formation in the state general government sector is expected to increase to around 1.8 per cent of GDP in 2009-10.

Public non-financial corporations sector

The PNFC sector currently has the largest expenditure on gross fixed capital formation. Gross fixed capital formation in the state PNFC sector has increased strongly over the past 10 years, both as a nominal dollar amount and as a proportion of GDP. Gross fixed capital formation has increased from a low of around \$3.7 billion (0.6 per cent of GDP) in 1999-2000 to around \$19.7 billion (1.7 per cent of GDP) in 2007-08.

From 2007-08 to 2009-10, gross fixed capital formation in the aggregate state PNFC sector is expected to increase from around \$19.7 billion to around \$26.8 billion (2.3 per cent of GDP), an increase of 36.1 per cent. This represents the highest level of gross fixed capital formation, as a proportion of GDP, since the commencement of accrual accounting.

Gross fixed capital formation in the aggregate state PNFC sector is expected to fall to \$19.3 billion in 2011-12, coming off an expected peak of \$26.8 billion in 2009-10. The greatest driver of this decrease is Queensland's reduction from an expected peak of \$9.9 billion (4.2 per cent of GSP) in gross fixed capital formation in 2008-09 to levels more consistent with historical averages, as a proportion of gross state product.

Queensland's mid-year financial report is forecasting gross fixed capital formation will total around \$4.9 billion (1.8 per cent of GSP) in 2011-12.

Many States have adjusted capital spending across the forward estimates period to 2011-12 in their mid-year financial reports. Although some infrastructure projects were deferred, the resulting reduction in total capital expenditure was partially offset by the announcement of new projects.

The Victorian, Australian Capital Territory and Northern Territory budgets reflect increased gross fixed capital formation over the forward estimates, compared with their mid-year financial reports. This reflects the inclusion of Commonwealth funding under the Nation Building and Jobs Plan as well as States' own infrastructure projects.

Non-financial public sector

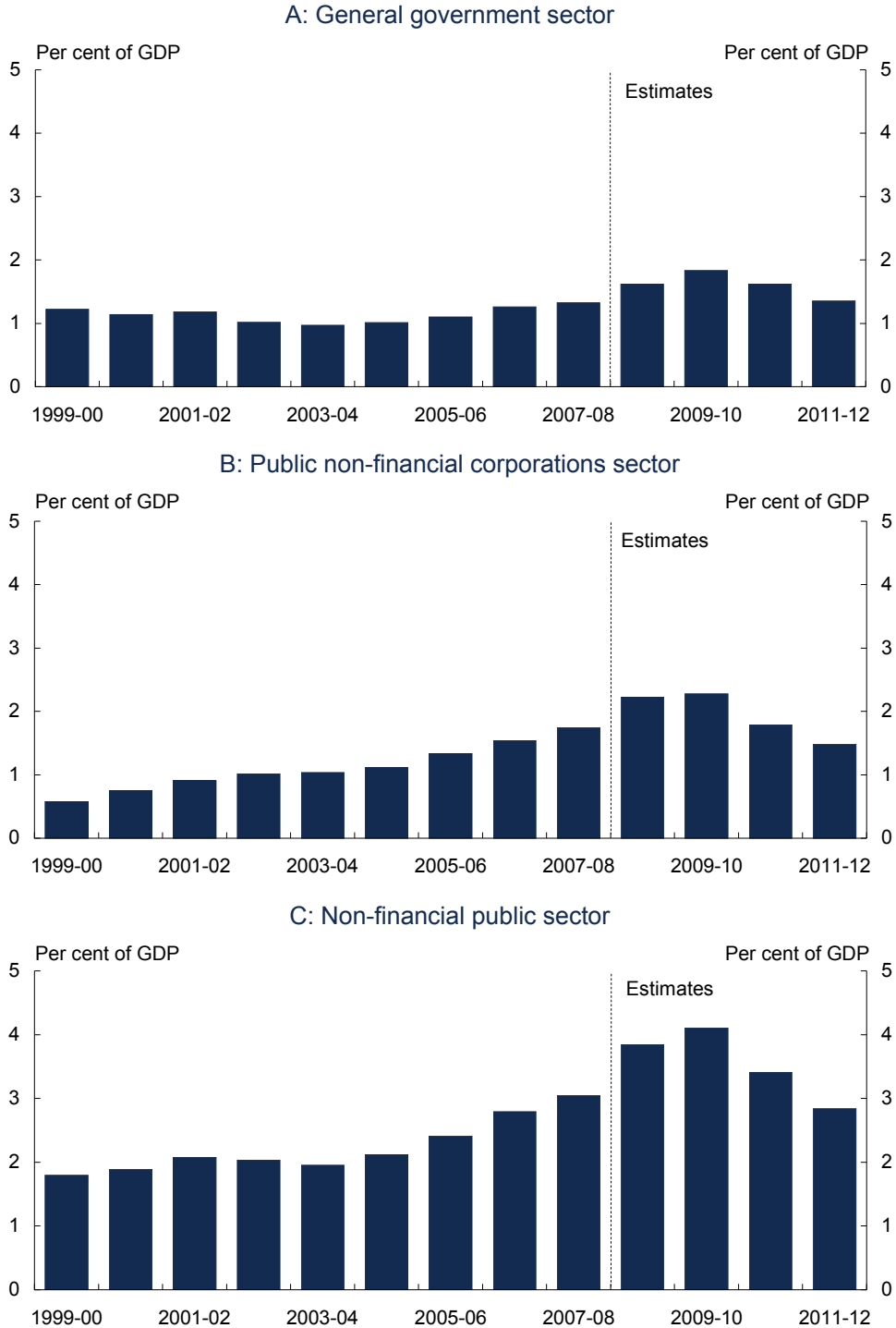
Gross fixed capital formation in the aggregate state NFPS is the aggregate of gross fixed capital formation in the state general government and PNFC sectors.

From a low of around \$11.6 billion (1.8 per cent of GDP) in 1999-2000, gross fixed capital formation in the state NFPS is expected to increase to around \$48.4 billion (4.1 per cent of GDP) in 2009-10.

Table 5.1: Non-financial public sector gross fixed capital formation by State (\$m)

	NSW	VIC	QLD	WA	SA	TAS	ACT	NT	States
2002-03	6,098	3,100	3,542	1,697	622	390	157	268	15,888
2003-04	6,327	3,173	3,344	1,997	672	464	260	224	16,447
2004-05	6,608	2,967	5,059	2,498	801	522	277	325	19,040
2005-06	7,791	3,564	6,533	3,393	806	624	251	360	23,323
2006-07	9,140	4,864	9,586	3,616	942	359	285	386	29,178
2007-08	10,246	4,541	12,630	4,534	1,065	466	437	520	34,439
2008-09	12,469	7,304	16,576	5,559	2,044	705	695	655	46,007
2009-10	12,776	10,532	14,266	5,546	2,317	796	1,210	944	48,387
2010-11	12,369	9,476	11,455	4,401	1,250	802	1,092	825	41,670
2011-12	12,009	7,094	10,060	4,754	1,095	721	434	683	36,851

Chart 5.6: Aggregate state gross fixed capital formation by sector



NET DEBT

Net debt is the sum of selected financial liabilities (deposits held, advances received, government securities, loans and other borrowing) less the sum of selected financial assets (cash and deposits, advances paid, investments, loans and placements). Net debt does not include superannuation-related liabilities.

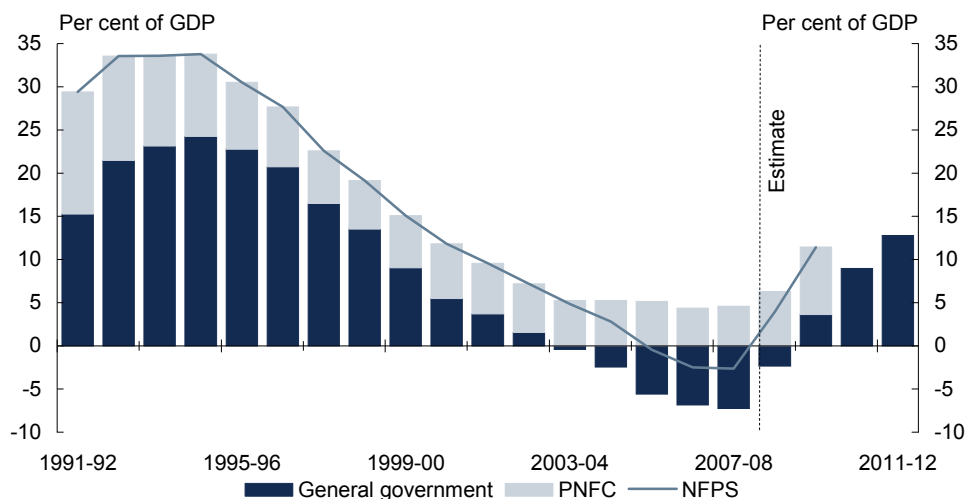
The improvement in consolidated NFPS net debt from the mid-1990s through to 2007-08, shown in Chart 5.7, primarily reflects both the Commonwealth and the state/local governments moving into budget surpluses and the continued application of privatisation proceeds to debt retirement at both levels of government.

Since 2007-08, consolidated NFPS net debt has increased owing to an increase in net debt at both the Commonwealth and state/local levels of government.

Individually, the majority of States are expecting positive net debt in 2008-09 and over the forward estimates. Following the release of updated figures in the remaining States' 2009-10 budgets, the aggregate state/local net debt positions in Chart 5.8, and the consolidated net debt figure in Chart 5.7, will likely change. Any shift in the positions of the larger states, Queensland, Western Australia and New South Wales, would alter the consolidated net debt level.

The increase in consolidated NFPS net debt reflects increased Commonwealth borrowing as a result of the global recession, and continued state borrowing.

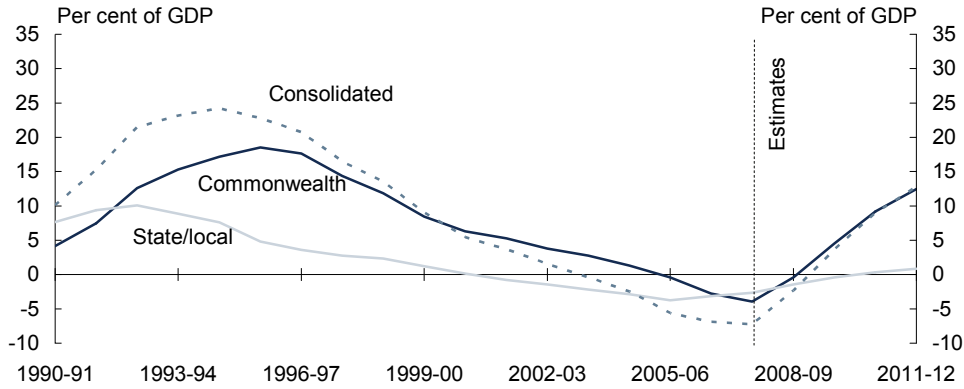
**Chart 5.7: Consolidated net debt by sector
(as at end of financial year)^(a)**



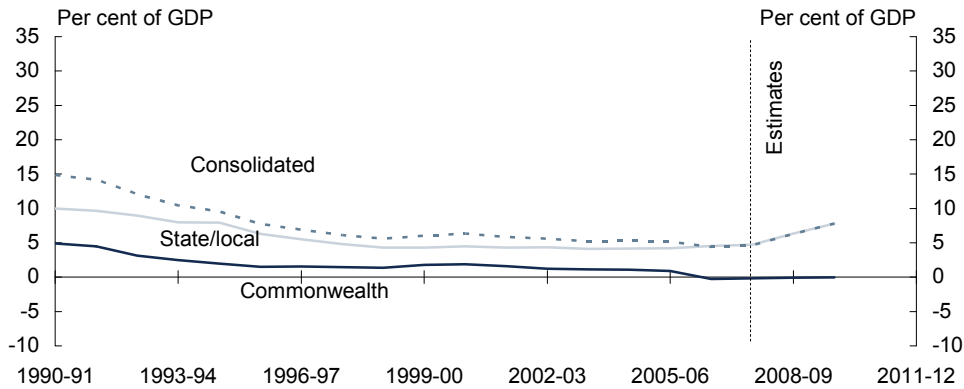
(a) Data for the PNFC sector (and therefore the NFPS) are not available beyond 2009-10.

**Chart 5.8: Net debt by sector and level of government
(as at end of financial year)^(a)**

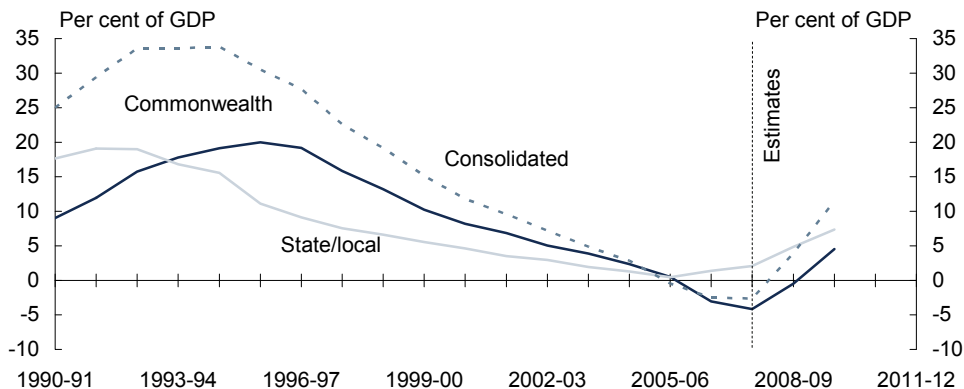
A: General government sector



B: Public non-financial corporations sector



C: Non-financial public sector



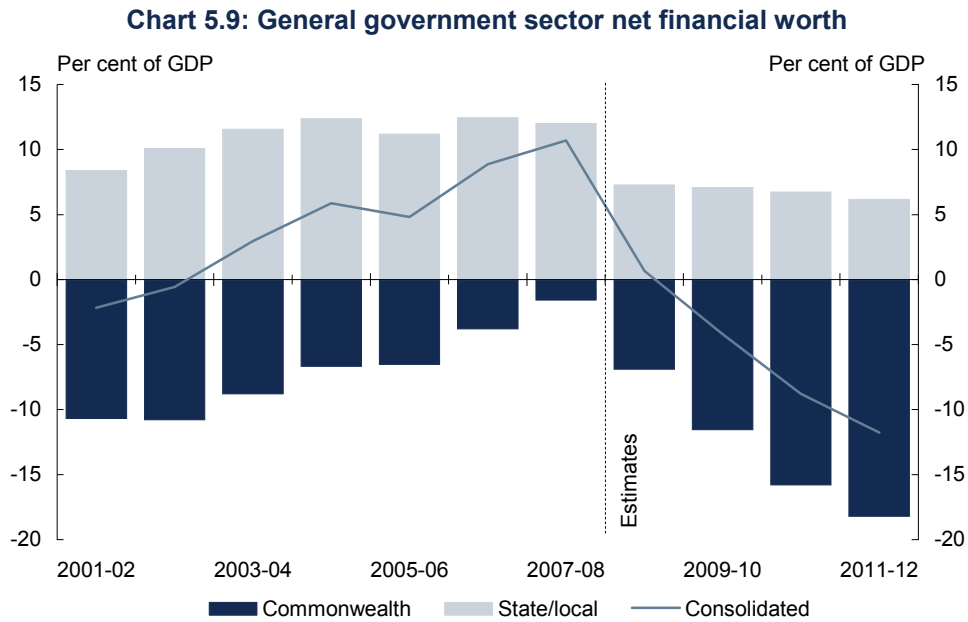
(a) Data for the PNFC sector (and therefore the NFPS) are not available beyond 2009-10.

NET FINANCIAL WORTH

Net financial worth measures a government's net holdings of financial assets. It is a broader measure than net debt, as it includes employee-related liabilities such as superannuation, but is narrower than net worth as it excludes non-financial assets.

Following the trend in net debt, Commonwealth general government sector net financial worth has fallen since 2007-08, as a result of the global financial crisis and global recession. Net financial worth in the state/local general government sector is expected to fall, as a per cent of GDP, over the forward estimates from a peak in 2006-07.

At the consolidated level, net financial worth is expected to decline in 2008-09 and over the forward estimates.



NET WORTH

Net worth is the broadest measure of the balance between assets and liabilities as it includes all assets less all liabilities.

The state/local general government sector is estimated to have a positive net worth of 65.1 per cent of GDP in 2008-09 and 67.4 per cent of GDP in 2009-10. State/local net worth has increased in nominal terms each year between 1998-99 and 2007-08. As a proportion of GDP, over the same period, it has increased from 60.1 per cent of GDP to 69.6 per cent of GDP.

Historically, the Commonwealth general government sector has frequently recorded negative net worth. The Commonwealth is expecting negative net worth in 2009-10 and over the forward estimates. This primarily reflects the significant funding provided by the Commonwealth to the States and to local government for capital works, with the resultant assets recorded in the balance sheets of the state and local governments. Looking ahead, general government sector net worth is expected to decline across all levels of government as a result of the global financial crisis and global recession.

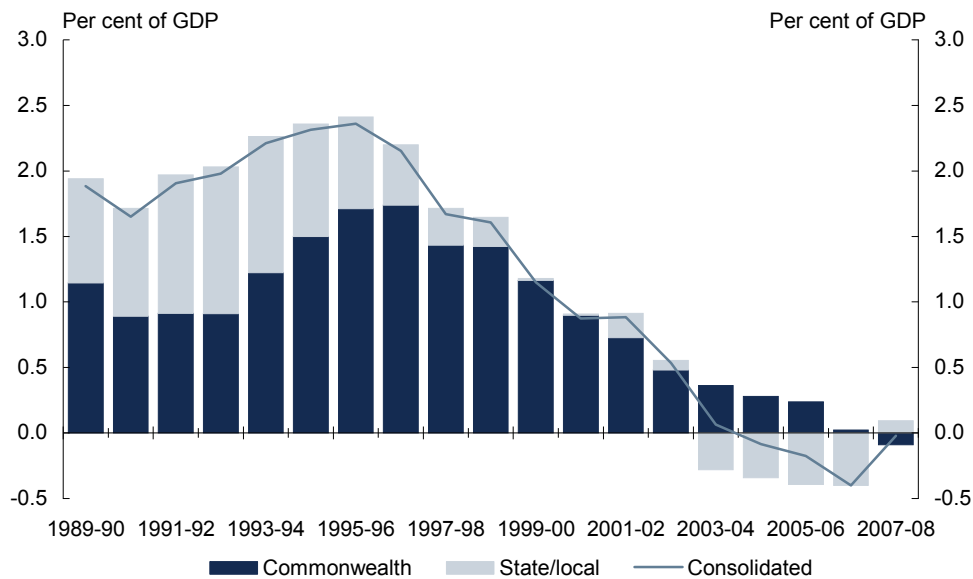
NET INTEREST PAYMENTS

Net interest payments reflect the cost of servicing debt. The higher the net debt of a government (lower net financial worth), the greater the call that will be imposed on a government's future revenue flows to service that debt.

Consolidated general government sector net interest payments peaked in 1995-96, reflecting the increased level of Commonwealth general government sector net debt. Since then Commonwealth and state/local general government sector net interest payments have been decreasing, reaching a low in 2006-07, as the Commonwealth and state/local general government sectors experienced sustained budget surpluses, which were used, in part, to pay down debt levels.

In 2007-08 state/local general government net interest payments began to increase as a result of an increase in the level of state/local sector net debt.

Chart 5.10: General government sector net interest payments



THE AUSTRALIAN LOAN COUNCIL

The Australian Loan Council is a Commonwealth-State ministerial council that coordinates public sector borrowing. The Loan Council consists of the Prime Minister of Australia and the Premier/Chief Minister of each State and Territory. However, in practice, each member is represented by a nominee, usually the Treasurer of that jurisdiction, with the Commonwealth Treasurer as Chairman.

Current Loan Council arrangements operate on a voluntary basis and emphasise transparency of public sector financing rather than adherence to strict borrowing limits. These arrangements are designed to enhance financial market scrutiny of public sector borrowing and facilitate informed judgments about each government’s financial performance.

The Loan Council traditionally meets annually in March to consider jurisdictions’ nominated borrowings for the forthcoming year. As part of the agreed arrangements, the Loan Council considers these nominations, having regard to each jurisdiction’s fiscal position and the macroeconomic implications of the aggregate figure.

From 2009-10 the Loan Council will undertake several new roles in relation to infrastructure and borrowing.

As announced in the 2008-09 Budget, the Loan Council will consider the macroeconomic implications of proposed expenditure from the Building Australia Fund, the Health and Hospitals Fund and the Education Investment Fund. The Loan

Council will then report to the Commonwealth to inform the Government's final decisions regarding funding of projects from these funds.

Following the announcement of funding decisions from the funds, affected jurisdictions will have an opportunity to make appropriate amendments to their Loan Council Allocation nominations.

The Loan Council will also provide an additional level of scrutiny regarding the use of the guarantee of state and territory borrowing. The additional oversight by the Loan Council will enhance its role of improving government accountability, and will provide an additional layer of scrutiny and transparency over public sector financing.

Outcome of the 2009 Australian Loan Council meeting

The Loan Council met on 25 March 2009 to consider Loan Council Allocation nominations for 2009-10. The Loan Council approved each jurisdiction's nominated allocation. In aggregate, the nominations represent a deficit of \$58.9 billion (Table 5.2). The States nominated a deficit of \$24.8 billion and the Commonwealth nominated a deficit of \$34.1 billion.

The Commonwealth's 2009-10 Loan Council Allocation budget update is available in Budget Paper No. 1, Statement 9, Appendix B.

State 2009-10 Loan Council Allocation budget updates will be available in the States' 2009-10 budgets.

Table 5.2: Loan Council Allocation (LCA) nominations for 2009-10^(a)

	NSW	VIC	QLD	WA	SA	TAS	ACT	NT	C/with	Total
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Nominated 2009-10 LCAs										
General government sector cash surplus(-)/deficit(+)	1,077	703	3,286	856	729	-51	-112	-27	32,452	
PNFC sector cash surplus(-)/deficit(+)	4,284	4,120	5,617	2,495	700	76	199	147	980	
Non-financial public sector cash surplus(-)/deficit(+)(b)	5,362	4,823	8,904	3,351	1,429	25	87	120	33,432	
Acquisitions under finance leases and similar arrangements	406	*	0	130	14	0	0	0	499	
<i>equals</i> ABS GFS cash surplus(-)/deficit(+)	5,768	*	8,904	3,481	1,443	25	87	120	33,931	
<i>minus</i> Net cash flows from investments in financial assets for policy purposes(c)	-187	-3	180	0	-7	-4	-7	-1	-995	
<i>plus</i> Memorandum items(d)	676	328	41	-423	-558	49	4	0	-853	
Loan Council Allocations	6,631	5,153	8,765	3,058	892	78	98	121	34,073	58,869
2009-10 tolerance limit(e)	1,375	859	950	549	289	128	80	87	5,955	

(a) LCA nominations for 2009-10 reflect best estimates of cash surpluses/deficits. Nominations have been provided on the basis of policies announced up to and included in jurisdictions' mid-year financial reports and the Commonwealth's mid-year economic and fiscal outlook and the updated economic and fiscal outlook. Each jurisdiction will publish an updated LCA estimate as part of its budget documentation.

(b) The sum of the deficits of the general government and PNFC sectors may not directly equal the NFPS deficit due to intersectoral transfers.

(c) Net cash flows from investments in financial assets for policy purposes comprises net lending by governments with the aim of achieving government policy, as well as net equity sales and net lending to other sectors or jurisdictions. Such transactions involve the transfer or exchange of a financial asset and are not included within the cash deficit. However, these flows have implications for a government's call on financial markets. Net cash flows from investments in financial assets for policy purposes are displayed with the same sign as reported in cash flow statements.

(d) Memorandum items are used to adjust the NFPS surplus/deficit to include in LCAs certain transactions — such as operating leases — that have many of the characteristics of public sector borrowings but do not constitute formal borrowings. They are also used, where appropriate, to deduct from the NFPS surplus/deficit certain transactions that the Loan Council has agreed should not be included in LCAs, for example, the funding of more than employers' emerging costs under public sector superannuation schemes, or borrowings by entities such as statutory marketing authorities. Where relevant, memorandum items include an amount for gross new borrowings of government home finance schemes.

(e) Tolerance limits are designed, *inter alia*, to accommodate changes to LCAs resulting from changes in policy. Tolerance limits apply between jurisdictions' LCA nominations and budget estimates, and again between budget estimates and outcomes. They are calculated as 2 per cent of NFPS cash receipts from operating activities in each jurisdiction.

* These figures were not reported.