

STATEMENT 7 — THE PUBLIC SECTOR

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STATEMENT 7 — THE PUBLIC SECTOR

PART 1: INTRODUCTION

Statement 7 examines trends in the finances of the Commonwealth and State/local levels of government, providing a broader context in which to consider developments in the Commonwealth budget sector. It analyses total public sector finances using underlying deficits and the stock of net debt and net liabilities.

The Statement uses ABS GFS classifications of the non-financial public sector, which provide a consistent basis for comparison. Data are presented both by level of government and institutional sector. The former refers to the distinction between the Commonwealth and the State/local levels while the latter distinguishes between the general government sector and the public trading enterprise (PTE) sector within each main level of government.

- The general government sector, through government departments and agencies, provides public services which are mainly non-market in nature, are mainly for the collective consumption of the community, or involve the transfer or redistribution of income. These services are financed mainly through taxes and other compulsory levies, although other sources of funding such as user charging have increased in recent years.
 - The Commonwealth general government sector extends beyond the budget sector to include non-budget general government authorities such as the ABC.
- The PTE sector comprises bodies which provide goods and services that are mainly market, non-regulatory and non-financial in nature, financed mainly through sales to the consumers of these goods and services. In general, PTEs are legally distinguishable from the governments which own them.

In order to provide a more complete coverage of the public sector, the ABS has decided to extend the scope of GFS to include public financial enterprises (PFEs) with effect from 1998-99. The PFE sector has been shrinking in recent years with the privatisation of government owned banks and insurance offices but still comprises entities such as State home and rural finance schemes, the Reserve Bank of Australia and, from 1998-99, State central borrowing authorities. Since GFS data are not expected to be available until later in 1998, the PFE sector is excluded from the analysis in this Statement.

The historical data used in this Statement have been drawn from GFS publications. Preliminary 1997-98 data and projections for the States were compiled from general government sector information provided by the States for the 1998 *National Fiscal Outlook*, published in March 1998, updated for recent State budgets. Projections for the Commonwealth incorporate the parameter assumptions which underlie the Commonwealth Budget forward estimates.

Consistent with the focus elsewhere in the Budget Papers, this Statement examines trends in underlying rather than headline deficits. By abstracting from net advances — which simply involve the transfer or exchange of a financial asset and therefore have no impact

on government net lending or net worth — the underlying deficit is broadly consistent with the national accounts net lending measure. It thus provides a good estimate of the savings-investment gap for the relevant sector. For the Commonwealth general government sector, net advances mainly comprise the proceeds of equity asset sales and State debt repayments to the Commonwealth.

The underlying deficit differs from the ABS deficit measure by not excluding increases in provisions. This is to maintain consistency with the ABS national accounts treatment of provisions in the public net lending estimates. The difference is further explained in the statistical notes at Appendix B to this Statement.

Underlying deficits do not translate directly into corresponding changes in net debt. This is mainly because the proceeds of equity asset sales, while excluded from the underlying deficit, result in lower borrowing requirements (or repayment of previous borrowings) and therefore lower net debt.

Part II of this Statement examines trends in underlying deficits, outlays and revenue, while Part III discusses movements in net debt and a broader measure of net liabilities.

Appendix A outlines the size and structure of the public sector, including the respective roles of the Commonwealth and State/local governments. Appendix B provides notes on the data used and developments in GFS. Appendix C provides data on public sector revenue, outlays, underlying deficits, net interest outlays and net debt.

BOX 1: UNIFORM PRESENTATION FRAMEWORK

In March 1997, the Australian Loan Council agreed to implement a revised uniform presentation framework (UPF) for Commonwealth, State and Territory financial information.

This framework updates the May 1991 Premiers' Conference uniform presentation agreement to take account of early budgets and to integrate previously separate reporting requirements.

- The primary objective of this agreement is to ensure that a common core of financial information is provided in jurisdictions' budget papers. This is achieved through presenting information on an ABS GFS basis.

Commonwealth, State and Territory governments will continue to report core financial information in their budget papers. However, these reports will be made more forward looking by including three-year forward estimates for the general government sector. Each jurisdiction will also publish a mid-year report taking into account fiscal and economic developments since the commencement of the budget year. These reports will include updated forward estimates for the general government sector and a revised Loan Council Allocation estimate. The full UPF, including the requirement to publish mid-year reports, comes into effect from 1998-99.

- The Commonwealth has published a *Mid-Year Economic and Fiscal Outlook* report, providing information in the UPF format, since 1996-97.

A report setting out the revised UPF is available from the Commonwealth and State Treasuries. The UPF will be reviewed in the light of the ABS's intention to change GFS to an accruals framework from 1999-2000.

From that point, published GFS will consist of a main accrual presentation and a cash based supplement, using derived cash data. In the meantime, the ABS will continue to present annual information on government outlays, revenue and deficits for the Commonwealth, States and Territories in the GFS and *Government Financial Estimates* (GFE) publications (Catalogue Nos. 5512.0 and 5501.0 respectively). The GFS is usually published in April and the GFE in November of each year. Information on public sector financial assets and liabilities is published annually in ABS Catalogue No. 5513.0.

PART II: TRENDS IN PUBLIC SECTOR BALANCES

PUBLIC SECTOR UNDERLYING DEFICIT

Trends in total public sector balances in Australia have largely reflected developments in the Commonwealth budget through its influence on the general government sector. Movements in PTE sector balances have had a smaller effect on the total and tend to be more important at the State/local level which has a relatively large PTE sector.

Chart 1 shows movements in total public sector deficits as a share of GDP and the contributions of the general government and PTE sectors. The total public sector has remained consistently in deficit over recent decades apart from a small surplus in 1988-89. Deficits have been recorded throughout the expansionary phase of the present economic cycle, peaking at 4.5 per cent of GDP in 1992-93. This pattern of deficits has detracted from net lending and hence contributed to the current account deficit.

As shown in Chart 1, the total public sector recorded a small surplus of 0.1 per cent of GDP in 1996-97, with increasing surpluses projected in the period to 2001-02.¹ This improvement reflects the budget measures adopted by the Commonwealth Government under its fiscal consolidation programme.

Chart 1 also shows the declining contribution of the PTE sector to the total public sector deficit, in line with the trend towards corporatisation and privatisation of government businesses that has been increasingly evident since the late 1980s. The PTE sector is expected to contribute to total public sector surpluses over the projection period.

¹ These projections incorporate the parameter assumptions which underlie the Commonwealth Budget forward estimates and information provided by the States for the 1998 *National Fiscal Outlook* and in available 1998-99 State budgets.

Chart 1: Non-financial Public Sector Underlying Deficit by Sector

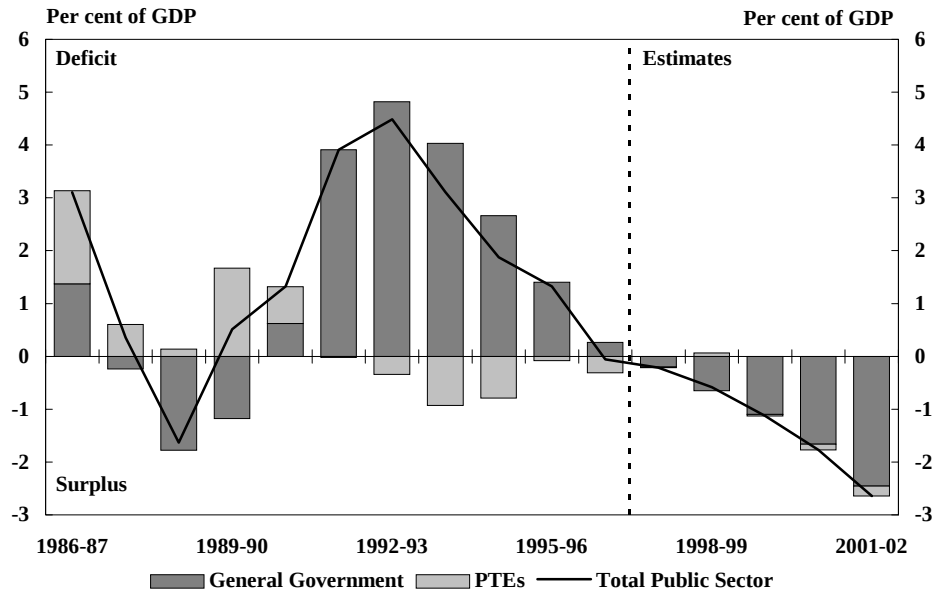


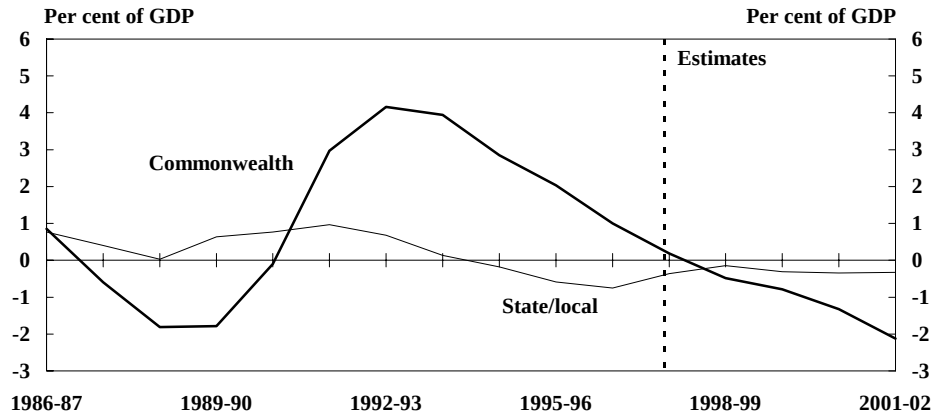
Chart 2 disaggregates the deficits presented in Chart 1 by level of government. It shows the large contribution of past Commonwealth general government deficits to the total public sector deficit. It also illustrates the recent and prospective improvement in the Commonwealth general government sector balance as a result of the Government's fiscal consolidation programme.

With the State general government sector projected to remain in small surplus and the consolidated PTE sector close to balance, the improvement in the Commonwealth general government sector is expected to drive the improvement in the total public sector surplus to 2.6 per cent of GDP in 2001-02.

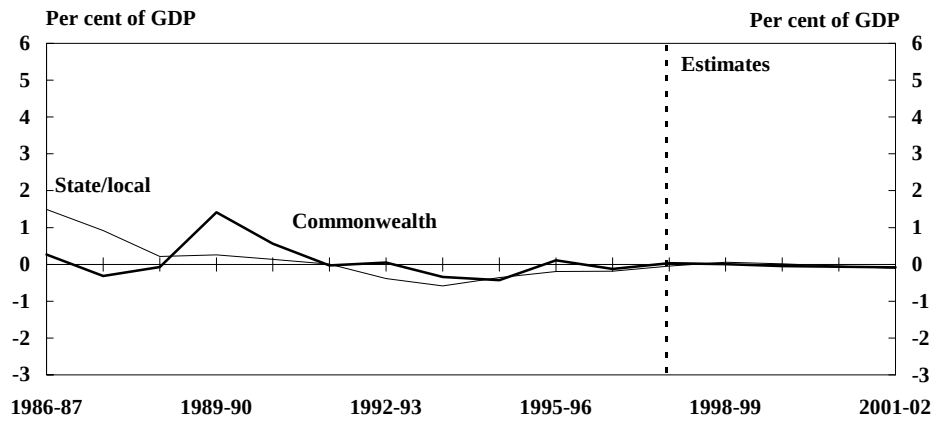
Trends in general government and PTE sector deficits are analysed in more detail in the following sections.

Chart 2: Underlying Deficit by Sector and Level of Government

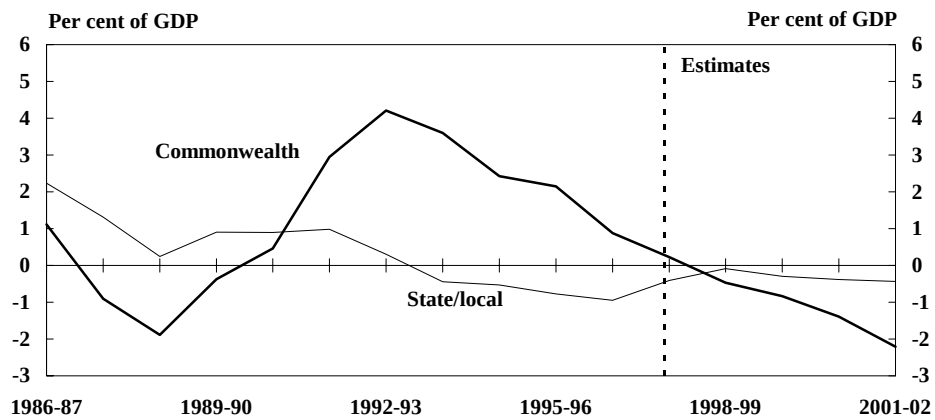
A: General Government



B: Public Trading Enterprises



C: Consolidated



GENERAL GOVERNMENT SECTOR

The general government sector is the appropriate primary focus for any assessment of the impact of the public sector on the national economy. It accounts for around 90 per cent of total public sector revenues and outlays and is the sector through which national governments may seek to affect the level of private sector activity. The increasing commercial orientation of the PTE sector means that it has come to operate more like the private sector. Its contribution to total public sector balances in the current decade has been minor.

Chart 3 shows trends in general government underlying outlays and revenue at the Commonwealth and State/local levels. Panel A indicates the cyclical nature of the Commonwealth's outlays and revenue due to its responsibility for transfer payments and the sensitivity of its revenues to rates of economic growth and movements in prices and incomes. However, the Commonwealth deficits recorded in the first half of the 1990s also reflected structural factors — in particular, the maintenance of high levels of outlays as a share of GDP during the cyclical upturn and the effect on revenues of a low inflation environment and demand shifts affecting the growth of indirect taxes.

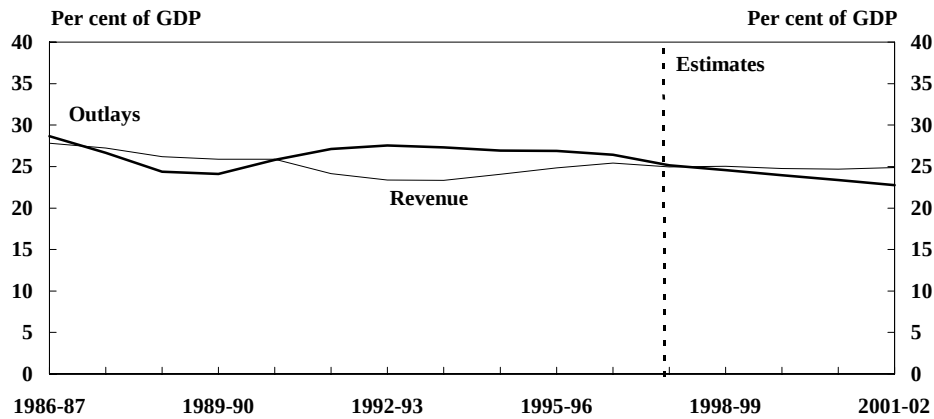
As shown in Panel A of Chart 2, the Commonwealth general government sector is expected to move from a deficit of 2.0 per cent of GDP in 1995-96 to a surplus of 0.5 per cent of GDP in 1998-99, increasing to 2.1 per cent in 2001-02. Panel A of Chart 3 shows that this improvement is being achieved through a reduction in outlays as a share of GDP, from 26.4 per cent in 1996-97 to a projected 22.8 per cent in 2001-02 — the lowest level since the early 1970s. Revenue is expected to remain broadly stable at around 25 per cent of GDP over the same period.

The Government has thus relied predominantly on outlays restraint to achieve fiscal consolidation. This reflects the Government's view that expenditure control holds the key to achieving sustainable improvements in the fiscal position and that scope has existed for rationalising programmes and making government more efficient. The IMF and OECD have found that fiscal consolidation is more likely to be durable and encourage sustained economic growth if it is achieved through outlays restraint rather than tax increases which may discourage private sector activity and be syphoned off into higher spending.

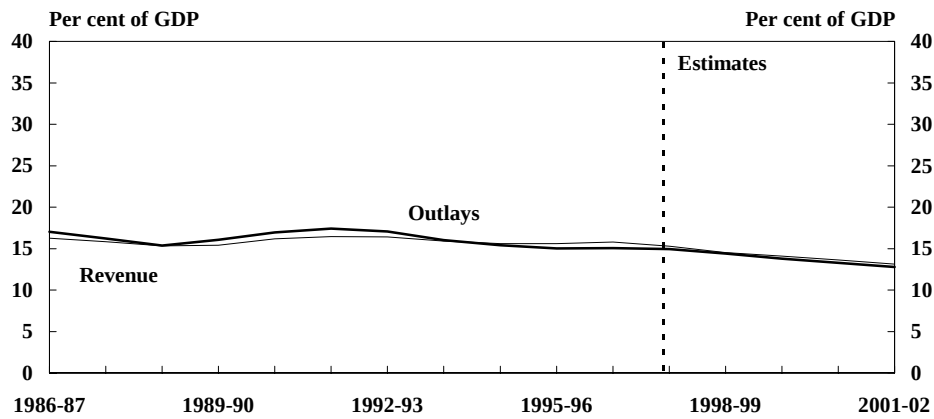
State/local revenue and outlays are less sensitive to the economic cycle than Commonwealth finances. Panel A of Chart 2 shows the sustained improvement in the State/local general government balance achieved in the period 1991-92 to 1996-97, from a deficit of 1.0 per cent of GDP to a surplus of 0.8 per cent of GDP. This improvement has largely reflected outlays restraint, as shown in Panel B of Chart 3. State/local revenue has been broadly stable as a share of GDP, although the 1996-97 outcome was boosted by significant stamp duty and other privatisation-related revenues received by Victoria.

**Chart 3: General Government Underlying Outlays and Revenue
by Level of Government**

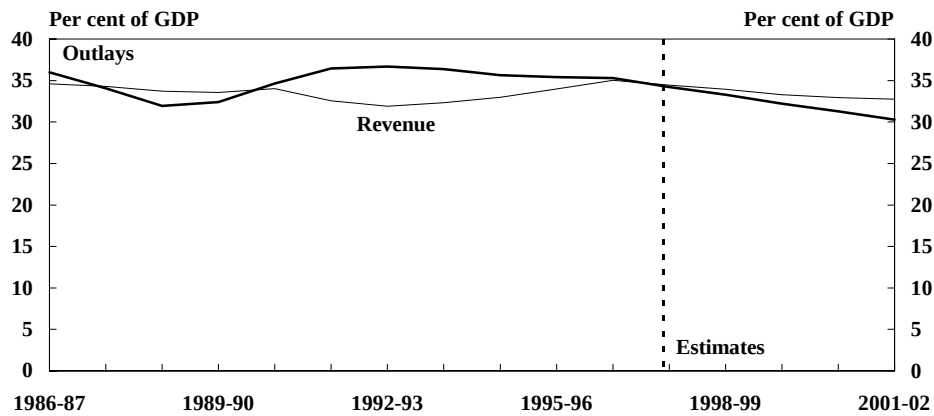
A: Commonwealth



B: State/local



C: Total General Government



The State/local general government sector surplus is expected to decline to 0.4 per cent of GDP in 1997-98, partly reflecting lower privatisation-related revenues.²

The State/local general government sector is expected to record small surpluses over the projection period. As shown in Panel B of Chart 3, outlays are projected to decline as a share of GDP. This is mainly due to restraint in current outlays resulting from improvements in public sector efficiency and interest savings associated with declining net debt. However, some States are facing pressures on current outlays which pose some risk to these projections. Own source revenue is projected to decline as a share of GDP over the outlook period, partly reflecting policies in several States which explicitly seek to restrain tax levels.

All States and Territories have in place fiscal strategies aimed at improving their fiscal positions over the medium term. To the extent that these strategies ensure a continuation of modest aggregate State/local general government surpluses, fiscal consolidation at the Commonwealth level will be fully reflected in improved total public sector balances and net lending.

The Commonwealth and several States have also implemented or are contemplating legislation aimed at enhancing transparency, accountability and certainty in the budget process. The Commonwealth Government's Charter of Budget Honesty lays down principles of sound fiscal management and establishes a framework for communicating fiscal objectives and fiscal reporting while maintaining policy flexibility.

The New South Wales *General Government Debt Elimination Act 1995* incorporates non-binding short, medium and long-term targets relating to general government balances and net debt. Western Australia has introduced fiscal responsibility legislation incorporating a fiscal planning and targeting framework aimed in part at preserving the benefits of past sound financial management.

Panels A and C of Chart 3 show the influence of outlays restraint at the Commonwealth level on total general government outlays and balances. Total general government outlays are projected to fall by more than 6 percentage points from their peak in 1992-93 to 30 per cent of GDP in 2001-02, a level which compares favourably with other OECD countries. This projected decline mainly reflects restraint of current outlays, with capital outlays expected to remain broadly constant over the projection period.

² The projections for the State/local level take no account of planned privatisations which could affect general government underlying balances through the net effect of public debt interest savings and lower dividends, and through one-off stamp duty revenues and tax equivalent receipts.

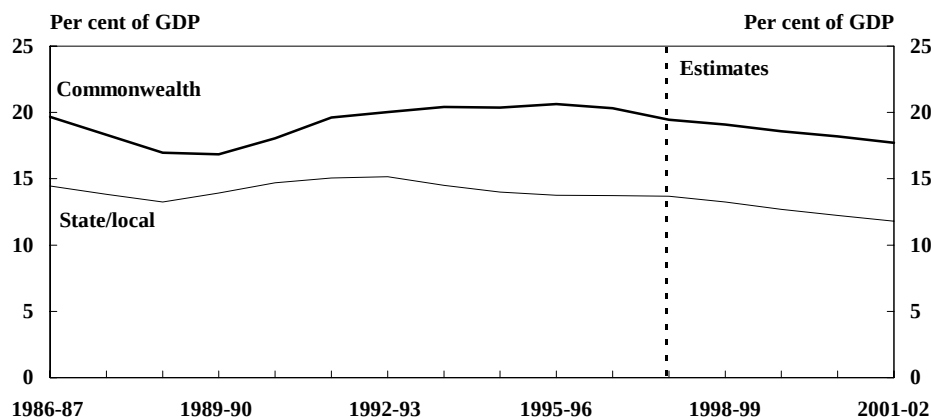
Own Purpose Outlays

Trends in general government own purpose outlays are illustrated in Chart 4. Commonwealth own purpose outlays are defined here as underlying outlays, adjusted mainly to exclude Commonwealth payments to the States other than specific purpose payments made 'through' the States. This differs from the equivalent ABS measure which does not remove all net advances and excludes all payments to the States, including payments 'through'. (The methodology is explained in more detail in Appendix B.) While not without its limitations, the adjusted measure provides a better basis for comparison of relative outlays restraint by the Commonwealth and State/local levels of government.

As shown in Chart 4, Commonwealth general government own purpose outlays increased as a proportion of GDP in the six year period to 1995-96, in contrast to a declining trend for the State/local level from 1992-93.

The projections for the Commonwealth show an expected substantial decline in own purpose outlays as a share of GDP over the period to 2001-02 as a result of the Government's fiscal consolidation measures. A similar decline is expected for the State/local level.

Chart 4: General Government Underlying Own Purpose Outlays



PUBLIC TRADING ENTERPRISE SECTOR

The PTE sector is an important provider of economic infrastructure and contributes significant revenue to general government, mainly in the form of dividends (as discussed in Part III). Whereas the Commonwealth is more significant than the State/local level within the general government sector, the reverse is the case for the PTE sector. This reflects State responsibility for infrastructure and service provision in areas such as electricity, gas and water and public transport.

During the 1980s, the PTE sector contributed significantly to public sector deficits due to high capital spending (particularly within publicly owned electricity businesses) and interest costs associated with increasing debt levels. However, this contribution has been

declining in the 1990s as a result of corporatisation and privatisation policies. There has been greater emphasis on PTE operating efficiency, profitability and market orientation, often as a precursor to privatisation, and governments have rigorously assessed the appropriateness of continued public ownership of business enterprises.

The Competition Principles Agreement between the Commonwealth and the States provides a framework for the consideration of ongoing change within the PTE sector. Among other things, the Agreement: seeks to ensure that government businesses do not enjoy net competitive advantages over private sector competitors as a result of their public ownership; introduces a generalised regime for access to essential infrastructure facilities; and sets out principles to apply to the reform of public sector monopolies.

A recent Reserve Bank of Australia study³ estimates privatisation proceeds so far in the 1990s at about \$61 billion, derived about equally from the sale of enterprises at the Commonwealth and State levels. Among OECD countries, this puts privatisations in Australia second in value to those in the United Kingdom and second in terms of GDP to New Zealand. Australia's privatisations have occurred in three main sectors — financial services (eg Commonwealth Bank, State banks and insurance offices), electricity and gas (eg Victoria's electricity assets), and transport and communications (eg Qantas and the one-third sale of Telstra).

Proceeds of asset sales have been used largely to reduce (or contain the growth of) government net debt, resulting in ongoing savings in public debt interest and reduced exposure to changes in financial market sentiment.

Planned privatisations at both the Commonwealth and State level would add substantially to the value of those undertaken to date. For example, the Commonwealth Government has announced its intention to sell its remaining two-thirds interest in Telstra; New South Wales is considering privatising its power industry and the sale of the NSW TAB is well advanced; Victoria has announced plans to privatise its gas industry; and South Australia and Tasmania propose to sell substantial electricity assets.

As shown in Chart 1, the PTE sector was typically in deficit, reflecting capital investment needs, before moving into surplus in 1991-92. Projections indicate that the sector will be in broad balance over the outlook period, in line with economic growth and continued reform within remaining businesses. These projections take account of the sale of the Government's remaining equity in Telstra.

3 'Privatisation in Australia', Reserve Bank of Australia Bulletin, December 1997.

PART III: PUBLIC SECTOR LIABILITIES

This part examines trends in public sector net debt and other financial assets and liabilities. The level of net debt and debt servicing costs are important indicators of a jurisdiction's financial position. Governments in Australia facing high levels of net debt as a share of GDP have accorded a high priority to debt reduction in order to reduce the share of current outlays allocated to debt servicing and increase policy flexibility.

TRENDS IN PUBLIC SECTOR NET DEBT

Net debt comprises the stock of selected gross financial liabilities less financial assets, and broadly reflects the cumulative effect of changes in public sector underlying balances. However, the change in net debt does not correspond exactly to the underlying deficit as in particular the proceeds of equity transactions (such as equity asset sales), which reduce the borrowing task, are not included in the underlying balance. Also, changes in net debt may reflect other factors such as revaluations of financial assets and liabilities. The derivation of the net debt estimates used in this Statement is discussed in Appendix B.

Chart 5 shows public sector net debt as a percentage of GDP, and the contribution of the general government and PTE sectors, since the mid 1980s. Charts 1 and 5 together indicate the broad relationship between underlying deficits and net debt levels.

Chart 5: Public Sector Net Debt by Sector
Outstanding Stock as at 30 June

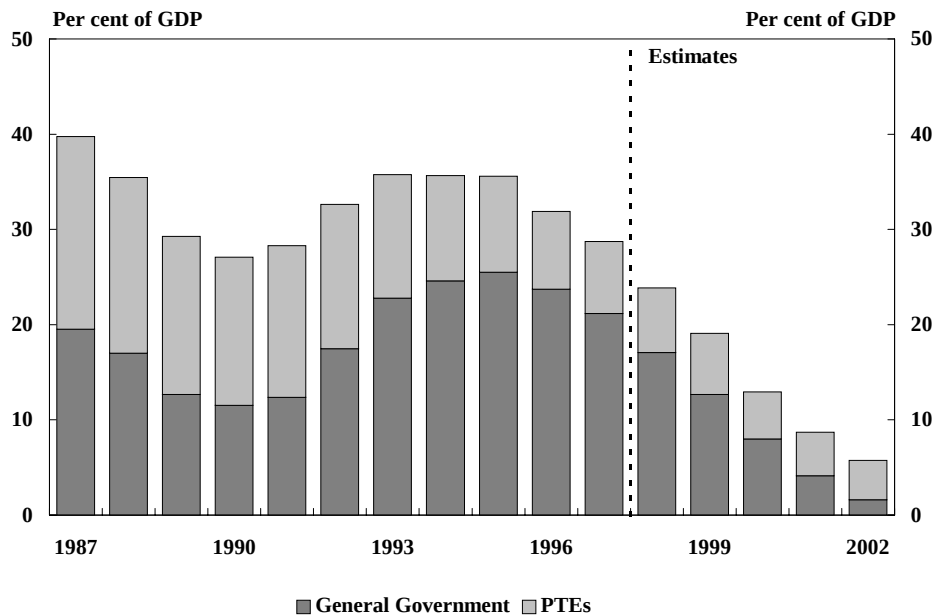


Chart 5 shows the increase in general government net debt as a share of GDP following the last recession, to a level higher than the previous peak in the mid-1980s. This increase reflected the financing of Commonwealth budget deficits that continued into the

cyclical upturn. Also evident from Chart 5 is the decline in PTE sector net debt as a share of GDP since the late 1980s, reflecting lower levels of capital expenditure, improved efficiency and privatisations. This decline moderated the increase in total public sector net debt as a share of GDP in the first half of the 1990s.

The subsequent improvement in the total mainly reflects lower net borrowing requirements for the Commonwealth and the application of privatisation proceeds to debt retirement at both the Commonwealth and State/local levels.

General government net debt as a share of GDP is expected to decline further over the projection period, due mainly to Commonwealth fiscal consolidation and Commonwealth asset sales. No allowance is made for major asset sales announced by the States. PTE sector net debt as a share of GDP is projected to decline slowly, in line with the expected pattern of small PTE sector surpluses. These projections take account of the full sale of Telstra.

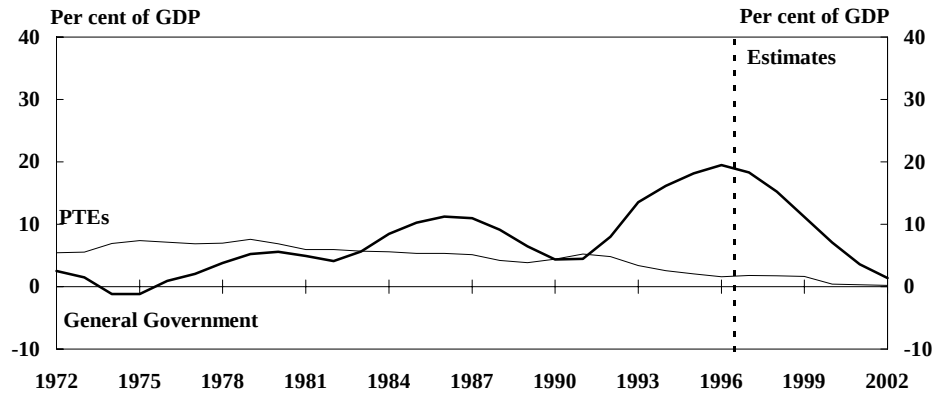
Total public sector net debt is projected at 6 per cent of GDP in 2001-02, compared with the most recent peak of 36 per cent in 1994-95. The application of future privatisation proceeds to debt reduction would see the projected figures further reduced.

Chart 6 shows long run movements in net debt by sector and level of government. Comparisons are hampered by the fact that the distribution of debt across institutional sectors differs between levels of government. Most Commonwealth net debt is owed by the general government sector whereas more than half of State/local net debt is owed by the PTE sector.

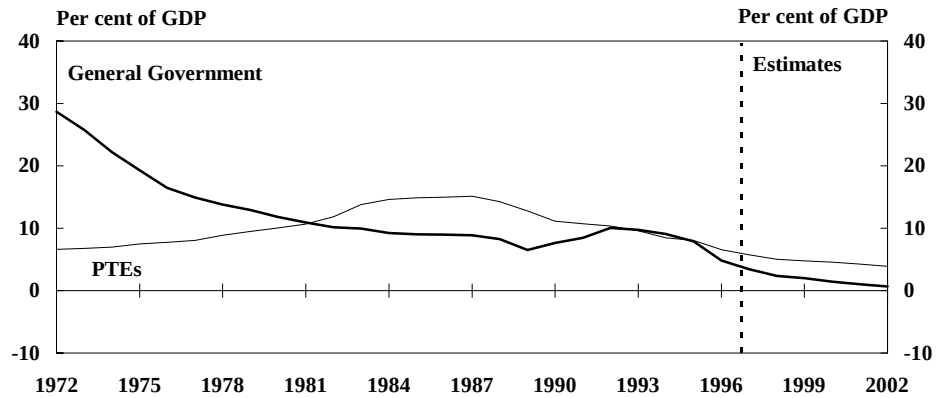
Panel A of Chart 6 shows the ratcheting up of Commonwealth general government net debt as a share of GDP from low levels in the 1970s to a peak of around 20 per cent in 1995-96, with a sharp acceleration in the first half of the current decade.

Chart 6: Public Sector Net Debt by Level of Government and Sector

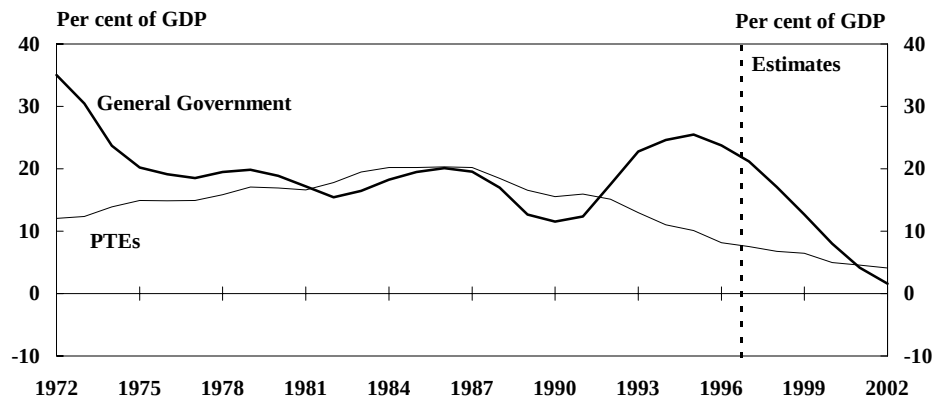
A: Commonwealth



B: State/local



C: Total Public Sector



In contrast, State/local general government net debt has declined from 29 per cent of GDP in 1971-72 to around 3 per cent in 1996-97, as shown in Panel B. The recent trend for the State/local general government sector reflects the impact of the fiscal consolidation undertaken since 1991-92 and asset sales.

The projections for the Commonwealth in Panel A of Chart 6 include the expected impact of measures announced in this Budget. These projections indicate that Commonwealth general government sector net debt will decline from around 20 per cent of GDP in 1995-96 to 3.6 per cent in 2000-01, more than meeting the Government's announced aim of halving the net debt to GDP ratio over this period. This objective would have been met even without the sale of the Government's remaining equity in Telstra. A further reduction to 1.4 per cent of GDP is projected for 2001-02.

State/local general government net debt as a share of GDP should continue to fall in line with implicit or explicit debt reduction programmes contained in the States' medium term fiscal strategies. State/local general government net debt in aggregate is expected to be close to zero by the end of the projection period. However, individual States will continue to face substantial public sector net debt burdens.

Chart 6 shows the major contribution of the Commonwealth to the projected reduction in total public sector net debt from 32 per cent of GDP in 1995-96 to around 6 per cent in 2001-02. Also contributing to this projected outcome are continuing declines in the ratios for the State/local general government sector and the combined PTE sector.

A comparison of Australian general government sector net debt with that of other OECD countries and Australia's major trading partners is included in Budget Statement 1.

NET LIABILITIES

Although net debt is an important indicator, it omits holdings of other financial assets and liabilities which are also relevant to judgements about a jurisdiction's overall financial position. A broader measure, published under the uniform presentation framework, is the excess of total liabilities over financial assets (net liabilities). In addition to net debt, this measure includes items such as unfunded employee entitlements, equity holdings, and accounts receivable and payable.

In particular, unfunded employer contributions to public sector superannuation schemes, accrued long service leave and other employee entitlements are a significant liability for governments. For the Commonwealth general government sector, these unfunded entitlements amounted to \$68 billion at 30 June 1997, or 13.2 per cent of GDP, while those of the States in aggregate totalled \$56 billion or 10.8 per cent of GDP (the figure ranges up to 20 per cent of GSP for individual States).

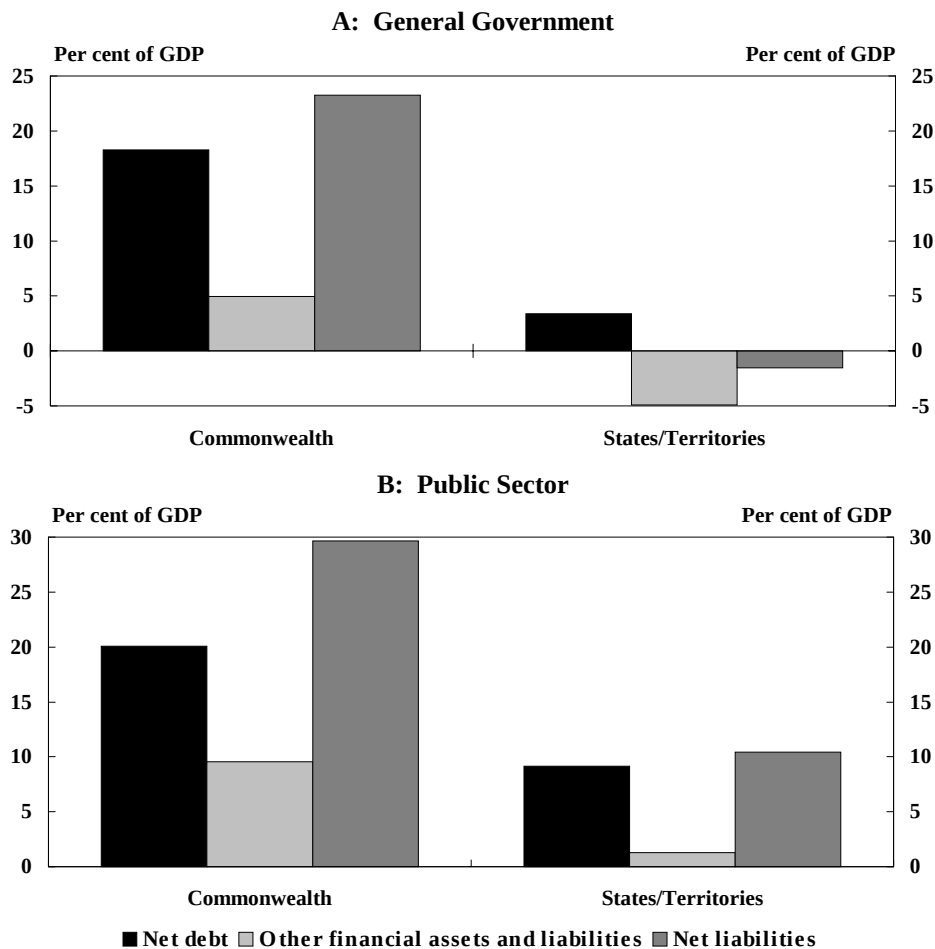
Most governments have in place policies designed to contain the growth of their unfunded superannuation liabilities, either by setting aside funds to cover a portion of future liabilities or by closing entry to existing defined benefit superannuation schemes and introducing less expensive accumulation schemes.

Chart 7 shows net debt and non-debt financial assets and liabilities as a share of GDP for the Commonwealth and State/Territory levels of government at 30 June 1997 (data are

not available at the local government level). Panel A indicates that the State/Territory general government sector is in a small net asset position overall with net debt more than offset by an excess of non-debt financial assets over non-debt liabilities.⁴ This excess mainly reflects the fact that equity holdings are larger than unfunded employee entitlements. In contrast, the Commonwealth has a high level of unfunded employee entitlements and a low level of equity holdings.

Panel B shows the total public sector net liabilities position of the Commonwealth and State/Territory levels. It differs from Panel A in including net debt and other financial assets and liabilities of the PTE sector and excluding the general government sector's holdings of PTE equity.

Chart 7: Financial Assets and Liabilities^(a) at 30 June 1997



(a) The net liabilities of the general government sector can vary significantly over time due to changes in the valuation of PTE equity.

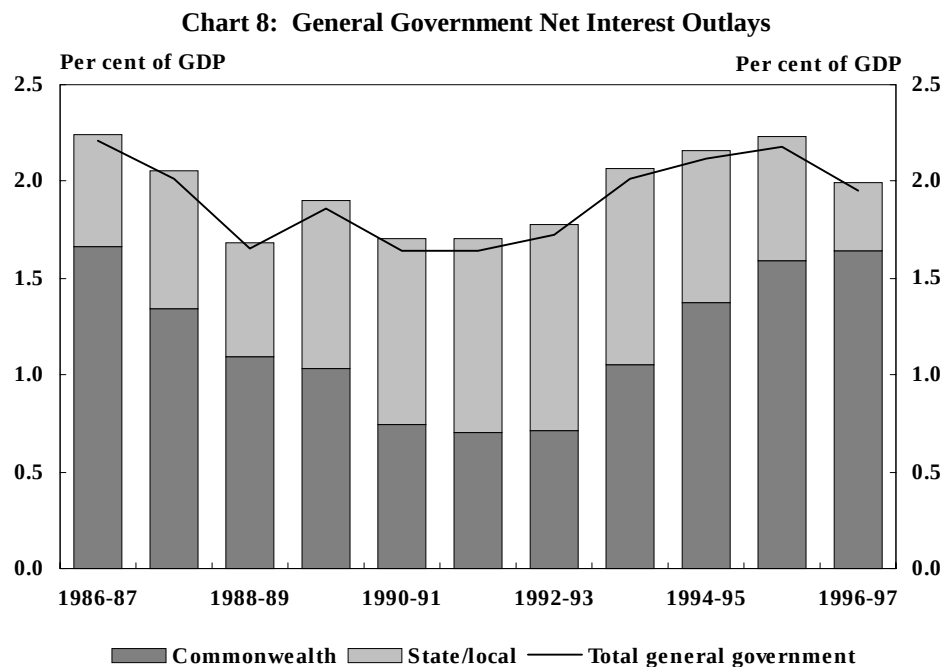
Source: Data provided by the States for the 1998 NFO and unpublished ABS estimates.

⁴ The combined State/Territory general government position is significantly influenced by Queensland which has a large excess of total financial assets over liabilities.

INTEREST AND DIVIDEND FLOWS ARISING FROM HOLDINGS OF FINANCIAL ASSETS AND LIABILITIES

Net interest outlays are defined as interest payments on gross debt less interest received on loans and advances, and are affected by the volume of net debt on issue and interest rates.

As shown in Chart 8, total general government net interest outlays peaked in 1995-96 at around 2.2 per cent of GDP, a level previously reached in the mid 1980s when both net debt and interest rates were high. The deterioration evident since the early 1990s has mainly reflected the persistence of Commonwealth budget deficits into the expansionary phase of the cycle, offsetting the effects of prevailing low interest rates and lower levels of State/local general government net debt.



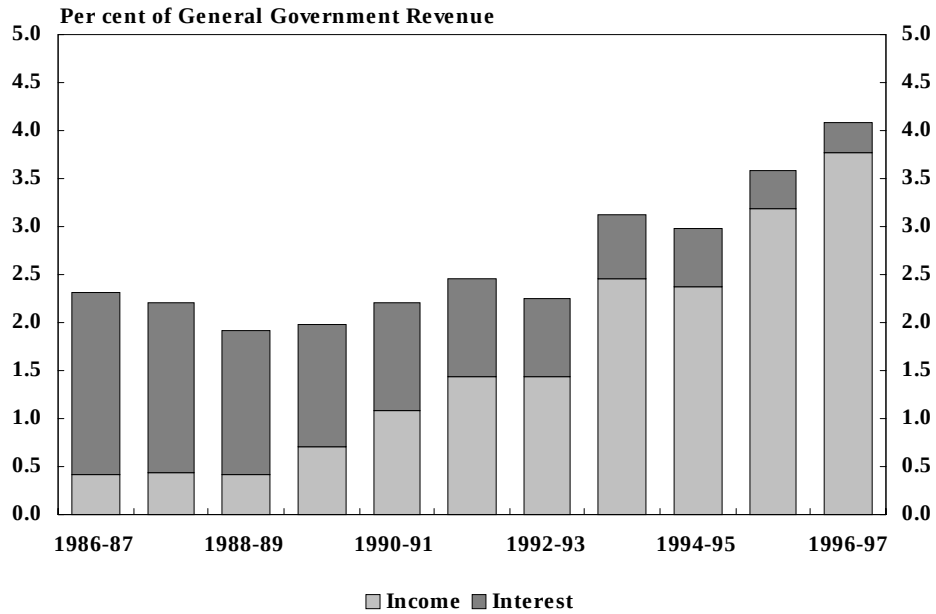
The contribution of the PTE sector to total public sector net interest outlays is now significantly lower than in the mid 1980s, as reduced capital outlays, improved PTE performance and privatisations have reduced PTE sector net debt as a share of GDP.

The PTE sector provides the general government sector (particularly at the State/local level) with significant revenue in the form of dividends and interest payments. The former correspond to general government equity holdings while the latter reflect the stock of general government loans to the PTE sector.

Chart 9 shows the effect of PTE restructuring on these revenue sources. As PTEs have become more commercial and more arm's length to government, they have refinanced general government advances in the market and adopted capital structures and dividend policies more comparable with those applying in the private sector. Privatisations have reduced both dividend and interest payments to the general government sector.

To date, the net effect of these changes has been to increase total payments by PTEs to general government, to just over 4 per cent of general government revenue in 1996-97. Despite privatisations, the PTE sector has paid increasing dividends to its general government owners due to improved PTE profitability and more commercial dividend policies. This has more than offset a decline in PTE interest payments to the general government sector.

Chart 9: Income and Interest Transferred from PTEs to General Government Sector



APPENDIX A: SIZE AND STRUCTURE OF THE PUBLIC SECTOR

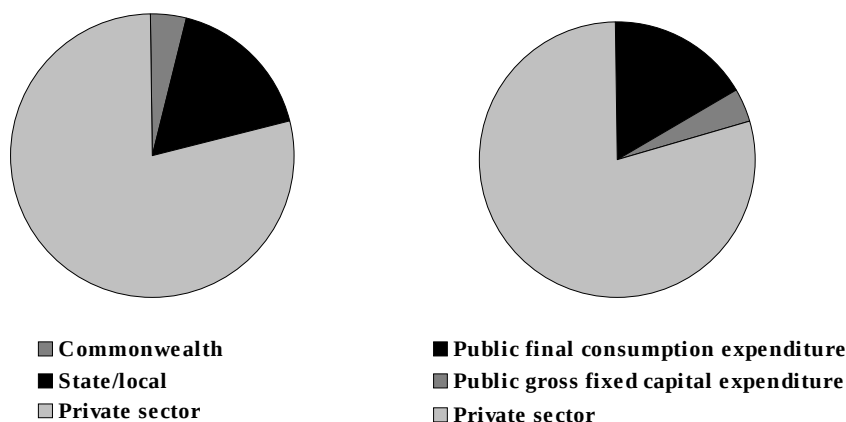
This Appendix provides an overview of the size and structure of the Australian non-financial public sector to assist in interpreting the trends discussed in Parts II and III of the Statement.

As shown in Chart A1, the public sector directly accounts for around 21 per cent of civilian employment and 21 per cent of final domestic demand⁵. The State/local level accounts for about 81 per cent of total public sector civilian employment and 71 per cent of public final demand, reflecting its major responsibilities for service delivery — for example in the areas of education and health — and for infrastructure.

Chart A1: Contribution of Public and Private Sectors

Total employment, August 1997

Domestic Demand, 1996-97



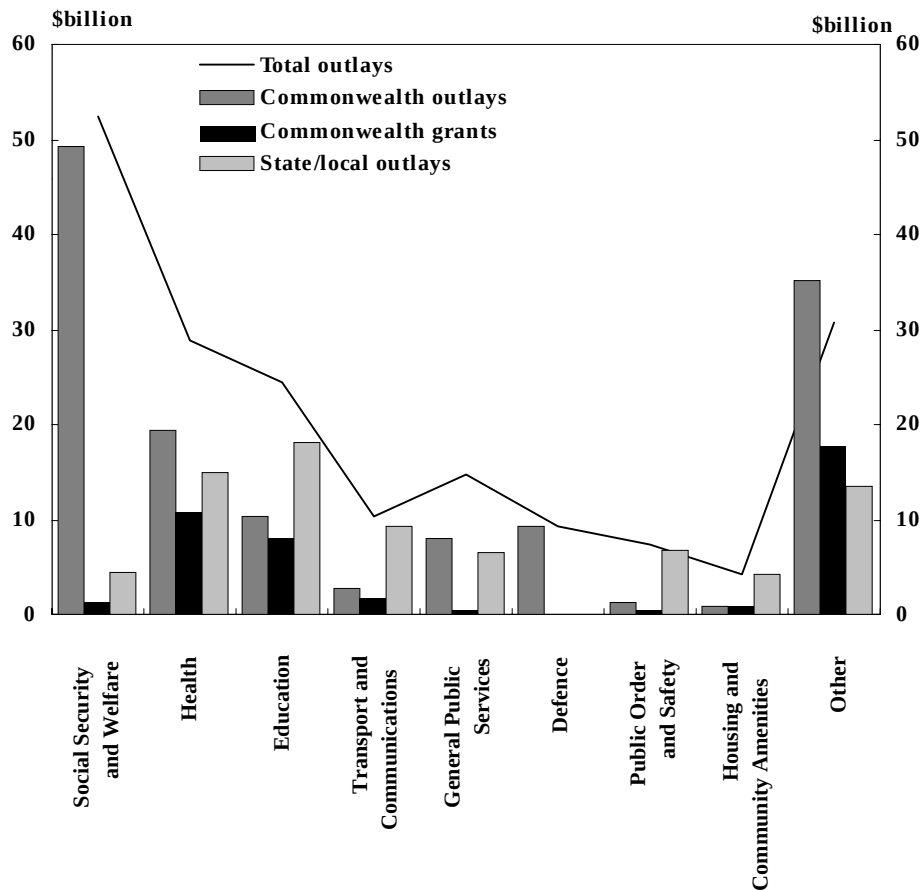
Source: ABS 5206.0 and unpublished ABS data

Within the total public sector, the general government sector is substantially larger than the PTE sector, accounting for some 80 per cent of public sector civilian employment. PTEs at the State/local level account for around 60 per cent of total PTE revenue and outlays, reflecting State responsibility for infrastructure and service provision in such areas as electricity, gas and water, and public transport.

There are significant differences in the roles and responsibilities of the two main levels of government. As shown in Chart A2, major Commonwealth outlays include transfer payments in relation to social security and welfare and health, and defence expenditure. The Commonwealth also has a major role in funding education and health services provided by the States and the private sector. Major State/local outlays are in the areas of education, health, transport, and public order and safety.

⁵ Transfer payments by the Commonwealth — for example, income support — are not included in public final demand.

**Chart A2: Commonwealth and State/local General Government Outlays
by Major Function, 1996-97**



In 1997-98, the Commonwealth is expected to raise 73 per cent of total general government revenue. However, Commonwealth own purpose outlays are expected to directly account for only 60 per cent of total general government outlays. A significant share of Commonwealth revenue is passed on to the State level in the form of grants, which account for 36 per cent of State general government revenue. Further information on inter-governmental transfers is provided in *Budget Paper No. 3*.

APPENDIX B: STATISTICAL NOTES

MEASURES OF THE UNDERLYING DEFICIT

The underlying deficit used throughout this Statement is the headline deficit adjusted for net advances. The latter comprise transactions in financial assets undertaken for policy purposes — ie net policy lending (new policy loans and advances less repayments) and net equity transactions (injections/purchases of equity less equity sales). The underlying deficit is broadly consistent with the net lending concept in the national accounts and thus closely approximates the relevant sector's direct contribution to the national saving/investment imbalance (current account deficit).

To maintain consistency with the net lending concept in the national accounts, the measure of the general government sector underlying deficit used in this Statement is not adjusted for increases in provisions. This is the only source of difference between the measure used here and the ABS general government deficit. It mainly affects the data for the Commonwealth, which makes significant provisions for superannuation payments to the PTE sector.

A GFS table for the Commonwealth general government sector, incorporating an adjustment for the increase in provisions, is presented in Appendix F of Statement 2.

The ABS has traditionally defined the deficit in headline terms (outlays — including net advances — less revenue less increase in provisions). In recent years it has also published an alternative deficit measure — the ABS deficit adjusted for net advances (headline deficit less net advances paid). From the April 1998 issue of *Government Finance Statistics, Australia* (Catalogue No. 5512.0), the ABS deficit is defined as outlays less revenue less increase in provisions, where outlays exclude net advances. (This is achieved by reclassifying net advances from capital outlays to financing transactions.) Although an ABS headline deficit is no longer published, it can be readily derived from published data.

OWN PURPOSE OUTLAYS

The adjusted measure of Commonwealth general government own purpose outlays used in this Statement comprises underlying outlays adjusted mainly to exclude Commonwealth payments to the States other than specific purpose payments made 'through' the States. This differs from the ABS measure which does not remove all net advances and excludes all payments to the States.

More specifically, the ABS measure excludes all payments to other levels of government and PTEs, such as general revenue assistance, specific purpose payments and advances and subsidies, together with interest payments on borrowings undertaken on their behalf. The adjusted measure adds back in to Commonwealth outlays specific purpose payments 'through' the States (other than those for local government purposes) as these payments — for example in the area of higher education — are generally not for State-like purposes. A corresponding adjustment is made to the State/local series. The adjusted measure also removes State fiscal contributions from the data on grants to the States.

The adjusted measures for both the Commonwealth and the State/local levels abstract from all net advances. They are thus consistent with measures of the underlying deficit in, for example, removing the impact of equity asset sales which would otherwise be included as offsets to outlays.

NET DEBT

The net debt series used in this Statement incorporates:

- Treasury estimates for the period 1972 to 1987;
- published ABS data for the period 1988 to 1997 (*Public Sector Financial Assets and Liabilities*, Catalogue No. 5513.0); and
- Treasury estimates for the period 1998 to 2002.

Comparable net debt data have been collected by the ABS only since 1988. Treasury estimates for the period 1972 to 1987 were presented in the 1996-97 and 1997-98 budgets. This series was constructed by deducting estimated annual net borrowing — defined as the ABS headline deficit less net advances — from the ABS measure of the stock of net debt at end June 1988. Net advances include both equity and policy lending transactions. Ideally, the estimates should only abstract from policy lending transactions, since they represent an asset for the lender government. Total net advances were used because separate data on equity transactions were not available. This data limitation is not considered significant, however, as asset sales were relatively small until the late 1980s and are reflected in the ABS net debt series from end June 1988 and in the Treasury projections.

The derivation of the historical net debt series is discussed in more detail in the Spring 1996 edition of the Commonwealth Treasury's *Economic Round-up*.

GOVERNMENT FINANCE STATISTICS

Data used in this Statement recognise two changes decided by the ABS to the GFS coverage of the general government sector.

First, the ABS has reclassified universities from the general government sector of the jurisdiction under which they were established to a separate multi-jurisdictional category within the general government sector⁶, reflecting the role that both State and Commonwealth governments have in their financing and control. Accordingly, in this Statement universities are included in aggregate general government sector data but excluded from data for individual jurisdictions.

Secondly, from 1998-99 the ABS will reclassify State central borrowing authorities (CBAs) from the general government sector to the public financial enterprise (PFE)

⁶ The ABS reclassified universities in the November 1997 issue of *Government Financial Estimates, Australia* (Catalogue No. 5501.0).

sector.⁷ This change recognises that, while CBAs continue to carry out financial intermediation activities on behalf of the general government sector, their role is now broader and more commercial in nature. In line with the new ABS classification, CBAs are excluded from projections of general government deficits and net debt presented in this Statement. However, as consistent adjustments to the historical series are not yet available for all jurisdictions, CBAs are included in the historical data (prior to 1997-98), resulting in a relatively minor break in the data series.

The reclassification of CBAs is being implemented as part of an extension of the scope of GFS to include PFEs in order to provide a more complete coverage of the public sector. This will ensure that CBAs remain within GFS. It will also make GFS consistent in scope with the new accounting standard for whole of government accounts (AAS31). The analysis of the public sector in this Statement excludes PFEs as the ABS will not incorporate PFE information in GFS until later in 1998.

The ABS is in the process of changing the GFS to an accrual framework, with the first accrual GFS publication likely to be available in 1999. This will use data provided by jurisdictions under AAS31 which requires that whole of government financial statements be prepared on an accruals basis from 1999-2000. Published GFS will consist of a main accrual presentation and a cash based supplement, using derived cash data.

⁷ The ABS has indicated that it will implement this change in the 1998-99 issue of *Government Financial Estimates, Australia* (Catalogue No. 5501.0).

APPENDIX C: SUPPLEMENTARY TABLES

Table C1: Public Sector Outlays, Revenue and Underlying Deficit by Institutional Sector as a Percentage of GDP

	General government			Public trading enterprises			Consolidated		
	Outlays(a)	Revenue	Underlying deficit(a)	Outlays(a)	Revenue	Underlying deficit(a)	Outlays (a)(b)	Revenue(b)	Underlying deficit(a)
1985-86	36.5	33.9	2.6	7.0	3.6	2.1	42.3	36.2	4.7
1986-87	36.0	34.6	1.4	6.9	3.7	1.8	41.6	37.1	3.1
1987-88	34.1	34.3	-0.2	6.1	4.1	0.6	39.0	37.3	0.4
1988-89	31.9	33.7	-1.8	5.6	4.0	0.1	36.5	36.6	-1.6
1989-90	32.4	33.6	-1.2	7.0	3.8	1.7	38.2	36.2	0.5
1990-91	34.7	34.0	0.6	6.2	4.0	0.7	39.5	36.7	1.3
1991-92	36.5	32.5	3.9	5.7	3.8	0.0	40.6	34.8	3.9
1992-93	36.7	31.9	4.8	5.2	3.7	-0.3	40.4	34.1	4.5
1993-94	36.4	32.3	4.0	4.5	3.9	-0.9	39.1	34.5	3.1
1994-95	35.6	33.0	2.7	4.6	3.5	-0.8	38.7	34.9	1.9
1995-96	35.4	34.0	1.4	4.6	3.1	-0.1	38.2	35.3	1.3
1996-97	35.3	35.0	0.3	4.2	3.1	-0.3	37.4	36.0	-0.1
1997-98(e)	na	na	-0.2	na	na	0.0	na	na	-0.2
1998-99(e)	na	na	-0.7	na	na	0.1	na	na	-0.6
1999-00(e)	na	na	-1.1	na	na	0.0	na	na	-1.1
2000-01(e)	na	na	-1.7	na	na	-0.1	na	na	-1.8
2001-02(e)	na	na	-2.5	na	na	-0.2	na	na	-2.6

(a) The deficit in this table is the underlying deficit outlined in Appendix B. The outlays and underlying deficit measures abstract from net advances.

(b) Components do not sum to totals due to consolidation of transfers between sectors.

(e) Treasury estimates based on available information, including information provided by the States for the 1998 *National Fiscal Outlook*.

Table C2: Public Sector Outlays, Revenue and Underlying Deficit by Level of Government as a Percentage of GDP

	Commonwealth			State/local					Total public sector		
	Outlays(a)	Revenue	Underlying deficit(a)	Outlays(a)	Own source revenue	Grants received	Total revenue	Underlying deficit(a)	Outlays (a)(b)	Revenue(b)	Underlying deficit(a)
1985-86	30.7	27.7	2.6	21.6	9.4	8.9	18.3	2.4	42.5	36.2	4.7
1986-87	30.0	28.4	1.1	21.3	9.5	8.7	18.2	2.2	41.8	37.1	3.1
1987-88	28.0	28.3	-0.9	19.9	9.7	8.0	17.8	1.3	39.0	37.3	0.4
1988-89	25.9	27.1	-1.9	18.5	10.1	7.2	17.3	0.2	36.6	36.6	-1.6
1989-90	26.9	26.7	-0.4	19.1	10.1	7.2	17.3	0.9	38.0	36.2	0.5
1990-91	27.9	26.8	0.5	19.7	10.4	7.6	17.9	0.9	39.6	36.7	1.3
1991-92	28.6	24.7	2.9	20.1	10.5	7.7	18.2	1.0	41.1	34.8	3.9
1992-93	29.1	24.1	4.2	19.2	10.4	7.5	17.9	0.3	40.1	34.1	4.5
1993-94	28.3	24.0	3.6	17.8	10.8	6.6	17.4	-0.4	38.2	34.5	3.1
1994-95	28.1	24.8	2.4	17.3	10.4	6.4	16.8	-0.5	38.4	34.9	1.9
1995-96	28.0	25.3	2.1	16.8	10.2	6.3	16.5	-0.8	35.6	35.3	1.3
1996-97	27.2	25.7	0.9	16.4	10.4	6.2	16.5	-0.9	35.3	36.0	-0.1
1997-98(e)	25.1	24.9	0.2	na	na	na	na	-0.4	na	na	-0.2
1998-99(e)	24.6	25.0	-0.5	na	na	na	na	-0.1	na	na	-0.6
1999-00(e)	na	na	-0.8	na	na	na	na	-0.3	na	na	-1.1
2000-01(e)	na	na	-1.4	na	na	na	na	-0.4	na	na	-1.8
2001-02(e)	na	na	-2.2	na	na	na	na	-0.4	na	na	-2.6

(a) The deficit in this table is the underlying deficit outlined in Appendix B. The outlays and underlying deficit measures abstract from net advances.

(b) Components do not sum to totals due to consolidation of transfers between sectors.

(e) Treasury estimates based on available information, including information provided by the States for the 1998 *National Fiscal Outlook*.

Table C3: General Government Underlying Own Purpose Outlays

	Commonwealth		State/local	
	\$m	Per cent of GDP	\$m	Per cent of GDP
1971-72	5040	12.8	4549	11.6
1972-73	5790	12.9	5204	11.6
1973-74	6894	12.9	6242	11.6
1974-75	9782	15.1	8474	13.1
1975-76	12323	16.1	10662	13.9
1976-77	14516	16.6	12040	13.7
1977-78	16118	16.9	13227	13.9
1978-79	17636	16.3	14948	13.8
1979-80	19679	16.0	16649	13.5
1980-81	22540	16.0	19162	13.6
1981-82	26486	16.7	21441	13.5
1982-83	31648	18.3	25025	14.5
1983-84	37074	18.9	28279	14.4
1984-85	42726	19.7	31852	14.7
1985-86	47797	19.9	35459	14.7
1986-87	52057	19.7	38219	14.4
1987-88	54853	18.3	41467	13.8
1988-89	57647	17.0	44997	13.2
1989-90	62575	16.8	51701	13.9
1990-91	68688	18.0	55932	14.7
1991-92	76384	19.6	58652	15.1
1992-93	81733	20.0	61785	15.1
1993-94	88308	20.4	62675	14.5
1994-95	93706	20.4	64476	14.0
1995-96	101496	20.6	67693	13.8
1996-97	104858	20.3	70894	13.7
1997-98(e)	105674	19.5	na	13.7
1998-99(e)	na	19.1	na	13.2
1999-00(e)	na	18.6	na	12.7
2000-01(e)	na	18.2	na	12.2
2001-02(e)	na	17.7	na	11.8

(e) Treasury estimates based on available information, including information provided by the States for the 1998 *National Fiscal Outlook*.

Table C4: General Government Net Interest Outlays

	Commonwealth		State/local	
	\$m	Per cent of GDP	\$m	Per cent of GDP
1971-72	-257	-0.7	428	1.1
1972-73	-266	-0.6	447	1.0
1973-74	-306	-0.6	449	0.8
1974-75	-267	-0.4	471	0.7
1975-76	-389	-0.5	522	0.7
1976-77	-162	-0.2	550	0.6
1977-78	-92	-0.1	122	0.1
1978-79	126	0.1	603	0.6
1979-80	291	0.2	628	0.5
1980-81	444	0.3	795	0.6
1981-82	475	0.3	777	0.5
1982-83	654	0.4	1028	0.6
1983-84	1328	0.7	1338	0.7
1984-85	2462	1.1	1432	0.7
1985-86	3626	1.5	1221	0.5
1986-87	4387	1.7	1547	0.6
1987-88	4019	1.3	2128	0.7
1988-89	3722	1.1	2011	0.6
1989-90	3848	1.0	3224	0.9
1990-91	2833	0.7	3653	1.0
1991-92	2739	0.7	3911	1.0
1992-93	2912	0.7	4336	1.1
1993-94	4549	1.1	4406	1.0
1994-95	6310	1.4	3629	0.8
1995-96	7828	1.6	3131	0.6
1996-97	8461	1.6	1841	0.4

Table C5: Public Sector Net Debt

	General government						PTE sector		Total public sector	
	Commonwealth		State/local		Total(a)					
	\$million	Per cent of GDP	\$million	Per cent of GDP	\$million	Per cent of GDP				
1985-86	27057	11.3	21534	9.0	48345	20.1	48832	20.3	97279	40.5
1986-87	29030	11.0	23538	8.9	51667	19.5	53484	20.2	105173	39.8
1987-88	27359	9.1	24710	8.2	50939	17.0	55293	18.5	106231	35.5
1988-89	21982	6.5	22183	6.5	43080	12.7	56363	16.6	99443	29.3
1989-90	16121	4.3	28294	7.6	42806	11.5	57794	15.6	100601	27.1
1990-91	16936	4.4	32188	8.5	47045	12.4	60745	16.0	107790	28.3
1991-92	31132	8.0	39167	10.1	68053	17.5	59011	15.2	127061	32.6
1992-93	55218	13.5	39696	9.7	92895	22.8	52895	13.0	145790	35.7
1993-94	69869	16.2	39246	9.1	106437	24.6	47738	11.0	154174	35.7
1994-95	83492	18.1	36426	7.9	117356	25.5	46488	10.1	163845	35.6
1995-96	95831	19.5	23837	4.8	116812	23.7	40136	8.2	156947	31.9
1996-97	94404	18.3	17820	3.5	109333	21.2	39047	7.6	148379	28.7
1997-98(e)	82871	15.3	na	2.4	na	17.1	na	6.8	na	23.8
1998-99(e)	64582	11.2	na	2.0	na	12.7	na	6.4	na	19.1
1999-00(e)	43244	7.1	na	1.4	na	8.0	na	4.9	na	12.9
2000-01(e)	23131	3.6	na	1.0	na	4.1	na	4.6	na	8.7
2001-02(e)	9562	1.4	na	0.7	na	1.6	na	4.1	na	5.7

(a) Includes universities