

Chapter 4: Fiscal Developments in the States and Territories and Loan Council Arrangements

This Chapter provides an overview of recent fiscal developments in State non-financial public sector finances. The Chapter also sets out the Loan Council Allocations nominated by the Commonwealth and each State for 2001-02 and endorsed by the Australian Loan Council at its meeting on 30 March 2001. It also reports the Commonwealth's 2001-02 Budget Loan Council Allocation estimate.

FISCAL DEVELOPMENTS IN THE STATES AND TERRITORIES

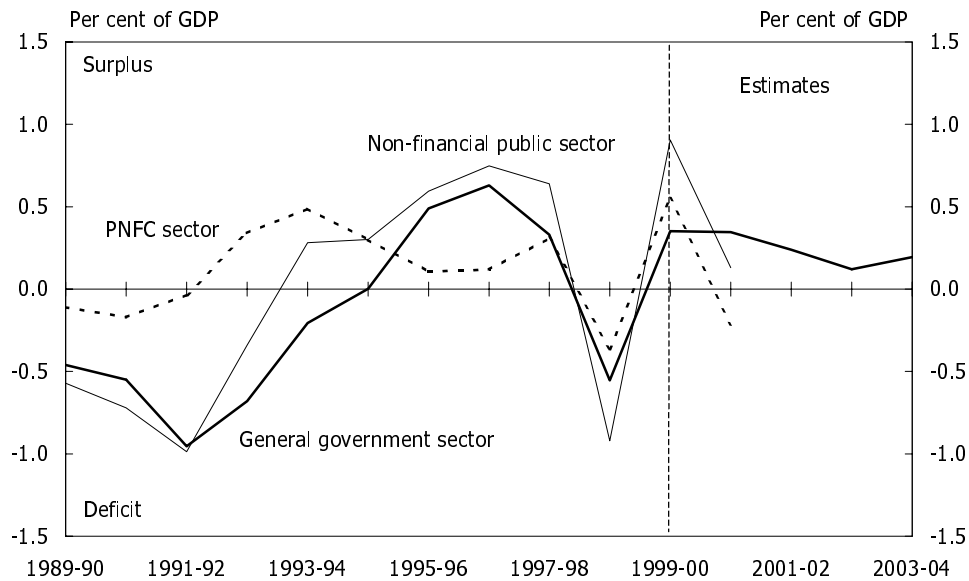
State cash surplus by sector

The State non-financial public sector — comprising the general government and public non-financial corporations (PNFC) sectors of all States — is expected, on a Government Finance Statistics basis, to record a cash surplus of 0.1 per cent of Gross Domestic Product (GDP) in 2000-01. This compares with a cash surplus of 0.9 per cent of GDP in 1999-2000.

The deterioration in the position of the State non-financial public sector is attributable to a decline in both the general government and PNFC sectors. The cash surplus in the general government sector is forecast to fall from 0.4 per cent of GDP in 1999-2000 to 0.3 per cent in 2000-01. Similarly, the PNFC sector is forecast to fall from a surplus of 0.6 per cent of GDP to a deficit of 0.2 per cent of GDP in 2000-01.

In the forward estimate years, the general government sector surplus is expected to average around 0.2 per cent of GDP. Trends in the cash surplus of the State general government, PNFC and non-financial public sectors are illustrated in Chart 5.

Chart 5: State cash surplus by sector^{(a)(b)}



(a) Estimates from 2001-02 to 2003-04 are only available for the general government sector.

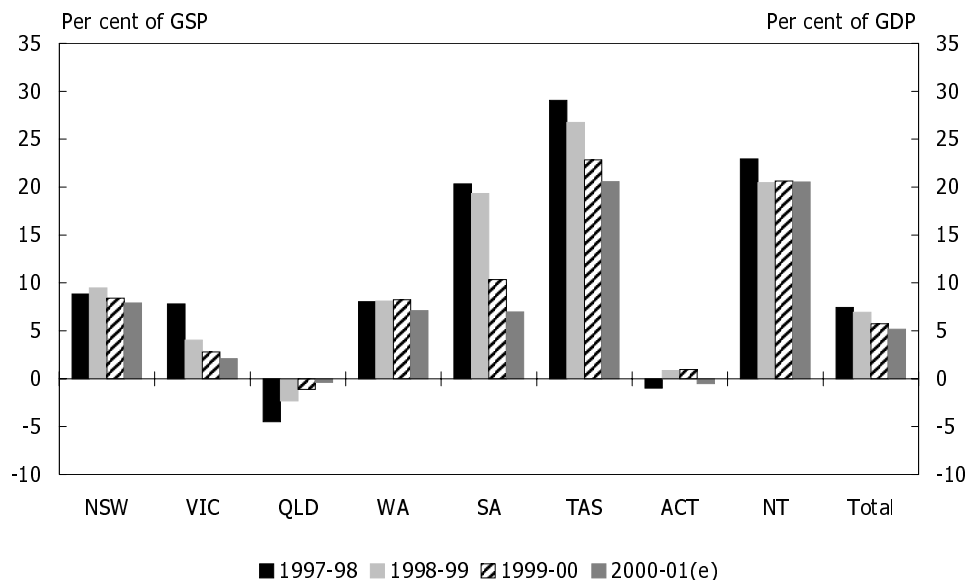
(b) Data are sourced from the *ABS 1997-98 Government Finance Statistics*, *2000-01 Government Financial Estimates*, State 1999-2000 budget outcomes, 2000-01 mid-year reports and 2001-02 State Budgets where available.

State net debt

The ratio of aggregate State net debt to GDP has been declining steadily since the early 1990s. This has largely resulted from States adopting medium-term fiscal strategies to reduce debt levels through expenditure restraint and, less importantly, through revenue increases and asset sales.

Chart 6 illustrates recent trends in the net debt to Gross State Product (GSP) ratio of each State, along with the aggregate State net debt to GDP ratio.

**Chart 6: State non-financial public sector net debt
(as at end of financial year)^(a)**



(a) Data are sourced from the *ABS 1997-98 Government Finance Statistics, 2000-01 Government Financial Estimates*, State 1999-2000 budget outcomes, 2000-01 mid-year reports and 2001-02 State Budgets where available.

(e) Estimates.

Fiscal developments in individual States and Territories

Key fiscal developments in each State are outlined below. Developments are reported in both accrual and cash terms, where possible, and are based on Australian Bureau of Statistics (ABS) publications, Commonwealth Treasury forecasts, State 1999-2000 budget outcomes, 2000-01 State mid-year reports and 2001-02 State Budgets where available. Forthcoming Budgets in most jurisdictions may lead to revisions to the outlook.

Jurisdictions that have not yet implemented the accrual reporting requirements in their budget documents have until the 2002-03 budget year to implement reporting on an accrual basis, and are expected to continue reporting on a cash basis in the interim.

New South Wales is expected to further improve its non-financial public sector position in 2000-01. In accrual terms, the general government sector fiscal balance is expected to be in surplus by 0.2 per cent of GSP in 2000-01. Fiscal surpluses are projected for the general government sector for the three years after 2000-01.

New South Wales expects to record a non-financial public sector fiscal surplus of 0.2 per cent of GSP in 2000-01, up from 0.1 per cent in 1999-2000. The improvement largely mirrors the PNFC sector, which is expected to move from a deficit of 0.3 per cent of GSP in 1999-2000 to a balanced position in 2000-01.

In cash terms, the general government sector is expected to record a surplus of 0.5 per cent of GSP in 2000-01, down from 0.8 per cent in 1999-2000. Cash surpluses are expected to continue through the forward period.

State non-financial public sector net debt as a percentage of GSP is expected to decline from 8.4 per cent in 1999-2000 to 7.9 per cent in 2000-01, with cash surpluses used to retire debt.

In accrual terms, the **Victorian** general government sector expects to record a fiscal surplus of 0.4 per cent of GSP in 2000-01, down from a 0.8 per cent surplus in 1999-2000. The general government fiscal balance is projected to move into deficit in 2001-02 and beyond as spending on infrastructure increases. The PNFC sector in 2000-01 is expected to record a small deficit, while the non-financial public sector is forecast to move into a deficit position in later years.

The cash surplus in the general government sector is expected to decrease from 1.2 per cent of GSP in 1999-2000 to 0.7 per cent in 2000-01, with forecast deficits in the out years with an increase in capital spending.

Proceeds from Victoria's privatisation programme previously contributed in substantially reducing Victoria's net debt position. Continuing to use its surpluses to retire debt, Victoria's non-financial public sector net debt is expected to fall further in 2000-01, moving from 2.8 per cent of GSP in 1999-2000 to 2.1 per cent.

Queensland's general government sector is expected, in accrual terms, to record a fiscal deficit of 0.7 per cent of GSP in 2000-01, up from 0.1 per cent in 1999-2000. Queensland is forecasting that a decrease in capital investment (after strong growth in recent years) will contribute to the fiscal balance moving into surplus over the forward period.

Fiscal deficits in both the PNFC sector and the general government sector will result in the State non-financial public sector recording a deficit of 1.5 per cent of GSP in 2000-01, as compared to a deficit of 0.4 per cent of GSP in 1999-2000. This position is expected to steadily improve as the PNFC and general government sectors move into surplus in the forward years.

The general government sector, on a cash basis, is expected to record a surplus of 0.2 per cent of GSP in 2000-01, after a deficit of 1.1 per cent of GSP in 1999-2000.

Queensland has consistently recorded a negative net debt position in its non-financial public sector. Negative net debt is expected to fall from 1.1 per cent of GSP in 1999-2000 to negative net debt of 0.4 per cent of GSP in 2000-01, before increasing again in 2002-03 and 2003-04.

Western Australia expects, on an accrual basis, a general government fiscal deficit of 0.6 per cent of GSP in 2000-01, up from 0.4 per cent in 1999-2000. The sector is projected to remain in deficit over the forward period.

Western Australia's PNFC sector is expected to increase its deficit from 0.1 per cent of GSP to 0.3 per cent of GSP in 2000-01. Similarly, the State non-financial public sector is forecast to move from a deficit of 0.5 per cent of GSP to 0.9 per cent of GSP in 2000-01.

In cash terms, Western Australia's general government sector is expected to remain in deficit in 2000-01 at 0.6 per cent of GSP. Large ongoing capital works programmes have contributed to several cash deficits in the past, and are projected to contribute to further deficits in the forward estimate years.

Western Australia's combined general government and PNFC net debt as a proportion of GSP is anticipated to decrease from 8.2 per cent to 7.1 per cent in 2000-01, with proceeds from the recent privatisation of State assets directed towards retiring debt. Net debt is projected to increase over the forward period.

South Australia's general government sector, in accrual terms, is expected to remain in fiscal deficit for the foreseeable future. The deficit is estimated at 0.7 per cent of GSP in 2000-01, down from a deficit of 1.1 per cent in 1999-2000.

The total non-financial public sector in South Australia is expected to record a surplus of 1.9 per cent of GSP in 2000-01, compared with a surplus of 7.5 per cent in 1999-2000. The 1999-2000 and 2000-01 surpluses include proceeds from the long-term lease of electricity assets.

The general government sector is expected to record a small cash deficit in 2000-01, decreasing from a deficit of 0.6 per cent of GSP in 1999-2000. The sector is expected to record modest cash deficits over the forecast period to 2003-04.

South Australia's net debt position is expected to improve substantially again in 2000-01, as further proceeds from the lease of electricity assets will be used to reduce debt. Net debt in the public non-financial sector is expected to move from 10.3 per cent of GSP to 7.0 per cent in 2000-01.

Tasmania has experienced a considerable turnaround in its budget position in recent years and the general government sector, after an expected cash surplus of 0.5 per cent of GSP in 2000-01, is projected to remain in surplus over the forecast period through to 2003-04.

A cash surplus of 0.3 per cent of GSP is expected for the PNFC sector in 2000-01, down from a surplus of 0.2 per cent of GSP in 1999-2000. The State non-financial public sector is expected to remain in surplus in 2000-01, albeit down from 1.4 per cent of GSP in 1999-2000 to 0.8 per cent.

Although high relative to other States, Tasmania's non-financial public sector net debt to GSP ratio is continuing to fall. Successive cash surpluses and privatisation proceeds have contributed to improving Tasmania's net debt position. State non-financial public sector net debt as a proportion of GSP is expected to fall from 22.8 per cent in 1999-2000 to 20.6 per cent in 2000-01.

In accrual terms, the **Australian Capital Territory's** general government sector is expected to move from a fiscal surplus of 0.8 per cent of GSP in 1999-2000 to a surplus of 0.2 per cent in 2000-01. The fiscal balance in the PNFC sector is forecast to move from a surplus of 0.1 per cent of GSP in 1999-2000 to a surplus of 0.3 per cent in 2000-01.

As a result of the combined developments in the general government and PNFC sectors, the Australian Capital Territory's total non-financial public sector is expected to record a fiscal surplus of 0.5 per cent of GSP in 2000-01.

The general government sector, in cash terms, is expected to fall from a cash surplus of 1.5 per cent of GSP to 1.0 per cent in 2000-01. The general government sector is projected to record surpluses in the forward years.

Net debt in the Australian Capital Territory as a proportion of GSP is expected to move from 1.0 per cent in 1999-2000 to a negative net debt position of 0.5 per cent in 2000-01.

In cash terms, the **Northern Territory's** general government deficit of 1.5 per cent of GSP in 1999-2000 is expected to fall to a deficit of 1.3 per cent of GSP in 2000-01. The fiscal balance of the general government sector is forecast to steadily improve from 2000-01 onwards, with cash deficits continuing to decrease in the forward estimate years.

Due to the PNFC sector moving to a deficit of 0.6 per cent of GSP in 2000-01, the non-financial public sector is set to record a higher deficit in 2000-01 of 1.9 per cent of GSP, up from 1.2 per cent in 1999-2000.

State non-financial public sector net debt in the Northern Territory was 20.6 per cent of GSP in 1999-2000, and is expected to move to 20.5 per cent of GSP in 2000-01.

THE AUSTRALIAN LOAN COUNCIL

The Australian Loan Council is a Commonwealth-State Ministerial Council that coordinates total public sector borrowing under a voluntary agreement. The Loan Council comprises the Commonwealth Treasurer as Chairman, and State and Territory Treasurers. The Loan Council was established in 1927 under the *Financial Agreement between the Commonwealth and the States*, and continues under the *Financial Agreement between the Commonwealth, States and Territories*, which came into effect in 1995.

The present Loan Council arrangements emphasise transparency of public sector financing rather than the adherence to strict borrowing limits. Essentially, they are designed to enhance the role of financial market scrutiny of borrowings by the public sector and to facilitate informed judgments about each government's financial performance.

These arrangements, supported by the accrual uniform presentation framework (UPF), comprise three main stages:

- Loan Council Allocation (LCA) nominations;
- Budget time LCA updates; and
- Loan Council Allocation outcomes.

Loan Council Allocation nominations

The Loan Council traditionally meets once a year to consider jurisdictions' LCA nominations for the forthcoming year. The nominations draw from information presented in their mid-year budget updates and cover estimates for:

- the general government cash deficit/surplus;
- the PNFC sector cash deficit/surplus;
- net cash flows from investments in financial assets for policy purposes; and
- memorandum items.

These nominations are considered by the Loan Council, having regard to each jurisdiction's fiscal position and the macroeconomic implications of the aggregate figure. Loan Council Allocations are on a headline rather than underlying basis as they seek to measure a government's call on financial markets.

In making their LCA nominations to the Loan Council, the Commonwealth and the States also provide information on government contingent exposures under infrastructure projects with private sector involvement. These exposures, which are measured as a government's contractual liabilities in the event of termination of a project, are not included as a component of the LCA as they are unlikely to be realised, and are thus materially different from actual borrowing undertaken to finance the public sector deficit. Government outlays under these projects, such as equity contributions and ongoing commercial payments to the private sector, continue to be included in the annual total public sector balance, and hence the LCA.

Loan Council Allocation nominations for 2001-02

The Loan Council met on 30 March 2001 to consider LCA nominations for 2001-02. These nominations are set out in Table 14. In aggregate, they represent a surplus of \$13.5 billion. The Loan Council observed that after several years of strong economic growth in Australia the outlook has moderated, and highlighted the importance of maintaining sound fiscal strategies. Against this background, the Loan Council considered that the aggregate of LCA nominations is consistent with current macroeconomic policy objectives.

Table 14: Loan Council Allocations — 2001-02 nominations (a)(b)

	NSW	VIC	QLD	WA	SA	TAS	ACT	NT	Commonwealth	Aggregate
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
General government sector cash deficit(+)/surplus(-)	-1,456	-167	-642	396	31	-66	-152	57	-4,738	
PNFC sector cash deficit(+)/surplus(-)	302	-12	644	90	-18	14	-20	-13	1,936	
Non-financial public sector cash deficit(+)/surplus(-)(c)	-1,147	-201	2	486	13	-52	-172	44	-2,802	
<i>minus</i> Net cash flows from investments										
in financial assets for policy purposes	22	73	0	15	1	0	19	16	8,873	
<i>plus</i> Memorandum items(d)	320	252	-112	-92	-114	20	-10	0	-898	
Loan Council Allocation	-849	-22	-110	379	-103	-32	-201	28	-12,573	-13,483
2001-02 Tolerance limit	823	484	438	296	172	51	47	42	4,144	

(a) Loan Council Allocation nominations for 2001-02 reflect current best estimates of non-financial public sector deficits/surpluses. Nominations have been provided on the basis of policies announced up to and included in jurisdictions' mid-year reports. Nominations are based on preliminary estimates of general government finances provided by jurisdictions for the purposes of their mid-year reports, and projected bottom lines for each jurisdiction's PNFC sector.

(b) The LCAs of Tasmania and the Northern Territory are not strictly comparable with those of other jurisdictions, as Tasmania and the Northern Territory continue to report on a cash basis, while other jurisdictions report on an accrual basis.

(c) The sum of the surpluses of the general government and PNFC sectors may not directly equal the non-financial public sector surplus due to intersectoral transfers.

(d) Memorandum items are used to adjust the non-financial public sector deficit/surplus 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 non-financial public sector deficit/surplus certain transactions that the Loan Council has agreed should not be included in LCAs — for example, the funding of more than 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.

Budget time Loan Council Allocation updates

As noted above, LCA nominations for all jurisdictions are prepared prior to the beginning of the financial year. The actual call on financial markets may vary from the nomination primarily because of changes in economic parameters and policy measures. Updated information will be provided to financial markets through publication by each jurisdiction of its budget time LCA and a mid-year update of its expected LCA outcome.

A tolerance limit of 2 per cent of total non-financial public sector revenue applies between the LCA approved by the Loan Council and the budget time LCA, and later between the budget time LCA and the LCA outcome. Tolerance limits recognise that LCAs are nominated at a very early stage of budget processes and that estimates are likely to change as a result of policy and parameter changes before and after budgets are brought down. If a jurisdiction expects to exceed the upper or lower bound of the tolerance limit around its LCA estimate, it is obliged to report this situation.

Commonwealth Loan Council Allocation Budget update for 2001-02

The Commonwealth's budget time LCA estimate for 2001-02 is a \$7.8 billion surplus. The budget time LCA estimate exceeds the lower bound of the nominated LCA by more than the 2 per cent tolerance level. The components of the Commonwealth's budget time LCA for 2001-02 are shown in Table 15.

Jurisdictions are required to disclose government termination liabilities under infrastructure projects with private sector involvement that operate for 10 years or longer and involve gross project liabilities of at least \$5 million. The Commonwealth plans no such projects in 2001-02.

Table 15: Commonwealth budget time Loan Council Allocation for 2001-02

	Budget time estimate \$m
General government sector cash deficit(+)/surplus(-)	-1,520
PNFC sector cash deficit(+)/surplus(-)	-3,710
Non-financial public sector cash deficit(+)/surplus(-)	-5,231
<i>minus</i> Net cash flows from investments	
in financial assets for policy purposes	3,124
<i>plus</i> Memorandum items	586
Loan Council Allocation	-7,768

Loan Council Allocation outcomes

Jurisdictions are required under the accrual UPF to publish their LCA outcomes in their final budget outcome reports, if not published earlier.

