

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

This Chapter provides an overview of recent fiscal developments in State public sector finances. The Chapter also sets out the Loan Council arrangements.

FISCAL DEVELOPMENTS IN THE STATES AND TERRITORIES

This section is based on the States' *Uniform Presentation Framework* (UPF) tables. These tables are consistent with the Government Finance Statistics of the Australian Bureau of Statistics (ABS).

This section covers the period to 2004-05. This period differs from the Commonwealth's forward estimates period, which extends to 2005-06, because most States' 2002-03 Budgets, which will cover the period to 2005-06, have not been released. Furthermore, estimates for the public non-financial corporations (PNFC) sector and the non-financial public sector are unavailable after 2001-02 in most States. The PNFC sector comprises bodies that provide goods and services (such as electricity, gas and water) that are mainly market, non-regulatory and non-financial in nature, financed predominantly through sales to the consumers of these goods and services.

The most recent data in this section is based on the States' own estimates and projections of their fiscal outlook, as provided in their 2001-02 mid-year reports. South Australia's Budget Update, released on 14 March 2002, is not included in this analysis because it does not produce UPF consistent data.

State cash surplus by sector

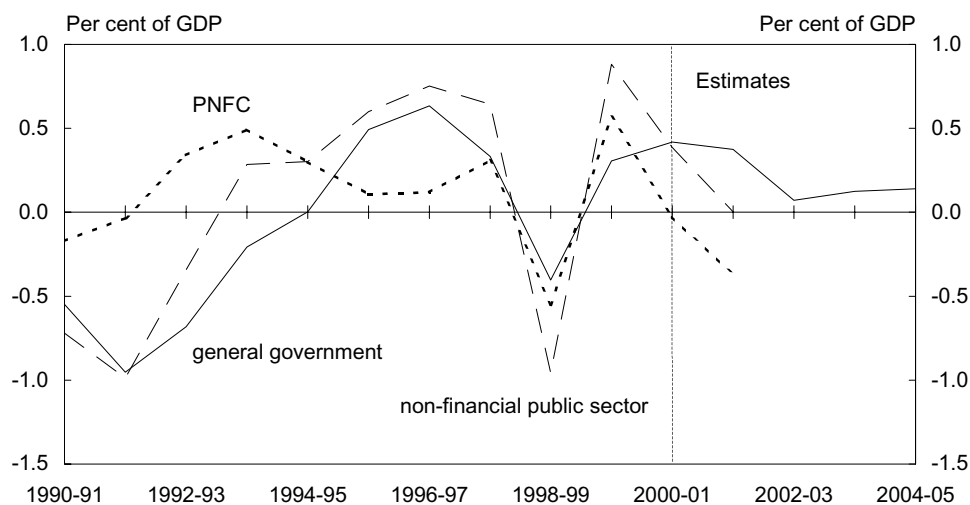
The State non-financial public sector — comprising the general government and PNFC sectors of all States — is expected, on a Government Finance Statistics basis, to record a cash surplus of 0.0 per cent of Gross Domestic Product (GDP) in 2001-02. This compares with a cash surplus of 0.4 per cent of GDP in 2000-01.

The deterioration in the cash balance of the State non-financial public sector is attributable to a decline in the PNFC sector. The cash surplus in the general government sector is projected to remain at 0.4 per cent of GDP in 2000-01 and 2001-02. The PNFC sector is projected to fall from 0.0 per cent of GDP in 2000-01 to a deficit of 0.4 per cent of GDP in 2001-02.

In the forward estimates years, the general government sector surplus is expected to average around 0.1 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)



(a) There is a break in the series between 1998-99 and 1999-2000. Data for the years up to and including 1998-99 are consistent with the cash ABS Government Finance Statistics reporting requirements. From 1999-2000 onwards, data is derived from an accrual ABS Government Finance Statistics reporting framework. Due to methodological and data-source changes associated with the change, time series data which encompasses measures derived under both cash and accrual accounting should be used with caution.

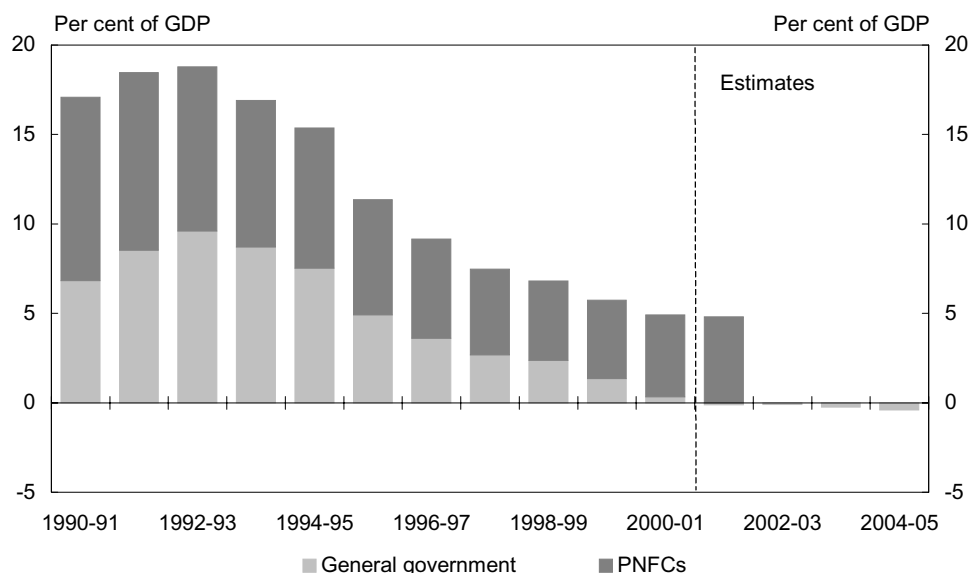
Source: ABS Cat. No. 5512.0, State 2001-02 mid-year reports and Treasury estimates.

State net debt

The ratio of aggregate State net debt to GDP has declined steadily since the early 1990s. This is attributed to States adopting medium term fiscal strategies of expenditure restraint and, less importantly, through revenue increases and asset sales.

Chart 6 illustrates recent trends in State net debt by sector. The chart shows that the stock of net debt has declined in both the general government and the PNFC sectors since 1992-93. The stock of State non-financial public sector net debt is owed nearly exclusively by the PNFC sector.

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



Source: ABS Cat. No. 5501.0, 5512.0 and 5513.0, State 2001-02 mid-year reports and Treasury estimates.

Fiscal developments in individual States and Territories

Key fiscal developments in each State are outlined below. This section focuses on common measures of a State's fiscal performance. Forthcoming State Budgets will lead to revisions to the outlook.

Tasmania and the Northern Territory are expected to introduce an accrual accounting framework this year. Consequently, all jurisdictions will report on an accrual basis.

General government cash balances and fiscal balances as a per cent of Gross State Product (GSP) over the period 2000-01 to 2004-05, are set out in Tables 14 and 15.

Table 14: State general government cash balance (as a per cent of GSP)

	2000-01	2001-02	2002-03	2003-04	2004-05
NSW	0.8	0.8	0.1	0.0	0.1
VIC	0.4	0.7	0.0	-0.1	0.0
QLD	0.3	0.2	0.3	0.8	0.5
WA	-0.2	-0.6	-0.2	0.1	0.1
SA	-0.2	-0.4	-0.1	-0.1	-0.1
TAS	1.3	0.7	0.9	1.0	1.1
ACT	1.8	0.4	-0.1	0.2	0.5
NT	-2.1	-3.1	-0.7	-0.2	-0.1

Source: ABS Cat. No. 5512.0 and State 2001-02 mid-year reports and Treasury estimates.

Table 15: State general government fiscal balance (as a per cent of GSP)^(a)

	2000-01	2001-02	2002-03	2003-04	2004-05
NSW	0.3	0.3	0.2	0.0	0.2
VIC	0.3	0.1	-0.2	-0.2	-0.2
QLD	-1.5	-0.6	-0.1	0.0	0.0
WA	-0.5	-0.6	-0.1	0.1	0.2
SA	-0.9	-0.7	-0.3	-0.3	-0.2
TAS	1.2	na	na	na	na
ACT	0.3	-0.3	-0.8	-0.3	-0.1
NT	-1.5	na	na	na	na

(a) Fiscal balance estimates for Tasmania and the Northern Territory are unavailable from 2001-02 as they are yet to report on an accrual basis. The estimates for 2000-01 are ABS estimates.

Source: ABS Cat. No. 5512.0 and State 2001-02 mid-year reports and Treasury estimates.

Table 16 presents the stock of non-financial public sector net debt in each State.

Table 16: State non-financial public sector net debt (as a per cent of GSP) (at end of financial year)

	2000-01	2001-02
NSW	7.6	7.0
VIC	2.0	1.3
QLD	-0.4	0.3
WA	6.8	7.8
SA	7.5	7.4
TAS	20.6	19.9
ACT	-1.6	-1.1
NT	16.1	19.0

Source: ABS Cat. No. 5512.0 and State 2001-02 mid-year reports and Treasury estimates.

New South Wales, Victoria, South Australia and Tasmania estimate an improvement in the non-financial public sector net debt as a per cent of GSP in 2001-02, with a deterioration in all other States. The increase in the Northern Territory's non-financial public sector net debt in 2001-02 is attributable to the construction of the Alice Springs to Darwin railway.

LOAN COUNCIL ARRANGEMENTS

The Australian Loan Council is a Commonwealth-State Ministerial Council that coordinates public sector borrowing. 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 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.

Consistent with the Loan Council's objective of increased fiscal transparency, Heads of Government agreed in 1991 to introduce a *Uniform Presentation Framework* (UPF). The UPF establishes a minimum standard of financial information that must be provided by jurisdictions in their budget papers. The Loan Council agreed in March 2000 to update the UPF on an accrual basis.

The Loan Council traditionally meets annually in March to consider jurisdictions' Loan Council Allocation (LCA) Nominations 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. The LCA is a headline measure of a government's call on financial markets.

A jurisdiction's LCA incorporates:

- the estimated non-financial public sector cash deficit (made up from the general government and the PNFC sector deficits);
- net cash flows from investments in financial assets for policy purposes. This item includes equity transactions and net advances. Examples of equity transactions include equity injections into controlled businesses and privatisations of government businesses. Net advances include net loans to the States, net loans to students under the Higher Education Contribution Scheme (HECS), and contributions to international organisations that increase the Commonwealth's financial assets; and
- memorandum items. These transactions, though not formally borrowings, have many of the characteristics of borrowing.

After the annual Loan Council meeting, LCA Nominations are subject to three further reporting rounds:

- LCA Budget updates;
- LCA Mid-Year Report; and
- LCA Outcomes.

A tolerance limit of 2 per cent of non-financial public sector revenue applies between the LCA Nomination (approved by the Loan Council) and the Budget update. The 2 per cent tolerance limit also applies between the Budget update and the Outcome. Tolerance limits recognise that LCAs are nominated at an early stage of the budget process and may change as a result of policy and parameter changes. Jurisdictions are required to disclose if they expect to exceed the upper or lower bound of the tolerance limit.

Jurisdictions are also required to disclose their contractual financial liabilities for infrastructure projects with private sector involvement. These projects must operate for 10 years or longer and involve gross project liabilities of at least \$5 million. The government's contractual financial liabilities are a jurisdiction's potential financial exposure in the event that infrastructure projects are terminated.

Outcome of March 2002 Loan Council Meeting

The Loan Council met on 22 March 2002 to consider LCA Nominations for 2002-03. These Nominations are set out in Table 17. In aggregate, they represent a deficit of \$539 million. The Loan Council approved each jurisdiction's nominated LCA.

The Loan Council also agreed to changes to the accrual UPF. The Loan Council agreed to further disaggregate the level of expense by function data in financial outcomes reports from 2002-03. The States are required to fully comply with this measure by 2003-04. The Commonwealth already publishes comparable disaggregated data. Publication of this data by the States should improve the quality of public sector financial data in Australia.

Furthermore, the Loan Council also agreed to change the names of the Public Non-financial Corporations and Public Financial Corporations sector tables in the accrual UPF to Public Non-financial Corporations (Public Trading Enterprises) and Public Financial Corporations (Public Financial Enterprises) respectively. These changes provide a reference to the terminology used under the cash accounting framework.

Table 17: Loan Council Allocation Nominations for 2002-03, \$m^{(a)(b)}

	NSW	VIC	QLD	WA	SA	TAS	ACT	NT	C/w/ith	Aggregate
General government sector cash deficit(+)/surplus(-)	-366	-1	-365	198	109	-115	17	72	-991	
PNFC sector cash deficit(+)/surplus(-)	813	-87	736	261	5	42	-19	-4	-133	
Non-financial public sector cash deficit(+)/surplus(-)(c)	448	-87	371	460	113	-73	-3	68	-1,124	
<i>minus</i> Net cash flows from investments										
in financial assets for policy purposes	52	69	0	15	10	0	19	-24	-1,169	
<i>plus</i> Memorandum items(d)	-180	181	17	-172	-269	29	-6	0	-259	
Loan Council Allocation	216	25	388	272	-166	-45	-28	92	-215	539
2002-03 Tolerance limit	895	545	483	300	178	54	44	44	4,376	

(a) Loan Council Allocation Nominations for 2002-03 reflect best estimates, at the March 2002 Loan Council meeting, 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. 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.

NB Governments' contractual financial liabilities under infrastructure projects with private sector involvement are excluded from LCAs. These liabilities, measured as governments' liability in the event of project termination, are unlikely to be realised and are materially different from actual borrowings undertaken to finance the public sector deficit. Government outlays under these projects, such as equity contributions and ongoing commercial payments to the private sector, are included in the general government cash deficit and the LCA.

Commonwealth Loan Council Allocation Budget update for 2002-03

Information is provided to financial markets through the publication by each jurisdiction of a LCA Budget update.

The Commonwealth's LCA Budget update for 2002-03 is a \$6,034 million surplus. The Budget update exceeds the upper bound of the LCA Nomination by more than the 2 per cent tolerance limit. The components of the Commonwealth's LCA Budget update for 2002-03 are shown in Table 18.

The Commonwealth has no plans in 2002-03 for any public infrastructure projects with private sector involvement that require disclosure under present arrangements.

Table 18: Commonwealth Loan Council Allocation Budget update for 2002-03

	Nomination	Budget update
General government sector cash deficit(+)/surplus(-)	-991	-2,094
PNFC sector cash deficit(+)/surplus(-)	-133	-1,968
Non-financial public sector cash deficit(+)/surplus(-)	-1,124	-4,063
<i>minus</i> Net cash flows from investments		
in financial assets for policy purposes	-1,169	2,465
<i>plus</i> Memorandum items	-259	494
Loan Council Allocation	-215	-6,034