STATEMENT 12: TRENDS IN PUBLIC SECTOR FINANCES

This Statement addresses recent trends in the fiscal balance, cash surplus, and balance sheet data (net debt, net worth and net interest payments) for the Commonwealth and State/local levels of government along with the consolidated non-financial public sector. These measures are discussed in greater detail in *Statement 8, Financial Reporting Standards and Budget Concepts*.

This Statement provides a broader context in which to consider developments in the Commonwealth's Budget.

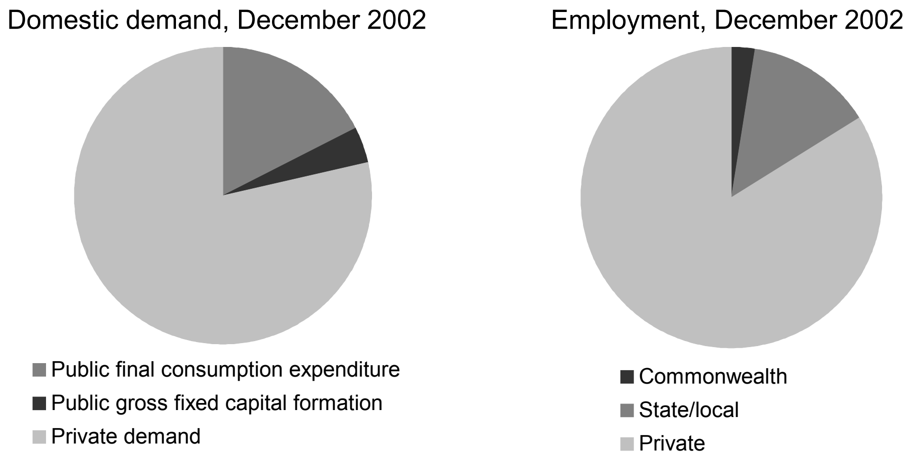
For further information on the data used in the charts and tables in this section see *Appendix B: Data*.

STATEMENT 12: TRENDS IN PUBLIC SECTOR FINANCES

SIZE AND STRUCTURE OF THE PUBLIC SECTOR

The public sector constitutes over 20 per cent of the Australian economy. The size and structure of Australia's public sector provides important context for interpreting the trends in this sector.

Chart 1: Contribution of public and private sectors



Source: ABS Cat. No. 6248.0, 6202.0 and 5206.0.

There are significant differences in the roles and responsibilities of the two main levels of government. Major Commonwealth expenses include transfer payments in relation to social security and welfare and defence expenditure. Transfer payments — for example, Commonwealth income support payments — are not included in public final demand. Payments that the Commonwealth makes to the States and the private sector — to assist in funding important services like education and health — are reflected in either State/local public final demand or household final demand. The Commonwealth therefore constitutes only 38 per cent of public final demand while the State/local level accounts for 62 per cent of public final demand, equivalent to over 13 per cent of final domestic demand as shown in Chart 1.

The public sector directly accounts for around 16 per cent of wage and salary earners, also shown in Chart 1. The State/local sector accounts for 84 per cent of total public sector wage and salary earners and 13 per cent of all wage and salary earners, reflecting its major responsibilities for service delivery in the areas of education, health, transport and public order and safety.

FISCAL BALANCE

The non-financial public sector consists of both the general government sector and the public non-financial corporations (PNFCs) sector. The general government sector comprises the majority of the non-financial public sector. The PNFC sector tends to be more important at the State/local level where most PNFCs are concentrated.

The Commonwealth general government fiscal balance is expected to fall slightly from a surplus of 0.2 per cent of Gross Domestic Product (GDP) in 2002-03 to a surplus of 0.1 per cent of GDP in 2003-04. It is projected that in 2004-05, the Commonwealth general government fiscal balance will be in deficit by 0.1 per cent of GDP before returning to balance in 2005-06. A surplus of 0.3 per cent of GDP is projected for 2006-07.

The State/local general government fiscal balance is expected to be roughly in balance in 2002-03 but is projected to move to a small deficit of 0.1 per cent of GDP in 2003-04. This projection is based on State and Territory 2002-03 mid-year reviews as most of the States and Territories are yet to bring down their 2003-04 Budgets.

The consolidated PNFC sector fiscal balance is expected to be in a deficit position in 2002-03 (0.3 per cent of GDP) despite an estimated Commonwealth PNFC fiscal balance surplus of 0.1 per cent of GDP. The decrease in consolidated PNFC revenue and expenses as a share of GDP in recent years is partly attributable to the privatisation of PNFCs by both the Commonwealth and State/local governments.

Tables 1, 2 and 3 show general government, PNFCs and non-financial public sector fiscal balance data by level of government respectively.

Table 1: General government fiscal balance by level of government (per cent of GDP)[(a)]

	Commonwealth			State/local			Consolidated		
	Revenue	Expenses	Fiscal balance(a)	Revenue	Expenses	Fiscal balance(a)	Revenue	Expenses	Fiscal balance(a)
1996-97	26.7	27.5	-0.8	na	na	na	na	na	na
1997-98	26.2	26.5	-0.4	na	na	na	na	na	na
1998-99	25.7	24.8	0.6	17.6	16.8	0.3	38.0	36.3	0.9
1999-00	26.5	24.6	2.1	17.2	16.3	0.3	38.6	35.8	2.5
2000-01	24.1	23.4	0.9	17.1	16.7	-0.1	38.4	37.2	0.8
2001-02	22.8	23.4	-0.5	16.9	16.5	0.0	36.8	36.7	-0.5
2002-03(e)	22.8	22.6	0.2	16.6	16.2	0.0	36.9	36.2	0.3
2003-04(e)	**22.4**	**22.4**	**0.1**	**16.1**	**15.8**	**-0.1**	**35.6**	**35.2**	**0.1**
2004-05(p)	22.0	22.2	-0.1	na	na	na	na	na	na
2005-06(p)	21.9	21.9	0.0	na	na	na	na	na	na
2006-07(p)	21.9	21.6	0.3	na	na	na	na	na	na

(a) The fiscal balance is equal to revenue less expenses less net capital investment. Net capital investment is not shown in this table.
(e) Estimates.
(p) Projections.
na Data not available.

Table 2: Public non-financial corporations fiscal balance by level of government (per cent of GDP)[(a)]

	Commonwealth			State/local			Consolidated		
	Revenue	Expenses	Fiscal balance(a)	Revenue	Expenses	Fiscal balance(a)	Revenue	Expenses	Fiscal balance(a)
1996-97	5.2	4.9	-0.1	na	na	na	na	na	na
1997-98	5.3	4.8	0.4	na	na	na	na	na	na
1998-99	4.7	4.4	-0.1	6.2	6.2	-0.5	10.9	10.6	-0.6
1999-00	4.0	3.7	0.2	5.8	5.6	0.3	9.8	9.3	0.5
2000-01	3.8	3.7	-0.1	5.4	5.1	0.2	9.3	8.8	0.1
2001-02	3.7	3.5	0.1	4.9	4.7	-0.2	8.6	8.2	-0.1
2002-03(e)	3.3	3.1	0.1	4.4	4.3	-0.4	7.6	7.5	-0.3
2003-04(e)	**3.1**	**3.0**	**0.2**	**na**	**na**	**na**	**na**	**na**	**na**

(a) The fiscal balance is equal to revenue less expenses less net capital investment. Net capital investment is not shown in this table.
(e) Estimates.
na Data not available.

Table 3: Non-financial public sector fiscal balance by level of government (per cent of GDP)[(a)]

	Commonwealth			State/local			Consolidated		
	Revenue	Expenses	Fiscal balance(a)	Revenue	Expenses	Fiscal balance(a)	Revenue	Expenses	Fiscal balance(a)
1996-97	na	na	-0.9	na	na	na	na	na	na
1997-98	na	na	0.1	na	na	na	na	na	na
1998-99	29.7	28.5	0.5	21.3	20.5	-0.2	45.8	43.8	0.3
1999-00	30.0	27.5	2.3	21.1	19.9	0.7	45.9	42.4	3.0
2000-01	27.3	26.5	0.8	20.7	20.0	0.0	45.2	43.6	0.8
2001-02	25.9	26.3	-0.4	20.5	19.9	-0.2	43.5	43.0	-0.6
2002-03(e)	25.4	25.1	0.3	19.8	19.3	-0.4	42.8	41.9	0.0
2003-04(e)	**25.0**	**24.8**	**0.3**	**na**	**na**	**na**	**na**	**na**	**na**

(a) The fiscal balance is equal to revenue less expenses less net capital investment. Net capital investment is not shown in this table.
(e) Estimates.
na Data not available.

CASH SURPLUS

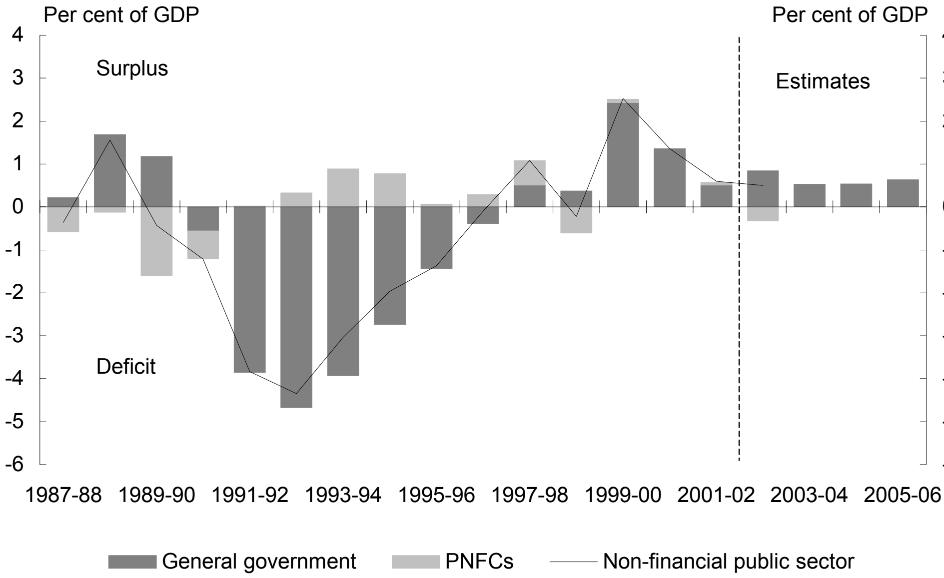
Non-financial public sector

It is estimated that the consolidated non-financial public sector will achieve a cash surplus of 0.5 per cent of GDP in 2002-03.

Chart 2 illustrates that the consolidated non-financial public sector was generally in a deficit position during the early to mid 1990s. The deficit peaked at 4.3 per cent of GDP in 1992-93 before moving into a surplus position in 1997-98. The consolidated non-financial public sector has remained in surplus, with the exception of 1998-99, due to consecutive consolidated general government surpluses. The deficit in 1998-99 is the result of one-off increases in State funding of superannuation liabilities.

The importance of PNFCs to the consolidated non-financial public sector cash surplus declined from the late 1980s, with the privatisation of government businesses.

Chart 2: Consolidated non-financial public sector cash surplus by sector[(a)]



(a) Data for the consolidated PNFCs and non-financial public sector are only available to 2002-03, while general government data is available to 2005-06.

General government sector

The Commonwealth general government sector has been in surplus since 1997-98, with the exception of a minor cash deficit of 0.1 per cent of GDP in 2001-02.

Chart 3 shows the large contribution of past Commonwealth general government cash deficits to the consolidated non-financial public sector cash deficit. It also illustrates the improvement in the Commonwealth general government sector balance since 1992-93, culminating in the strong surplus outcomes of recent years.

Panel A of Chart 3 shows the sustained improvement in State/local general government balances over the period 1991-92 to 1996-97, from a deficit of 1.0 per cent of GDP to a cash surplus of 0.6 per cent of GDP. The State/local sector has since maintained surpluses (with the exception of 1998-99). It is estimated that the State/local cash surplus will reduce to 0.3 per cent of GDP in 2002-03, down from 0.6 per cent of GDP in 2001-02. This largely reflects the State governments' expectations of a more subdued property market and hence, reduced State government receipts from property taxes such as conveyancing duty.

Chart 3: Cash surplus by sector and level of government

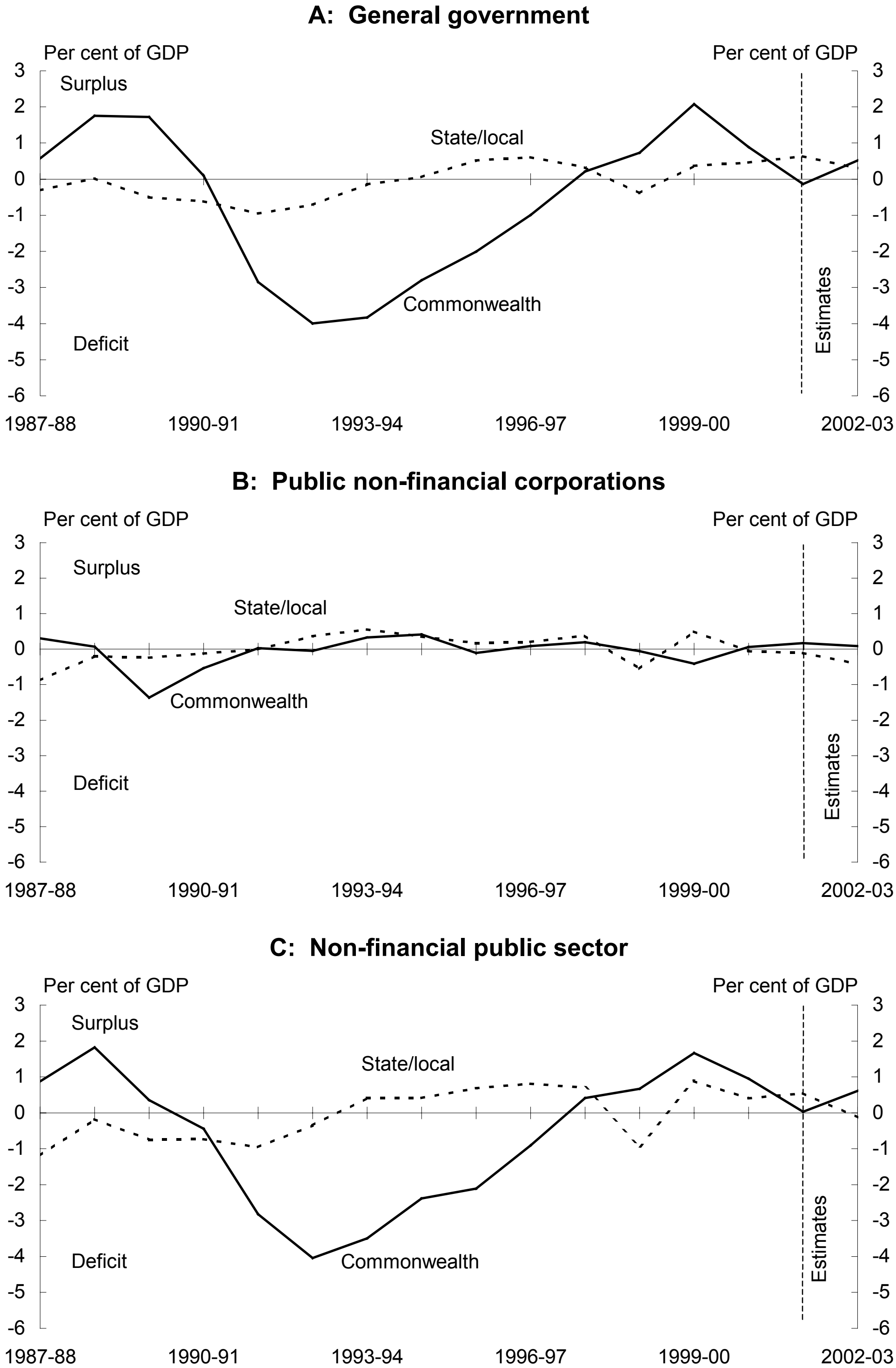


Chart 4 shows trends in general government cash receipts and payments at the Commonwealth, State/local and consolidated levels. Due to its size, the general government sector is the appropriate focus for an assessment of public sector receipts and payments. It is also the sector through which governments primarily affect the level of private sector activity.

Commonwealth receipts and payments estimates in Panel A of Chart 4 are net of goods and services tax (GST) receipts and show a significant decline in 2000-01 with the introduction of *The New Tax System*. In addition, the reform of Commonwealth and State/local taxes resulted in total consolidated general government receipts falling as a per cent of GDP from 38.5 per cent in 1999-2000 to 36.5 per cent of GDP in 2001-02, in large part reflecting the significant personal income tax cuts and the abolition of Financial Institutions Duty and stamp duty on quoted marketable securities.

The improvement in State finances from 1991-92 is evident in Panel B of Chart 4. This improvement was initially due to payments restraint, helped by lower debt servicing charges, and more recently by the property boom.

The significant increase in both receipts and payments in 1998-99 for the State/local sector and in 1999-2000 for the Commonwealth sector, shown in Panels A and B of Chart 4, were largely due to the move to an accrual accounting framework and the subsequent 'grossing' up of cash receipts and payments, whereas prior to this some cash receipts were netted off payments.

Public non-financial corporations (PNFCs)

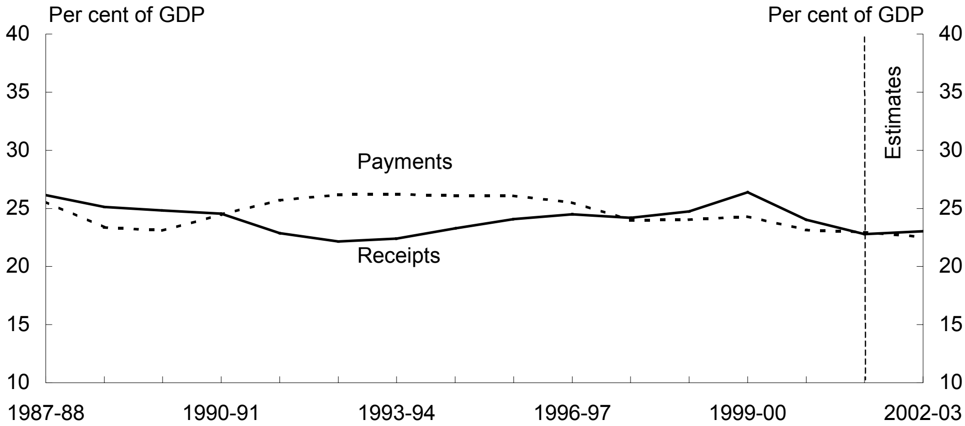
The PNFC sector is an important provider of economic infrastructure and contributes significant revenue to the general government sector, mainly in the form of dividends. State/local governments account for the majority of total PNFC sector payments, reflecting State responsibility for infrastructure and service provision in areas such as electricity, gas, water and public transport.

PNFC privatisations over the last decade have occurred in two main sectors — electricity and gas (such as Victoria's and South Australia's electricity assets) and transport and communications (such as the partial sale of Telstra). Proceeds of asset sales have largely been used to reduce, or contain the growth of, government net debt, resulting in ongoing savings in public debt interest.

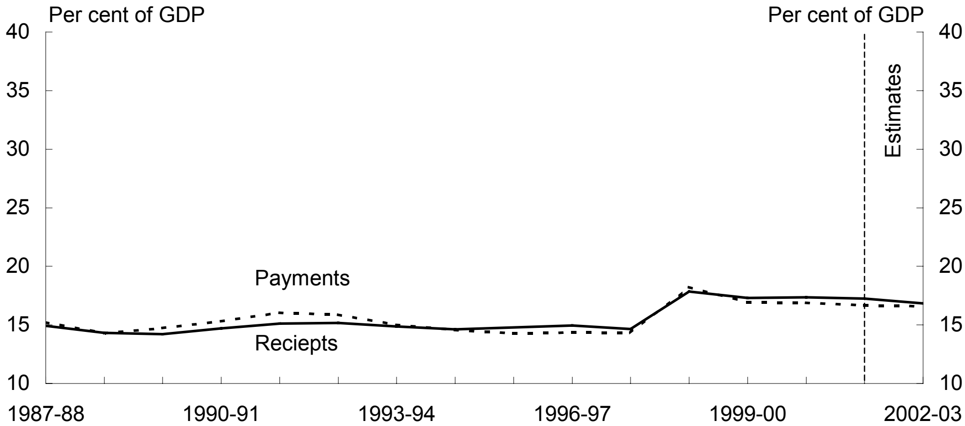
As shown in Chart 2 of this Statement, the consolidated PNFC sector has maintained a cash surplus position through much of the 1990s. Following small surpluses in 2000-01 and 2001-02, the sector is projected to return to deficit in 2002-03, mainly due to relatively large deficits in the New South Wales, Victorian, Queensland and Western Australian PNFC sectors.

Chart 4: General government receipts and payments by level of government

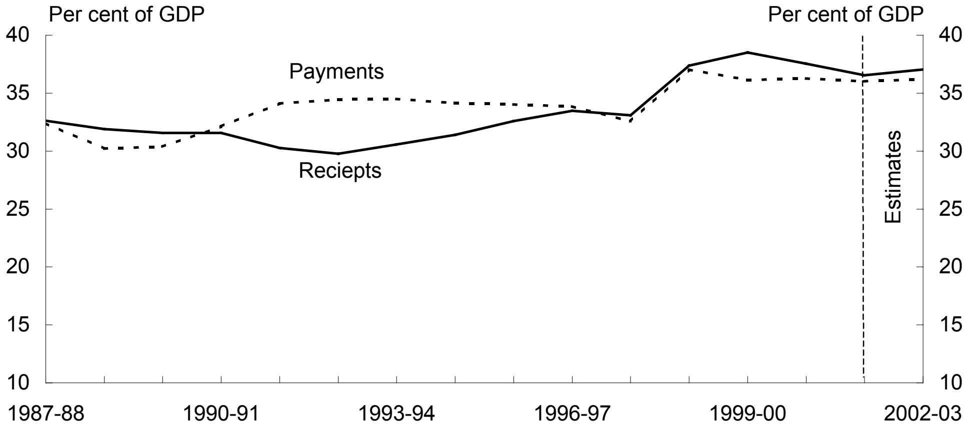
A: Commonwealth



B: State/local



C: Consolidated



NET DEBT

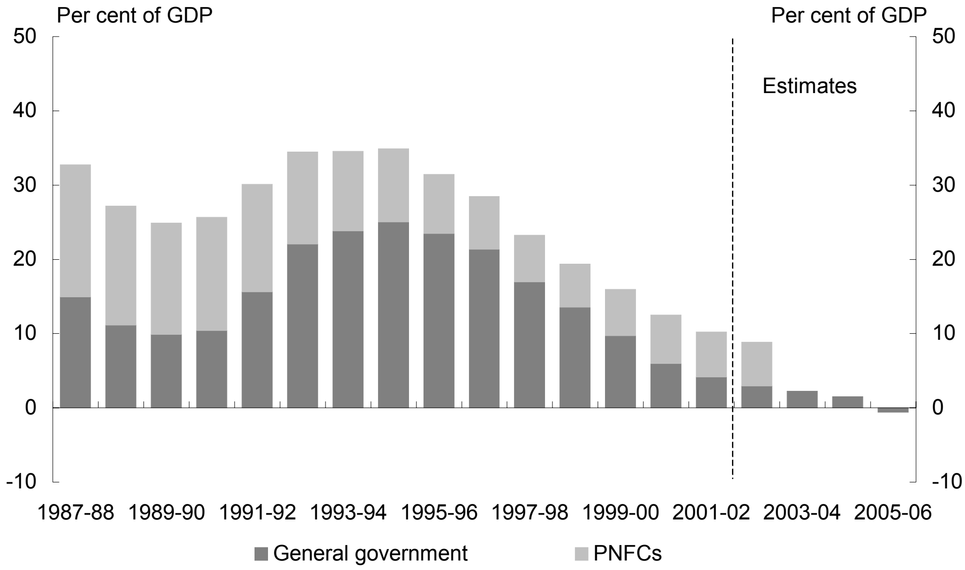
Chart 5 shows that consolidated general government net debt as a share of GDP is expected to further decline over the forward estimates period. Consolidated non-financial public sector net debt is estimated to be 8.8 per cent of GDP in 2002-03, compared with the most recent peak of 34.9 per cent in 1994-95.

Charts 2 and 5 indicate the broad relationship between cash deficits and net debt levels. The financing of Commonwealth cash deficits resulted in a substantial increase in general government net debt as a share of GDP over the early 1990s.

Chart 5 also shows the decline in PNFC 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 non-financial public sector net debt as a share of GDP in the first half of the 1990s.

The subsequent improvement in non-financial public sector net debt mainly reflects the Commonwealth moving back into budget surpluses and the application of privatisation proceeds to debt retirement at both the Commonwealth and State/local levels.

Chart 5: Consolidated government non-financial public sector net debt by sector (as at end of financial year)(a)



(a) Data for the consolidated PNFCs and non-financial public sector are only available to 2002-03, while general government data is available to 2005-06.

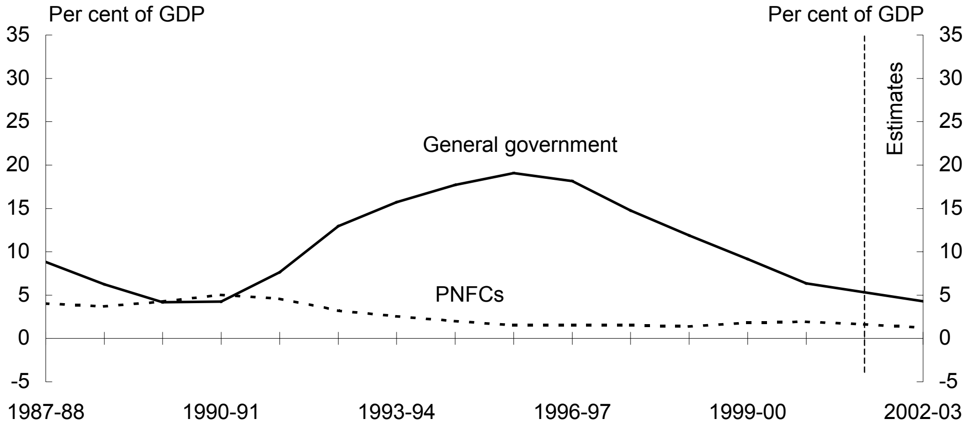
Chart 6 shows that most Commonwealth net debt is held by the general government sector whereas almost all State/local net debt is held in the PNFC sector.

As shown in Panel A of Chart 6, Commonwealth general government net debt as a share of GDP grew from low levels in the late 1980s to a peak of 19.1 per cent in 1995-96. Successive cash surpluses and asset sales (most notably the partial sale of Telstra) have reduced Commonwealth general government sector net debt to an expected 4.3 per cent of GDP in 2002-03.

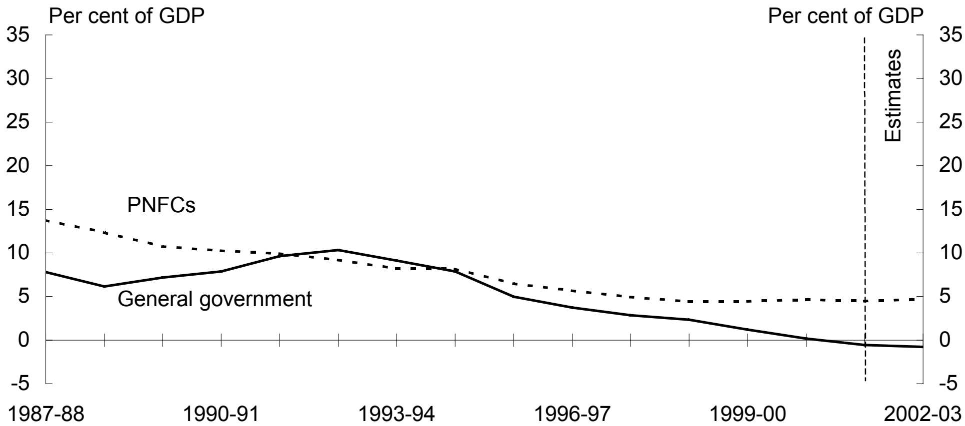
In contrast, State/local general government net debt grew more modestly in the early 1990s and is expected to decline from a peak of 10.3 per cent of GDP in 1992-93 to around -0.8 per cent in 2002-03, as shown in Panel B. This improvement within the State/local general government sector reflects both the impact of asset sales and fiscal consolidation during the second half of the 1990s. However, some individual States continue to face substantial net debt burdens (see Budget Paper No. 3 — *Federal Financial Relations 2003-04* for more information).

Chart 6: Non-financial public sector net debt by level of government and sector (as at end of financial year)

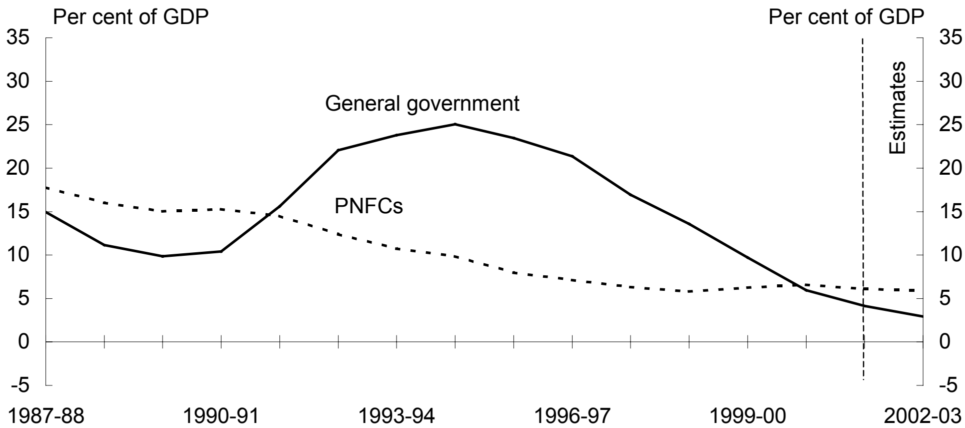
A: Commonwealth



B: State/local



C: Consolidated



NET WORTH

The State/local general government sector has an estimated positive net worth of 56.7 per cent of GDP in 2003-04. State/local net worth has nominally increased each year but, since 1999-2000, net worth has not grown at the same pace as the economy and hence represents a decreasing proportion of GDP. The Commonwealth general government sector has historically recorded negative net worth. This difference primarily reflects the significant funding provided by the Commonwealth to the States for capital works, with the resultant assets recorded in the States' balance sheets.

Table 4: General government net worth by level of government (as at end of financial year)

	Commonwealth(a)		State/local		Consolidated	
	$m	Per cent of GDP	$m	Per cent of GDP	$m	Per cent of GDP
1996-97	-74,354	-14.0	na	na	na	na
1997-98	-68,544	-12.2	na	na	na	na
1998-99	-76,150	-12.9	363,841	61.5	305,755	51.7
1999-00	-40,584	-6.5	390,741	62.2	369,223	58.7
2000-01	-44,603	-6.7	404,662	60.5	379,987	56.8
2001-02	-49,439	-6.9	423,631	59.4	395,195	55.4
2002-03(e)	-47,249	-6.3	437,182	57.9	413,091	54.7
2003-04(e)	**-46,084**	**-5.8**	**451,380**	**56.7**	**429,956**	**54.0**
2004-05(p)	-47,766	-5.7	na	na	na	na
2005-06(p)	-48,053	-5.4	na	na	na	na
2006-07(p)	-46,075	-4.9	na	na	na	na

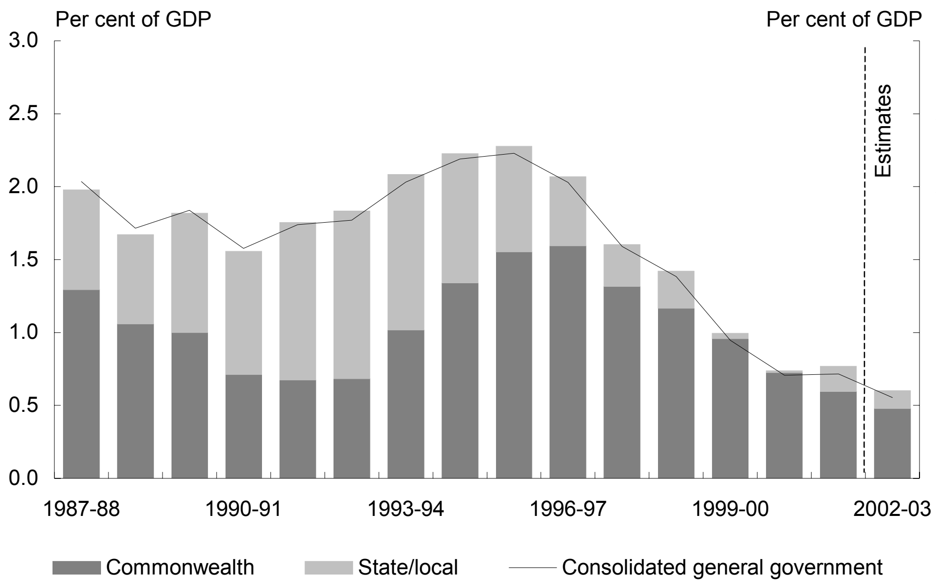
(a) There is a break in the Commonwealth net worth series between 1998-99 and 1999-2000. Data up to 1998-99 are sourced from the Commonwealth's Consolidated Financial Statements based on Australian accounting standards. Data beginning in 1999-2000 are based on the GFS framework. For the general government sector, the major change across the break in the series is an improvement in net worth. This is primarily due to the move from valuing investments in public corporations at historic cost to current market value (which is calculated using the share price for listed corporations). This is partly offset by defence weapons platforms no longer being recorded as assets.
(e) Estimates.
(p) Projections.
na Data not available.

NET INTEREST PAYMENTS

Consolidated general government net interest payments peaked in 1995-96 at 2.2 per cent of GDP due to the increased level of Commonwealth general government net debt. Net interest payments are expected to fall to 0.6 per cent of GDP in 2002-03 due to lower interest rates and reduced Commonwealth and State/local general government net debt.

The contribution of the PNFC sector to non-financial public sector net interest payments has decreased significantly in recent years, as reduced investment, improved PNFC performance and privatisations have reduced PNFC sector net debt as a share of GDP.

Chart 7: General government net interest payments



APPENDIX A: SUPPLEMENTARY CASH TABLES

Table A1: Consolidated cash receipts, payments and cash surplus by institutional sector as a per cent of GDP

	General government			Public non-financial corporations			Non-financial public sector		
	Receipts	Payments	Cash surplus	Receipts	Payments	Cash surplus	Receipts	Payments	Cash surplus
1987-88	32.6	32.4	0.2	4.0	5.9	-0.6	35.5	37.2	-0.4
1988-89	31.9	30.2	1.7	3.8	5.4	-0.1	34.8	34.6	1.6
1989-90	31.6	30.4	1.2	3.7	6.7	-1.6	34.1	36.0	-0.4
1990-91	31.6	32.1	-0.6	3.8	5.9	-0.7	34.2	36.8	-1.2
1991-92	30.3	34.1	-3.9	3.6	5.4	0.0	32.5	38.2	-3.8
1992-93	29.8	34.4	-4.7	3.6	5.0	0.3	32.0	38.1	-4.3
1993-94	30.6	34.5	-3.9	3.8	4.3	0.9	32.7	37.3	-3.0
1994-95	31.4	34.1	-2.7	3.4	4.5	0.8	33.3	37.2	-2.0
1995-96	32.6	34.0	-1.4	3.0	4.5	0.1	33.9	36.9	-1.4
1996-97	33.5	33.9	-0.4	3.1	4.2	0.3	34.4	35.9	-0.1
1997-98	33.1	32.6	0.5	3.0	3.7	0.6	34.4	34.7	1.1
1998-99	37.4	37.0	0.4	na	na	-0.6	na	na	-0.2
1999-00	38.5	36.1	2.4	na	na	0.1	na	na	2.5
2000-01	37.5	36.3	1.4	na	na	0.0	na	na	1.4
2001-02	36.5	36.0	0.5	na	na	0.1	na	na	0.6
2002-03(e)	37.0	36.2	0.8	na	na	-0.3	na	na	0.5
2003-04(e)	**35.8**	**35.4**	**0.5**	**na**	**na**	**na**	**na**	**na**	**na**
2004-05(p)	35.4	34.9	0.5	na	na	na	na	na	na
2005-06(p)	35.0	34.4	0.6	na	na	na	na	na	na

(e) Estimates.
(p) Projections.
na Data not available.

Table A2: Non-financial public sector cash surplus by level of government as a per cent of GDP

	Commonwealth	State/local	Consolidated
1987-88	0.9	-1.2	-0.4
1988-89	1.8	-0.2	1.6
1989-90	0.4	-0.7	-0.4
1990-91	-0.4	-0.7	-1.2
1991-92	-2.8	-1.0	-3.8
1992-93	-4.0	-0.4	-4.3
1993-94	-3.5	0.4	-3.0
1994-95	-2.4	0.4	-2.0
1995-96	-2.1	0.7	-1.4
1996-97	-0.9	0.8	-0.1
1997-98	0.4	0.7	1.1
1998-99	0.7	-0.9	-0.2
1999-00	1.7	0.9	2.5
2000-01	1.0	0.4	1.4
2001-02	0.0	0.5	0.6
2002-03(e)	0.6	-0.1	0.5
2003-04(e)	**0.5**	**na**	**na**

(e) Estimates.
na Data not available.

Table A3: General government net interest payments by level of government

	Commonwealth(a)		State/local	
	$m	Per cent of GDP	$m	Per cent of GDP
1972-73	-266	-0.6	449	0.9
1973-74	-306	-0.5	451	0.8
1974-75	-267	-0.4	474	0.7
1975-76	-389	-0.5	526	0.7
1976-77	-161	-0.2	555	0.6
1977-78	-106	-0.1	582	0.6
1978-79	126	0.1	609	0.5
1979-80	290	0.2	634	0.5
1980-81	444	0.3	801	0.5
1981-82	475	0.3	785	0.5
1982-83	654	0.4	1,034	0.6
1983-84	1,327	0.7	1,347	0.7
1984-85	2,462	1.1	1,405	0.6
1985-86	3,626	1.5	1,159	0.5
1986-87	4,387	1.6	1,493	0.5
1987-88	4,019	1.3	2,127	0.7
1988-89	3,722	1.1	2,158	0.6
1989-90	3,848	1.0	3,153	0.8
1990-91	2,834	0.7	3,364	0.8
1991-92	2,739	0.7	4,397	1.1
1992-93	2,912	0.7	4,901	1.1
1993-94	4,549	1.0	4,771	1.1
1994-95	6,310	1.3	4,182	0.9
1995-96	7,812	1.6	3,636	0.7
1996-97	8,449	1.6	2,515	0.5
1997-98	7,381	1.3	1,617	0.3
1998-99	6,901	1.2	1,507	0.3
1999-00	6,014	1.0	236	0.0
2000-01	4,855	0.7	79	0.0
2001-02	4,238	0.6	1,238	0.2
2002-03(e)	3,620	0.5	924	0.1
2003-04(e)	**3,426**	**0.4**	**na**	**na**
2004-05(p)	3,166	0.4	na	na
2005-06(p)	3,652	0.4	na	na
2006-07(p)	2,108	0.2	na	na

(a) There is a break in the Commonwealth net debt and net interest payments series between 1998-99 and 1999-2000 (the first year of accrual budgeting). Up to 1998-99, Commonwealth government debt instruments are valued at historic cost. From 1999-2000 onwards, Commonwealth government debt instruments are valued at market prices, consistent with accrual Government Finance Statistics (GFS) standards. These changes are discussed further in Statement 8.
(e) Estimates.
(p) Projections.
na Data not available.

Table A4: Non-financial public sector net debt[(a)]

	General government						PNFCs		Non-financial public sector	
	Commonwealth		State/local		Consolidated		Consolidated		Consolidated	
	$m	Per cent of GDP	$m	Per cent of GDP	$m	Per cent of GDP	$m	Per cent of GDP	$m	Per cent of GDP
1987-88	27,359	8.8	24,201	7.8	46,410	14.9	55,293	17.8	101,703	32.7
1988-89	21,982	6.2	21,683	6.2	39,232	11.1	56,363	16.0	95,595	27.2
1989-90	16,121	4.2	27,672	7.2	37,989	9.9	57,794	15.0	95,783	24.9
1990-91	16,936	4.3	31,322	7.9	41,380	10.4	60,745	15.3	102,125	25.7
1991-92	31,132	7.7	39,167	9.6	63,525	15.6	59,011	14.5	122,536	30.1
1992-93	55,218	13.0	44,020	10.3	94,048	22.1	52,878	12.4	146,926	34.5
1993-94	70,223	15.7	40,693	9.1	106,439	23.8	48,021	10.7	154,460	34.6
1994-95	83,492	17.7	37,039	7.9	117,973	25.0	46,482	9.9	164,455	34.9
1995-96	95,831	19.1	24,981	5.0	118,053	23.5	40,135	8.0	158,188	31.5
1996-97	96,281	18.2	19,757	3.7	113,236	21.4	37,748	7.1	150,984	28.5
1997-98	82,935	14.8	15,937	2.8	95,122	16.9	35,371	6.3	130,493	23.3
1998-99	70,402	11.9	13,861	2.3	80,291	13.6	34,431	5.8	114,722	19.4
1999-00	57,560	9.2	7,441	1.2	61,004	9.7	39,333	6.3	100,337	16.0
2000-01	42,651	6.4	1,223	0.2	39,829	6.0	43,957	6.6	83,785	12.5
2001-02	38,022	5.3	-3,951	-0.6	29,657	4.2	43,415	6.1	73,014	10.2
2002-03(e)	32,420	4.3	-5,788	-0.8	22,105	2.9	44,556	5.9	66,648	8.8
2003-04(e)	**29,826**	**3.7**	**-7,277**	**-0.9**	**17,905**	**2.2**	**na**	**na**	**na**	**na**
2004-05(p)	27,578	3.3	-10,112	-1.2	12,697	1.5	na	na	na	na
2005-06(p)	14,110	1.6	-14,639	-1.7	-5,430	-0.6	na	na	na	na
2006-07(p)	-1,771	-0.2	na	na	na	na	na	na	na	na

(a) Between 1997-98 and 1999-2000 there is a structural shift in the net debt series as jurisdictions moved from the cash GFS framework to the accrual GFS framework. Consistent with this framework, some jurisdictions value net debt at market prices, while other jurisdictions continue to value net debt at historic cost. Commonwealth net debt is valued at market prices from 1999-2000, as discussed in Statement 8.
(e) Estimates.
(p) Projections.
na Data not available.

APPENDIX B: DATA

The information in this Statement is consistent with the Australian Bureau of Statistics (ABS) GFS reporting framework for the public sector.

Data are presented both by level of government and institutional sector. 'Level of government' refers to the distinction between the Commonwealth and State/local governments. When combined, the Commonwealth and State/local governments and universities are referred to as the 'consolidated public sector'.

The clear policy intent of the *Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations* is that the GST is collected by the Commonwealth, as an agent for the States and Territories, and appropriated to the States. The Commonwealth accrual revenue and expenses and cash receipts and payments measures included in this Statement therefore differ from ABS GFS measures by treating the GST as State tax revenue.

Data are sourced from the ABS *1997-98 Government Finance Statistics* (Cat. No. 5512.0) and *2002-03 Government Finance Estimates* (Cat. No. 5501.0), Commonwealth Final Budget Outcomes and jurisdictions' 2002-03 mid-year reports or 2003-04 Budgets.

Since the move to accrual budget reporting, cash surplus data from the cash flow statements are used. Cash receipts are now proxied by receipts from operating activities and sales of non-financial assets, and cash payments are proxied by payments for operating activities, purchases of non-financial assets and acquisitions of assets under finance leases. Due to methodological and data source changes associated with the move to an accrual accounting framework, time series data that use measures derived under both cash and accrual accounting should be used with caution.

Consistent with the revised GFS treatment announced by the ABS (ABS Cat. No. 5501.0, released October 2002), the Commonwealth general government surplus measures in this Statement, from 1998-99 onwards, incorporate the interest component of superannuation related payments by the Commonwealth general government sector in respect of accumulated PNFC superannuation liabilities.

Net debt data are sourced from the ABS *1998 Public Sector Financial Assets and Liabilities* (ABS Cat. No. 5513.0), the ABS *1999-2000* and *2002-03 Government Finance Estimates* (ABS Cat. No. 5501.0) and Commonwealth Final Budget Outcomes. Net debt numbers from 2001-02 are taken from jurisdictions' 2002-03 mid-year reports and Commonwealth Treasury estimates.

Commonwealth budget aggregates, including net debt for 1999-2000 onwards, have been revised relative to the *2002-03 Mid-Year Economic and Fiscal Outlook* and the respective Final Budget Outcomes to incorporate changes associated with the market valuation of net debt. These changes are discussed in Statement 8.