

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

The Commonwealth and State governments' response to the global recession was timely and targeted, supporting the Australian economy through the economic downturn.

As a result of variations in expenditure and revenues, which are naturally associated with such an economic downturn, both the Commonwealth and States are forecasting fiscal and cash balance deficits for 2010-11.

Australia's relatively mild downturn, timely and substantial policy stimulus, and an increasingly positive outlook, are expected to lead to an improvement in the fiscal indicators of both levels of government over the forward estimates.

INTRODUCTION

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

It discusses trends in key fiscal indicators including the operating balance, fiscal balance, cash balance, gross fixed capital formation, balance sheet data (net debt, net financial worth and net worth), and net interest payments at the Commonwealth and state/local levels of government, and together at the consolidated level. These indicators are discussed in greater detail in Budget Paper No. 1, Statement 9.

The data in this part comes from 2009-10 mid-year financial reports with the exception of Victoria, the Australian Capital Territory and the Northern Territory, which are drawn from 2010-11 Budgets. As other States release their Budgets over the coming months, these trends may change.

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

OVERVIEW

Timely and targeted government responses have reduced the impact of the global financial crisis on the economy.

The Commonwealth Government implemented a number of economic stimulus measures which supported the economy in 2009-10, including by increasing the contribution of the public sector to domestic final demand. The States played a central role in delivering infrastructure projects funded by the stimulus, including through the Nation Building and Jobs Plan.

One of the dividends of keeping the economy growing through the global financial crisis has been the improvement in the Commonwealth's fiscal position. Compared with the forecasts presented in the *Mid-Year Economic and Fiscal Outlook 2009-10*, the Commonwealth Budget is now expected to return to surplus three years sooner, in 2012-13. This means that the profile for net debt is also now projected to be lower.

As at 11 May 2010, only three of the eight States and Territories had released their 2010-11 Budgets. Similar to the Commonwealth, these three States reported improved revenue estimates from those projected in their mid-year financial reports. For the remaining States, the most recent information is contained in their mid-year financial reports.

In aggregate, States are expected to deliver a net operating balance deficit in 2010-11. Over the forward estimates, States are expected to see an improvement in own-source revenue, leading to only a small expected deficit in 2012-13.

The States, in aggregate, are also forecasting fiscal deficits in 2010-11, reflecting expected operating deficits and higher levels of planned capital investment compared to previous years. State net debt is expected to rise from \$9.3 billion in 2009-10 to \$26.9 billion in 2010-11, associated with increased borrowing to fund infrastructure expenditure, and the impacts of the global financial crisis.

Box 5.1: Structure of the public sector

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

STATE GENERAL GOVERNMENT SECTOR NET OPERATING BALANCE

The net operating balance measures, in accrual terms, the gap between a State's recurrent expenses and revenue for a given period. This is the headline measure used by most States and provides an indication of the medium-term sustainability of the existing level of government services. The Commonwealth does not use net operating balance as a headline fiscal indicator.

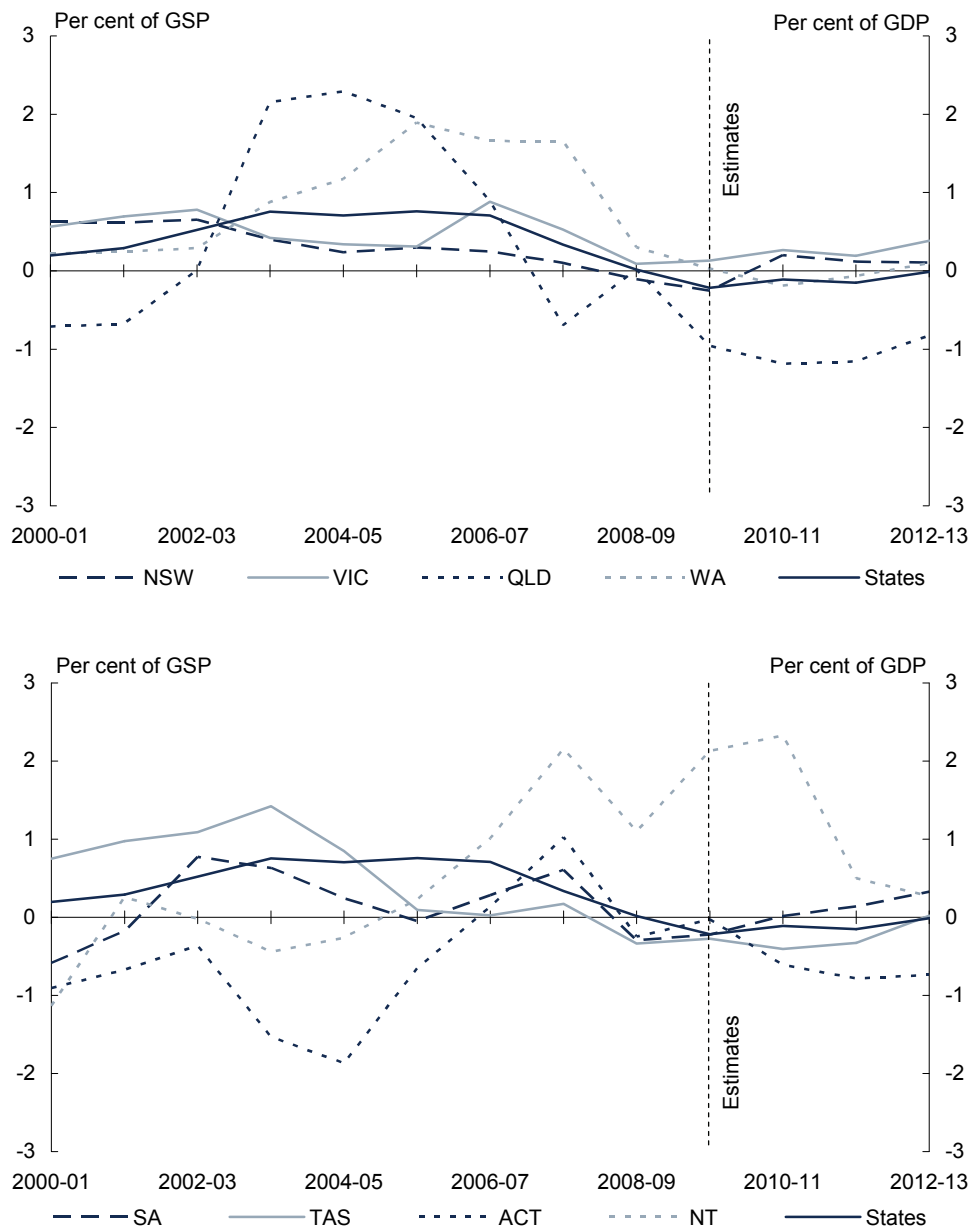
In the short term, the net operating balance is subject to cyclical movements and this has been demonstrated through the global recession. State economies slowed as a result of the global recession and the States, in aggregate, are expected to deliver a general government net operating balance deficit of \$2.8 billion (0.2 per cent of GDP) in 2009-10.

It is anticipated that most States will begin to see an improvement in their own-source revenues in the coming year. In 2010-11, the States, in aggregate, are expected to deliver a general government net operating balance deficit of \$1.6 billion (0.1 per cent of GDP). In aggregate, States' net operating balances are expected to improve over the forward estimates to a deficit of only \$210 million (0.01 per cent of GDP) in 2012-13, as the economy recovers.

States' estimates are based on 2009-10 mid-year financial reports, with the exception of Victoria, the Australian Capital Territory and the Northern Territory, and therefore do not reflect the continuing recovery from the global recession of the Australian

economy or particular state economies. It is likely that, following the release of the remaining state Budgets, an improvement in the aggregate state general government sector net operating balance position will occur, in the absence of major new spending initiatives. In particular, any shift in the positions of the larger States (New South Wales, Queensland, and Western Australia) could be expected to significantly alter the aggregate state net operating balance position.

Chart 5.1: State general government sector net operating balance^(a)



(a) States' net operating balances are expressed as a percentage of Gross State Product (GSP) (left-hand axis) and the aggregate state net operating balance is expressed as a percentage of Gross Domestic Product (GDP) (right-hand axis).

FISCAL BALANCE

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

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

General government sector

As shown in Chart 5.2, the consolidated general government sector fiscal balance is expected to be a deficit of 6.1 per cent of GDP in 2009-10 and 4.3 per cent of GDP in 2010-11.

The Commonwealth is expecting a fiscal balance deficit of 2.8 per cent of GDP in 2010-11. However as a result of the Government's fiscal strategy and a strengthening economy, the budget is now expected to return to surplus three years earlier than previously expected, in 2012-13.

The state/local general government sector fiscal balance is expected to be a deficit of 1.7 per cent of GDP in 2009-10 and 1.3 per cent of GDP in 2010-11. The forecast deficits reflect smaller operating surpluses and higher levels of planned capital investment over the forward estimates compared to previous years.

The fiscal balances of both the Commonwealth and state/local general government sectors are expected to improve over the forward estimates, as the economy continues to recover from the effects of the global recession and the fiscal stimulus is withdrawn. As a result of this improvement, the consolidated general government sector fiscal balance is expected to be a deficit of 0.5 per cent of GDP in 2012-13.

Public non-financial corporations sector

The consolidated PNFC sector fiscal balance is expected to be a deficit of 1.5 per cent of GDP in 2009-10 and 1.1 per cent of GDP in 2010-11. The increase in the consolidated PNFC sector deficit in recent years mainly reflects increased capital expenditure by PNFCs at the state/local level.

The Commonwealth's PNFC sector is small compared to that at the state/local level, where the majority of PNFCs are located. This reflects the role of state and local

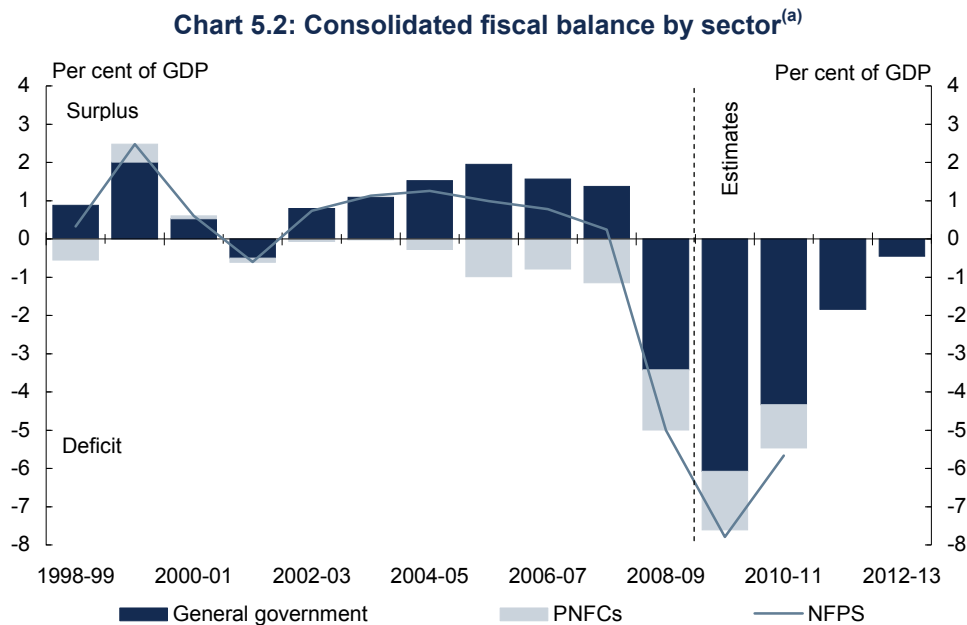
governments in the provision of essential services in areas such as electricity, gas, water and transport.

The Commonwealth PNFC sector fiscal balance is expected to be a deficit of 0.1 per cent of GDP in 2009-10 and 0.2 per cent of GDP in 2010-11.

Similarly, the state/local PNFC sector fiscal balance is expected to be a deficit of 1.4 per cent of GDP in 2009-10 and 0.9 per cent of GDP in 2010-11.

Non-financial public sector

As shown in Chart 5.2, fiscal balance deficits for both the general government and PNFC sectors result in the consolidated NFPS being in deficit of 7.8 per cent of GDP in 2009-10 and 5.7 per cent of GDP in 2010-11.



(a) Data for the PNFC sector (and therefore the NFPS) are not available beyond 2010-11.

CASH BALANCE

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

A cash surplus reflects the extent to which cash is available to a government to increase financial assets or decrease liabilities, assuming no revaluations or other

changes occur. A cash deficit indicates a government's need to call on financial markets to meet its budget obligations, either through running down its financial assets or by borrowing.

Chart 5.3 shows consolidated cash balance by sector and Chart 5.4 shows cash balance by sector and level of government.

General government sector

As shown in Chart 5.3, the consolidated general government sector cash balance is expected to be a deficit of 6.0 per cent of GDP in 2009-10 and 4.2 per cent of GDP in 2010-11. This position is expected to improve over the forward estimates to a cash deficit of 0.3 per cent of GDP in 2012-13.

The Commonwealth general government sector cash balance is expected to be a deficit of 2.9 per cent of GDP in 2010-11. A faster recovery in taxation receipts associated with the stronger economic outlook and the Government's fiscal strategy will allow the budget to return to surplus in 2012-13.

The state/local cash position is expected to be a deficit of 1.4 per cent of GDP in 2009-10 and 1.1 per cent of GDP in 2010-11, improving to a deficit of 0.3 per cent of GDP in 2012-13.

Public non-financial corporations sector

The consolidated PNFC sector has an estimated cash deficit of 1.7 per cent of GDP in 2009-10, improving slightly to a deficit of 1.4 per cent of GDP in 2010-11.

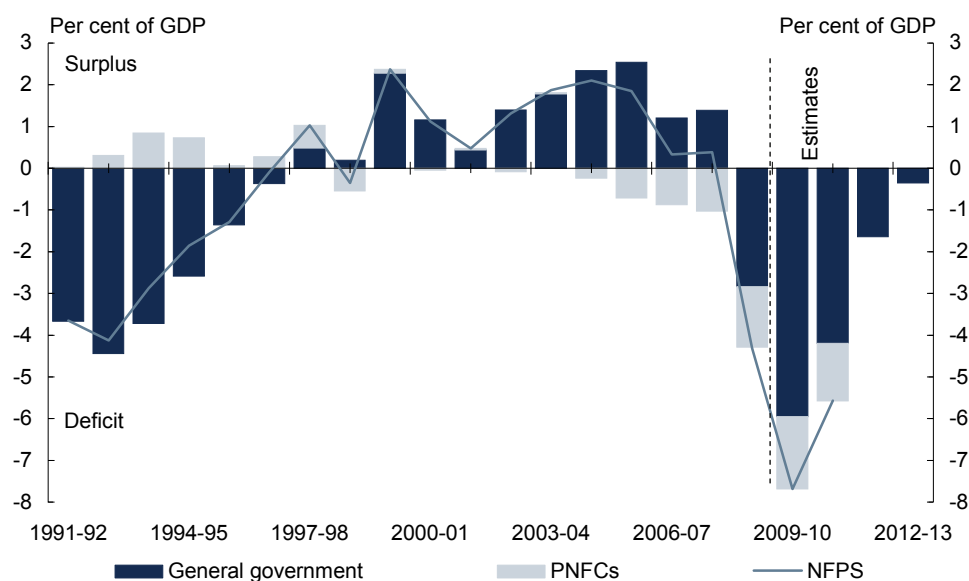
The Commonwealth PNFC sector is expected to be a deficit of 0.1 per cent of GDP in 2009-10 and 0.2 per cent of GDP in 2010-11.

Cash deficits are expected at the state/local level, of 1.6 per cent of GDP in 2009-10 and 1.2 per cent of GDP in 2010-11.

Non-financial public sector

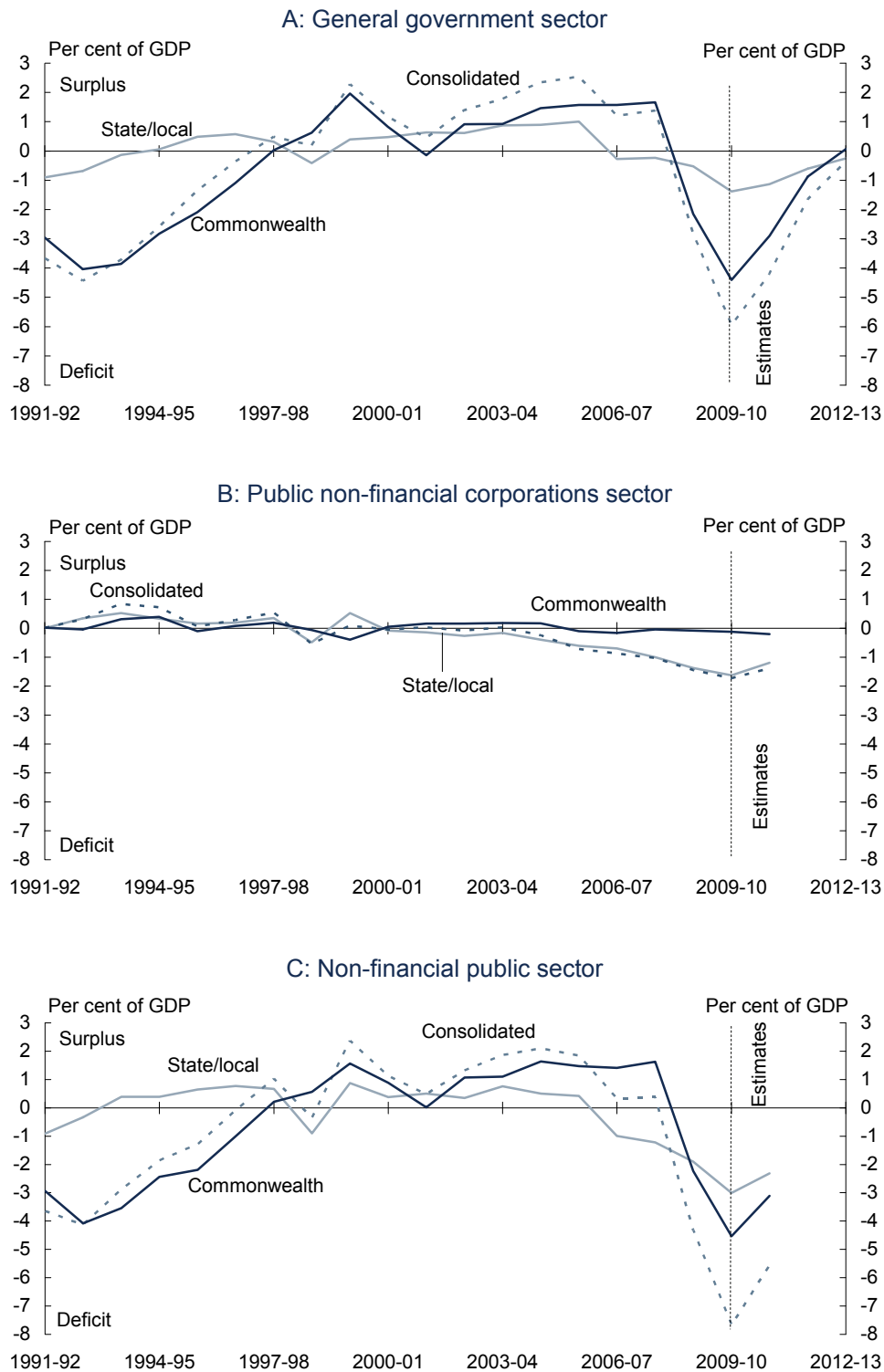
As shown in Chart 5.3, cash deficits for both the general government and PNFC sectors result in the consolidated NFPS being a deficit of 7.7 per cent of GDP in 2009-10 and 5.6 per cent of GDP in 2010-11.

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



(a) Data for the PNFC sector (and therefore the NFPS) are not available beyond 2010-11.

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



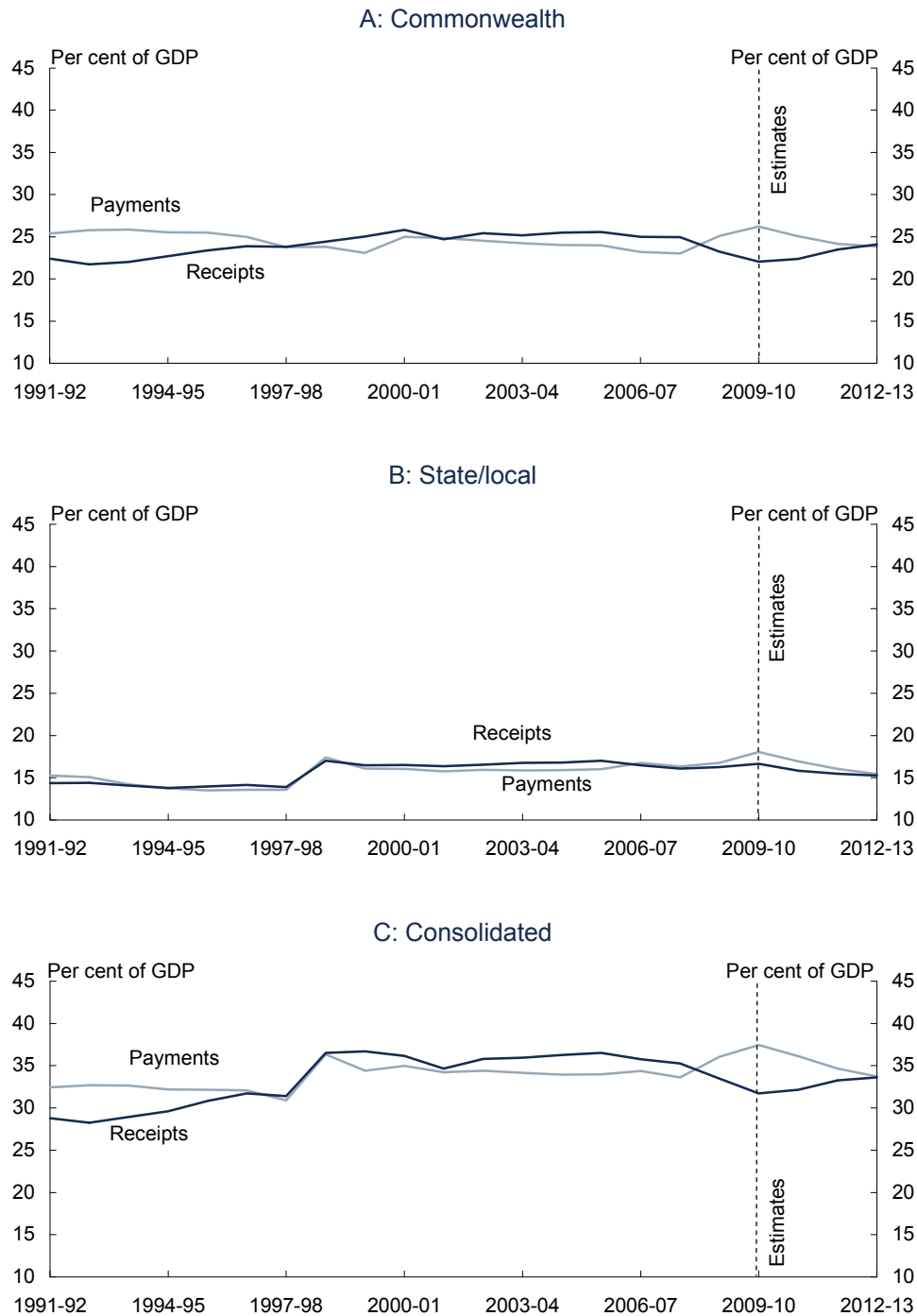
(a) Data for the PNFC sector (and therefore the NFPS) are not available beyond 2010-11.

Receipts and payments

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

Estimates of Commonwealth receipts and payments in Panel A of Chart 5.5 are inclusive of GST receipts and the associated GST payments to the States. The temporary increase in payments from 2008-09 reflects the increased payments to the States under the Nation Building and Jobs Plan and the \$15.2 billion COAG package. Going forward, it is expected that receipts will grow more quickly than payments as improvements to the economic outlook have resulted in higher-than-expected estimates of tax receipts over the forward estimates.

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



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

INFRASTRUCTURE INVESTMENT

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

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

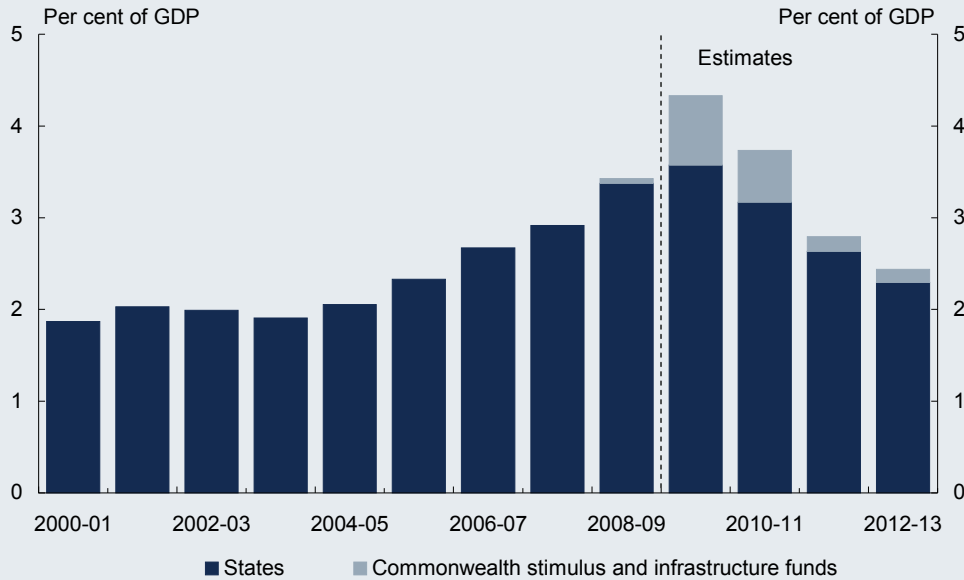
Box 5.2: Infrastructure and Commonwealth economic stimulus

The States have a central role in delivering infrastructure projects funded through stimulus packages announced by the Commonwealth and funding from Commonwealth infrastructure funds. Specifically, States are delivering infrastructure through:

- the Nation Building and Jobs Plan;
- the Nation Building Plan for the Future;
- Health and Hospitals Fund projects; and
- Education Investment Fund projects.

Chart A shows the estimated contribution to gross fixed capital formation by aggregate state NFPS of Commonwealth stimulus spending and funding from Commonwealth infrastructure funds. The chart shows Commonwealth spending on infrastructure is complementing historically high infrastructure spending by the States in 2009-10 and 2010-11.

State investment in infrastructure is expected to return to more normal levels after 2010-11, reflecting the withdrawal of Commonwealth stimulus funding and investment in States' own infrastructure projects returning to levels more consistent with those recorded prior to 2008-09.

Box 5.2: Infrastructure and Commonwealth economic stimulus (continued)**Chart A: Commonwealth stimulus and infrastructure fund contribution to aggregate state gross fixed capital formation**

The estimates in Chart A are based on actual payments to the States, with the exception of the Nation Building and Jobs Plan which is based on expected spending of Commonwealth funds by the States. Table A below sets out the expected payments to the States under these Commonwealth programs.

Table A: Commonwealth stimulus and infrastructure fund contribution to aggregate state gross fixed capital formation

\$million	2009-10	2010-11	2011-12	2012-13	2013-14
Nation Building and Jobs Plan					
Building the Education Revolution(a)	6284.4	3690.6	340.6	0.0	0.0
Social housing	3768.2	1294.0	162.0	0.0	0.0
Black spot projects(b)	60.0	0.0	0.0	0.0	0.0
Boom gates for rail crossings	66.9	0.0	0.0	0.0	0.0
National Building Plan for the Future	443.0	869.4	1622.7	2331.6	1204.0
Health and Hospitals Fund	256.0	544.0	708.6	443.7	99.3
Education Infrastructure Fund	28.7	9.3	0.0	0.0	0.0
Total	10,907.1	6,407.3	2,833.9	2,775.3	1,303.3

(a) Excluding non-government schools.

(b) Additional funding under the Nation Building and Jobs Plan.

NET DEBT

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

Consolidated NFPS net debt has increased in recent years owing to increased borrowing at both the Commonwealth and state/local levels of government as a result of the global recession. Consolidated NFPS net debt is expected to be 10.2 per cent of GDP in 2009-10 and 14.4 per cent of GDP in 2010-11.

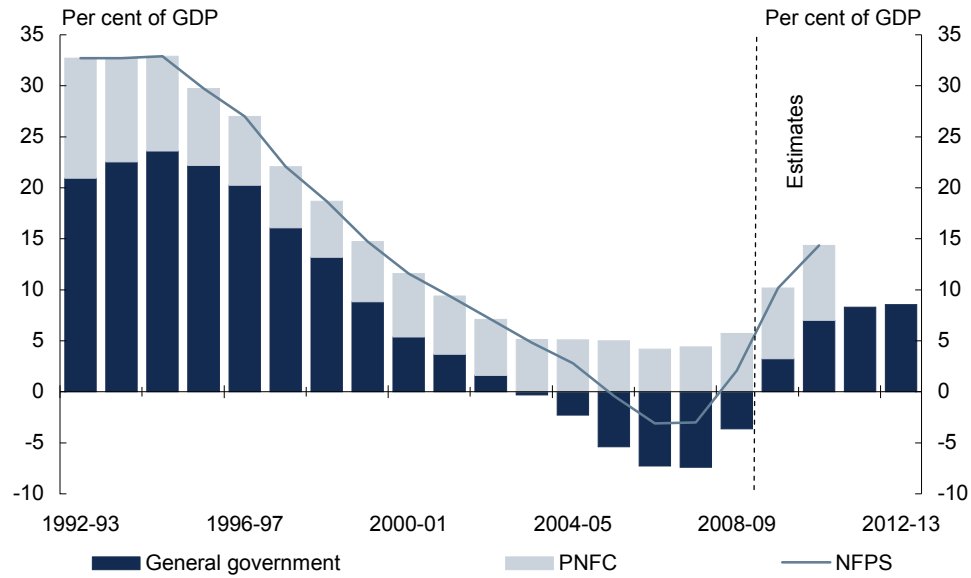
The Commonwealth general government sector is expecting positive net debt in 2009-10 (3.2 per cent of GDP) and in 2010-11 (5.6 per cent of GDP). The earlier return of the Budget to surplus will be reflected in a lower net debt profile with net debt expected to peak at 6.1 per cent of GDP in 2011-12, compared with 9.6 per cent in 2013-14 as previously projected.

Individually, the majority of States are expecting positive net debt in 2010-11 and over the forward estimates. Aggregate state/local NFPS net debt is expected to be 7.1 per cent of GDP in 2009-10 and 8.7 per cent of GDP in 2010-11.

Over the forward estimates, state/local net debt is expected to remain positive but decline as state economies recover from the global recession.

Chart 5.6 shows consolidated net debt by sector and Chart 5.7 shows net debt by sector and level of government.

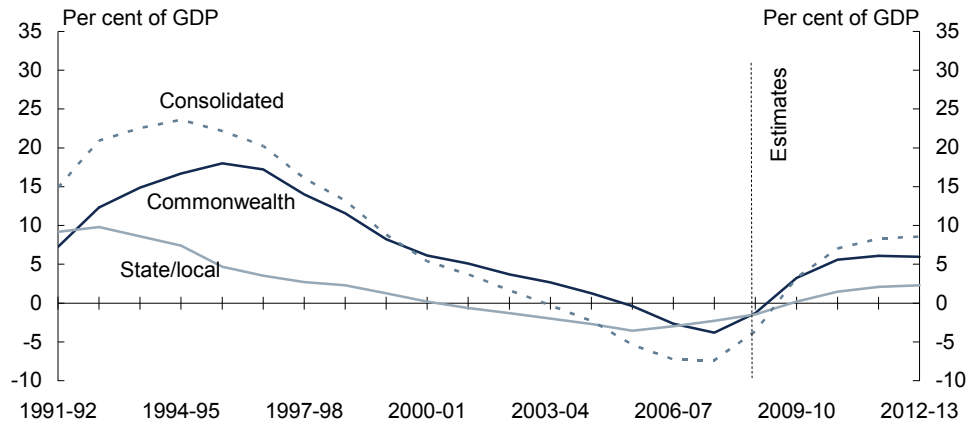
**Chart 5.6: Consolidated net debt by sector
(as at end of financial year)^(a)**



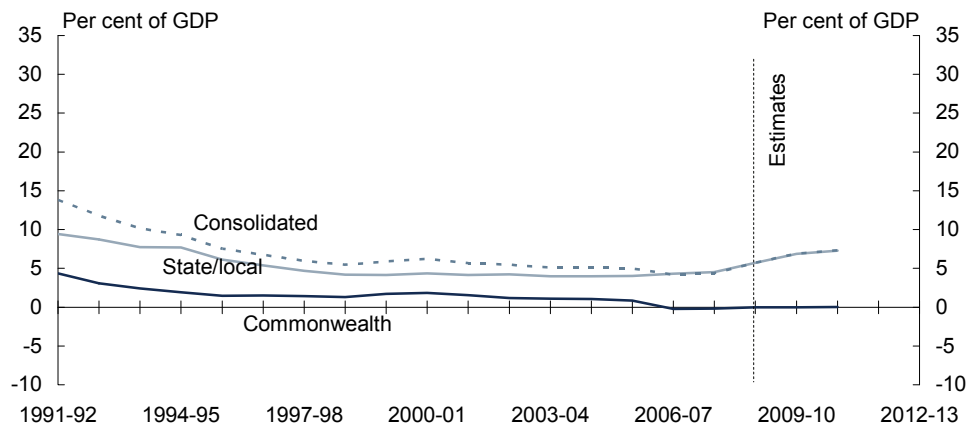
(a) Data for the PNFC sector (and therefore the NFPS) are not available beyond 2010-11.

**Chart 5.7: Net debt by sector and level of government
(as at end of financial year)^(a)**

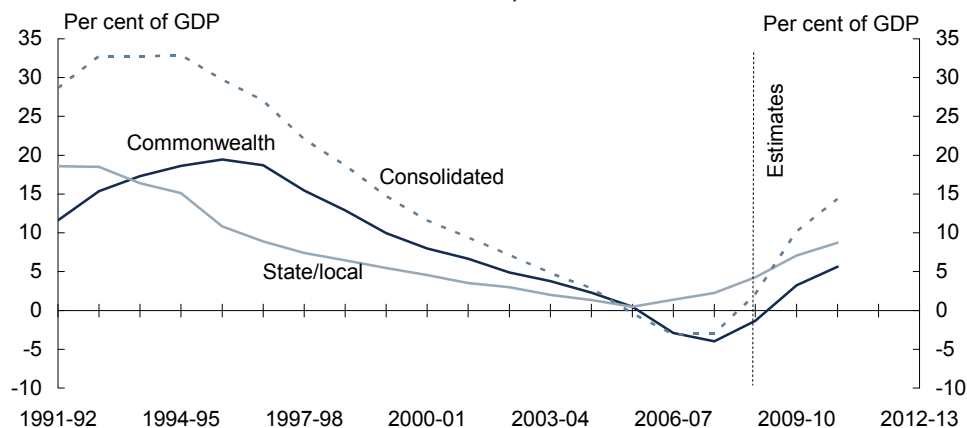
A: General government sector



B: Public non-financial corporations sector



C: Non-financial public sector



(a) Data for the PNFC sector (and therefore the NFPS) are not available beyond 2010-11.

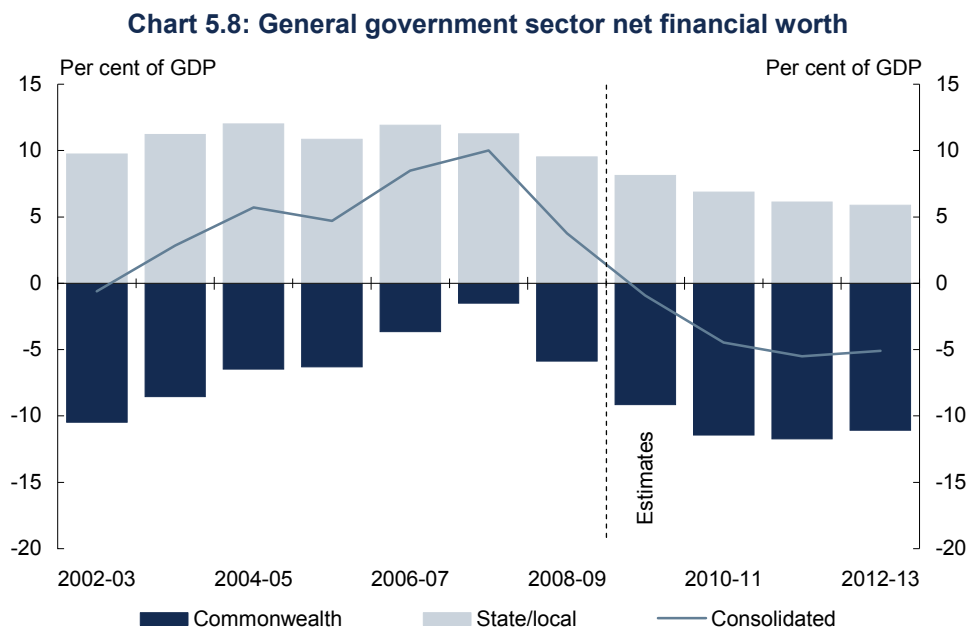
NET FINANCIAL WORTH

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

At the consolidated level, net financial worth is expected to decline in 2009-10 and 2010-11, remaining relatively constant over the forward estimates.

Following the trend in net debt, Commonwealth general government sector net financial worth has fallen since 2007-08, as a result of the global recession. Commonwealth net financial worth is expected to remain relatively constant from 2010-11 and over the forward estimates.

Net financial worth in the state/local general government sector is expected to fall, as a per cent of GDP, over the forward estimates from a peak in 2006-07.



NET WORTH

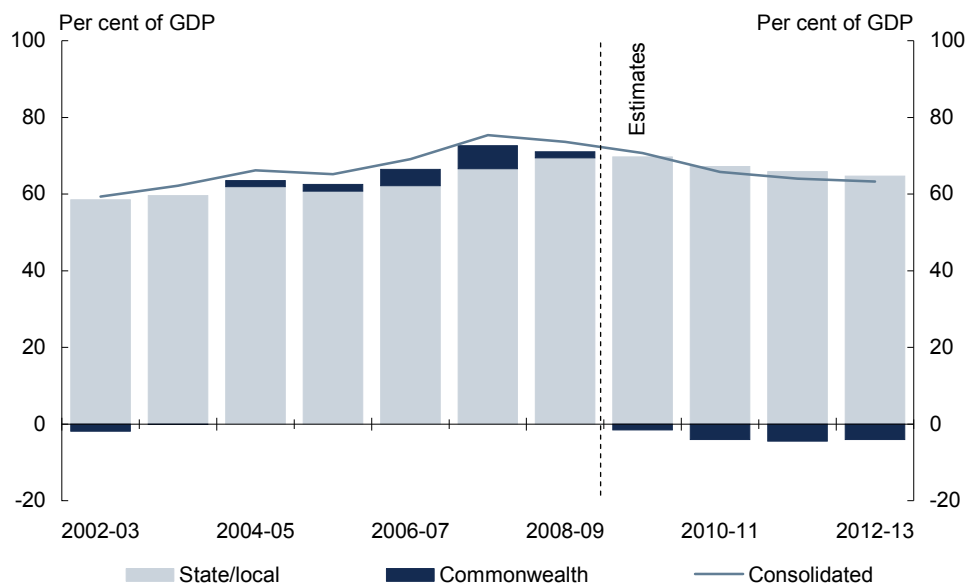
Net worth is the broadest measure of the balance between assets and liabilities as it includes all assets less all liabilities.

At the consolidated level, net worth is estimated to fall in 2009-10 and 2010-11, and continue to decline over the forward estimates.

The Commonwealth is expecting negative net worth in 2009-10 and 2010-11, and over the forward estimates. This primarily reflects the significant funding provided by the Commonwealth to the States and to local government for infrastructure investment, with the resultant assets recorded in the balance sheets of the state and local governments.

At the state/local level, net worth is expected to increase in nominal terms in 2009-10 and 2010-11, and over the forward estimates. As a proportion of GDP, net worth is expected to be 69.7 per cent of GDP in 2009-10 and 67.2 per cent of GDP in 2010-11.

Chart 5.9: General government sector net worth



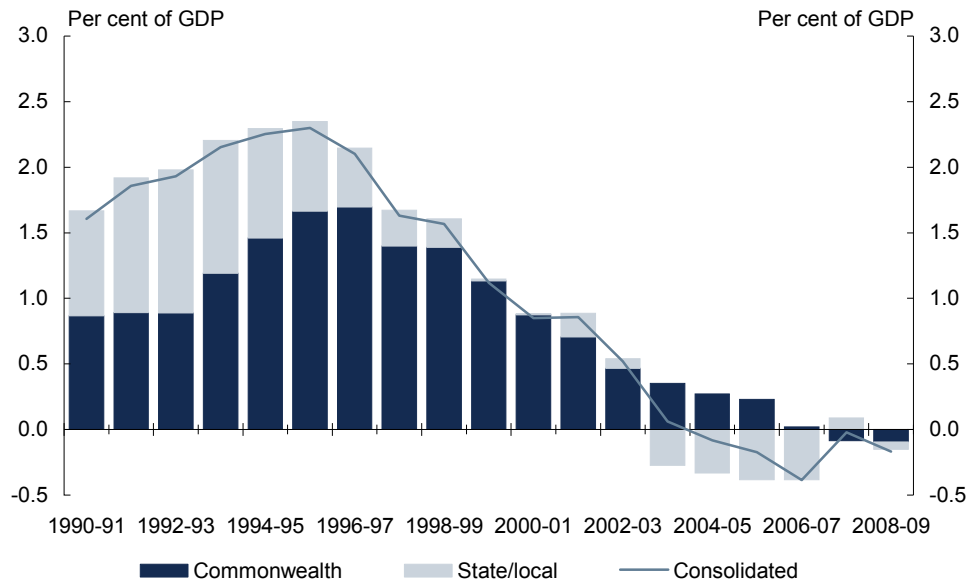
NET INTEREST PAYMENTS

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

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

From 2009-10, general government net interest payments are expected to rise, reflecting increased net debt as a result of the global recession.

Chart 5.10: General government sector net interest payments



AUSTRALIAN GOVERNMENT GUARANTEE OF STATE AND TERRITORY BORROWING

In response to the impact of the global financial crisis on the ability of States to access financial markets, the Commonwealth established the Guarantee of State and Territory Borrowing (the Guarantee) which formally commenced on 24 July 2009.

With the recovery of financial markets on 7 February 2010, the Commonwealth announced that the Guarantee would close to new issuances of guaranteed liabilities on 31 December 2010. This transition period will allow States which have utilised the Guarantee to create new unguaranteed bond lines across a range of maturities and establish liquidity in the new unguaranteed bond lines. All State governments will continue to have access to the Guarantee until 31 December 2010.

Box 5.3: Impact of the Australian Government Guarantee of State and Territory Borrowing

The announcement of the Guarantee led to a sharp improvement in the pricing of state bonds, relative to Commonwealth bonds, and restored demand for state government bonds.

These benefits were experienced by all States, regardless of whether they opted to make use of the Guarantee.

Chart A shows the spread between the yields on unguaranteed long-term Victorian semi-government bonds and Commonwealth Government Securities between October 2007 and April 2010. A marked decline in this spread occurred after the announcement of the Guarantee. This spread has continued to decline after the announcement that the Guarantee would close to new issuances of guaranteed liabilities.

Chart A: Basis point margin between unguaranteed long-term Victorian semi-government bonds and long-term Commonwealth Government Securities



To date, only New South Wales and Queensland have applied to use the Guarantee. A total of 20 eligibility certificates have been issued under the Guarantee covering domestic and foreign Australian dollar-denominated bonds as at 31 March 2010. New South Wales has received eligibility certificates for nine bond lines and Queensland has received eligibility certificates for 11 bond lines.

As at 31 March 2010, the Guarantee covered bonds with an outstanding face value of \$72.6 billion. New South Wales had bonds with a face value of \$23.6 billion and Queensland had bonds with a face value of \$49.0 billion covered by the Guarantee.

Securities covered by the Guarantee will continue to be guaranteed until they either mature or are bought back and extinguished. Guarantee fees continue to be payable on the value of outstanding securities.

States utilising the Guarantee are required to pay a monthly fee on the amounts guaranteed. The fee depends on the credit rating of the State government and whether the amount guaranteed is existing stock or new issuance. The same fee applies regardless of the terms of the security. The fee structure is set out in Table 5.1 below.

Table 5.1: Australian Government Guarantee of State and Territory Borrowing fee structure

Credit rating	Fee (existing stock)	Fee (new stock)
AAA/Aaa	15 basis points	30 basis points
AA+/Aa1	20 basis points	35 basis points

Table 5.2 sets out the fee revenue that the Commonwealth is expecting to receive from New South Wales and Queensland governments for utilising the Guarantee.

Table 5.2: Australian Government Guarantee of State and Territory Borrowing fee revenue

	2009-10	2010-11	2011-12	2012-13	2013-14
Total fee revenue (\$m)	104.3	141.2	124.3	116.5	97.6

THE AUSTRALIAN LOAN COUNCIL

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

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

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

Since 2009-10, the role of the Loan Council has expanded to include reporting on the macroeconomic implications of proposed expenditure from the Building Australia Fund, the Health and Hospitals Fund and the Education Investment Fund.

The Loan Council also provides an additional level of scrutiny regarding the use of the Guarantee.

Outcome of the 2010 Loan Council meeting

The Loan Council met on 26 March 2010 to consider Loan Council Allocation nominations for 2010-11. The Loan Council approved each jurisdiction's nominated allocation. In aggregate, the nominations represent a deficit of \$84.8 billion (Table 5.3). The States nominated a deficit of \$33.8 billion and the Commonwealth nominated a deficit of around \$51.0 billion.

The Commonwealth's 2010-11 Loan Council Allocation budget update is available in Budget Paper No. 1, Statement 9, Appendix B.

State 2010-11 Loan Council Allocation budget updates will be available in the States' 2010-11 Budgets.

The Loan Council considered the macroeconomic implications of infrastructure spending and found that the Government's fiscal stimulus packages played a key role in supporting the economy in 2009-10. In 2010-11, the planned staged withdrawal of fiscal stimulus will detract from economic growth as an expected broad-based recovery in private demand takes hold. Given the size and likely timing profile of any spending on new projects, the Loan Council determined that the drawdown of the remaining balances in the Nation Building Funds is not likely to have a material impact on aggregate demand and on the level of spare capacity in the economy.

The Loan Council determined that the Guarantee was being used to support state infrastructure investment and was not being used inappropriately to finance lending to non-government entities or to purchase other financial assets.

Table 5.3: Loan Council Allocation nominations for 2010-11^(a)

	NSW	VIC	QLD	WA	SA	TAS	ACT	NT	Cwth	Total
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Nominated 2010-11 LCAs										
General government sector cash surplus(-)/deficit(+)	1,994	1,529	8,221	1,896	1,188	203	251	157	43,864	
PNFC sector cash surplus(-)/deficit(+)	4,047	3,162	4,745	2,106	-202	243	327	227	134	
Non-financial public sector cash surplus(-)/deficit(+)(b)	5,926	4,712	12,966	4,002	986	446	578	384	43,998	
Acquisitions under finance leases and similar arrangements	750	0	0	3	120	0	0	0	31	
<i>equals</i> ABS GFS cash surplus(-)/deficit(+)	6,676	4,712	12,966	4,005	1,106	446	578	384	44,029	
<i>minus</i> Net cash flows from investments in financial assets for policy purposes(c)	-38	-15	-18	0	-2	-80	-10	0	-7,637	
<i>plus</i> Memorandum items(d)	511	688	1,981	157	-587	34	-11	0	-711	
Loan Council Allocations	7,225	5,415	14,965	4,162	517	560	577	384	50,955	84,760
2010-11 tolerance limit(e)	1,519	945	977	600	315	139	86	98	6,065	

(a) Loan Council Allocation (LCA) nominations for 2010-11 reflect best estimates of cash surpluses/deficits. Nominations have been provided on the basis of policies announced up to and included in jurisdictions' mid-year financial reports and the Commonwealth's *Mid-Year Economic and Fiscal Outlook 2009-10*. Each jurisdiction will publish an updated LCA estimate as part of its budget documentation.

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

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

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

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

