PART 4: DEVELOPMENTS IN THE CONSOLIDATED NON-FINANCIAL PUBLIC SECTOR

The consolidated public sector fiscal position is expected to improve over the forward estimates, although both the consolidated fiscal and cash balances are expected to remain in deficit throughout this period.

The Commonwealth general government fiscal balance is expected to be in surplus by 2015-16. In aggregate, the States are expecting their net operating position to return to surplus by 2014-15, although their fiscal balance will remain in deficit, albeit narrowing. At both levels of Government, expenses as a proportion of GDP will moderate over the forward estimates.

The varied pace at which different States are anticipating a return to surplus reflects the role that State-specific factors are playing in their relative fiscal positions. Some States are anticipating surpluses sooner than others, with Victoria, Western Australia and Tasmania expecting operating surpluses in each of the forecast years.

INTRODUCTION

This Part provides a perspective on the financial position of all levels of government in Australia.

It discusses trends in key fiscal indicators including the net operating balance, fiscal balance, cash balance, net debt and net interest payments, at the Commonwealth level, State and local level, and the consolidated level.

The Part focuses on trends in the non-financial public sector (NFPS) which 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 on the fiscal indicators and the institutional structure of the public sectors see Budget Paper No. 1, Statement 9.

State estimates in this Part come from their most recent publicly available financial reports. Victoria's are based on their 2013-14 Budget, while the remaining jurisdictions are drawn from their mid-year financial reports. Aggregate State data are only available to 2015-16, so references to the forward estimates in this Part relate to the period 2013-14 to 2015-16.

Additional data tables can be found in Appendix C.

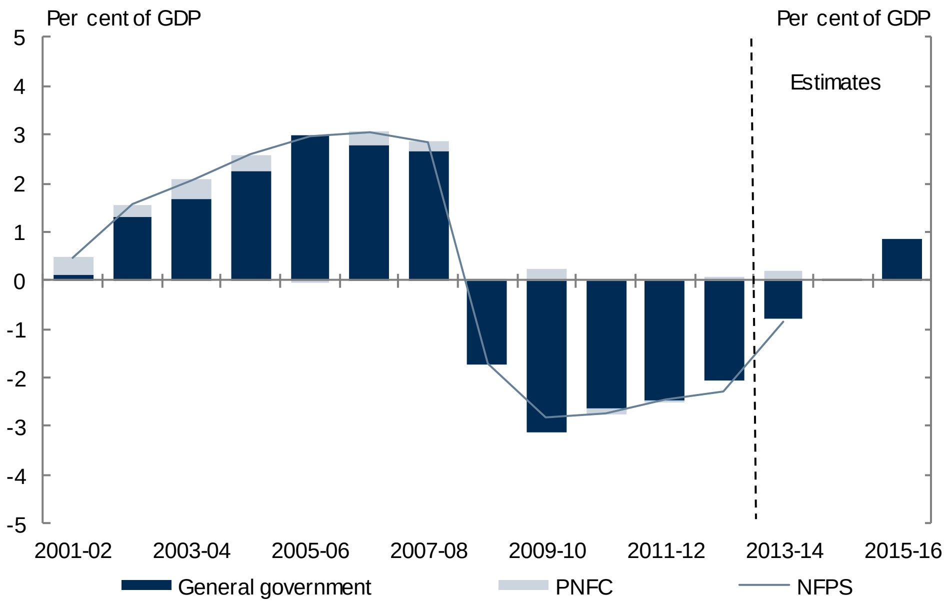
NET OPERATING BALANCE

The net operating balance measures in accrual terms the gap between recurrent expenses and revenue for a given period. This is the headline budget measure used by most States to provide 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 aggregate, the States are expecting the general government sector to record a slim net operating deficit in 2013-14 (-0.1 per cent of GDP), improving to a surplus of 0.5 per cent of GDP in 2015-16.

Victoria, Western Australia and Tasmania are expecting surpluses in 2013-14 and each of their forecast years. The ACT is expecting deficits (although narrowing as a proportion of GDP) in each year. The remaining jurisdictions are expecting deficits in 2013-14 but surpluses by 2015-16 at the latest.

Chart 4.1: Consolidated net operating balance by sector[(a)]



(a) Data for the PNFC sector (and therefore NFPS) are not available beyond 2013-14.

In aggregate, on average across the forecast period, the States are expecting revenue as a proportion of GDP to be 0.7 percentage points below the pre-GFC 10 year average. Both tax and non-tax revenues account for this. The return to surplus reflects a moderation in State expenses as a proportion of GDP.

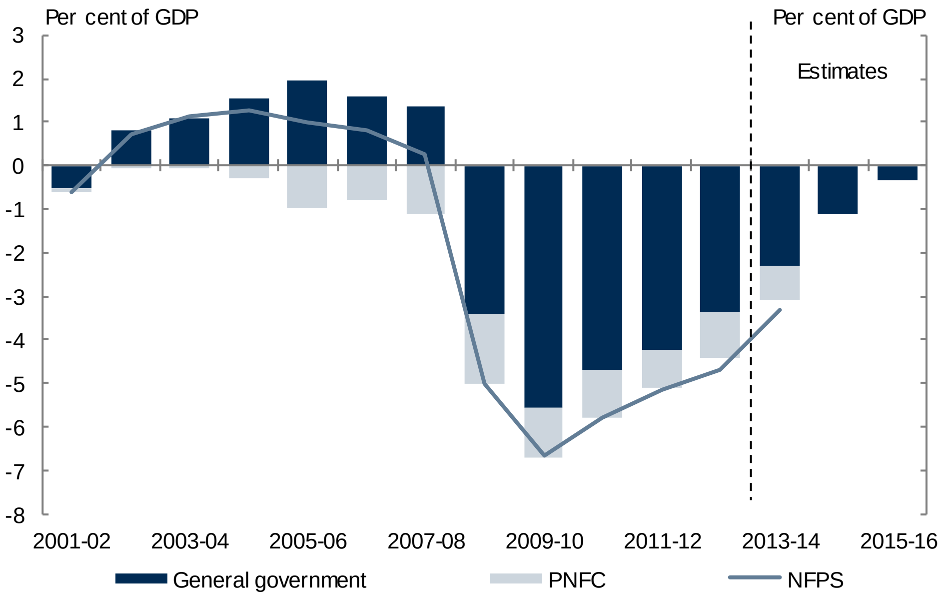
As shown in Chart 4.1, the consolidated general government sector is expected to record a net operating deficit of 0.8 per cent of GDP in 2013-14, but improve to a surplus of 0.8 per cent of GDP in 2015-16.

Fiscal and cash balances

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.

Chart 4.2: Consolidated fiscal balance by sector[(a)]



(a) Data for the PNFC sector (and therefore the NFPS) are not available beyond 2013-14.

The fiscal balance of the Commonwealth general government sector is expected to improve over the forward estimates and return to surplus in 2015-16.

Aggregate State net capital investment is forecast to decline from 0.8 per cent of GDP in 2013-14 to a low of 0.5 per cent of GDP in 2014-15. Despite this decline and improvements in forecast general government State net operating balances over the forward estimates, the aggregate State fiscal balance is expected to remain in deficit across the period.

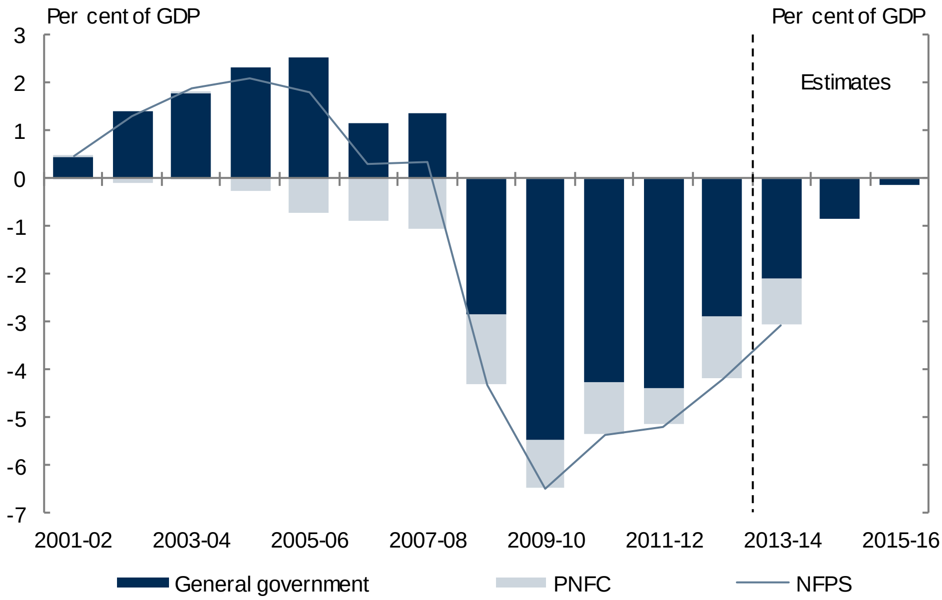
At the consolidated level, the general government sector fiscal balance is expected to remain in deficit across the forward estimates, although the deficit is expected to narrow from 2.3 per cent of GDP in 2013-14 to 0.3 per cent of GDP by 2015-16. A fiscal deficit of 0.8 per cent of GDP is expected in the PNFC sector for 2013-14, leading to an NFPS deficit of 3.3 per cent of GDP in 2013-14.

The cash balance is the equivalent of a fiscal balance measured on a non-accrual basis, that is, capturing payments and receipts as they occur. It therefore reflects the extent to which cash is available to a government.

The same trends as discussed above in relation to the fiscal balance are reflected in the cash balance at both the Commonwealth and State levels.

As shown in Chart 4.3, the consolidated general government sector cash balance is expected to be a deficit of 2.1 per cent of GDP in 2013-14, before improving to a deficit of 0.1 per cent of GDP in 2015-16. A cash deficit of 1.0 per cent of GDP is also expected in the PNFC sector in 2013-14, leading to an NFPS deficit of 3.1 per cent of GDP in 2013-14.

Chart 4.3: Consolidated cash balance by sector[(a)]



(a) Data for the PNFC sector (and therefore the NFPS) are not available beyond 2013-14.

NET DEBT

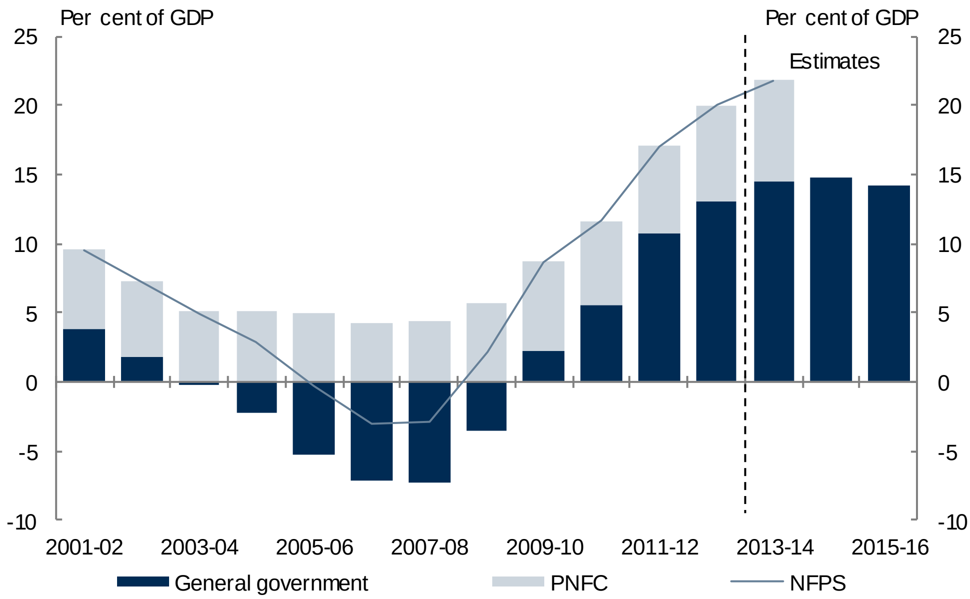
Net debt is the sum of selected financial liabilities (deposits held, advances received, government securities, loans and other borrowing) less the sum of selected financial assets (cash and deposits, advances paid, investments, loans and placements). Net debt does not include superannuation related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

Consolidated general government sector net debt is expected to peak at 14.9 per cent of GDP in 2014-15.

General government sector net debt as a proportion of GDP for the Commonwealth is expected to peak at 11.4 per cent in 2014-15. State net debt as a proportion of GDP is also expected to peak in 2014-15, before declining marginally in 2015-16, reflecting the faster rate at which GDP is growing relative to growth in aggregate State net debt in that year.

Commonwealth net debt is expected to continue to make up the bulk of consolidated net debt.

Chart 4.4: 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 2013-14.

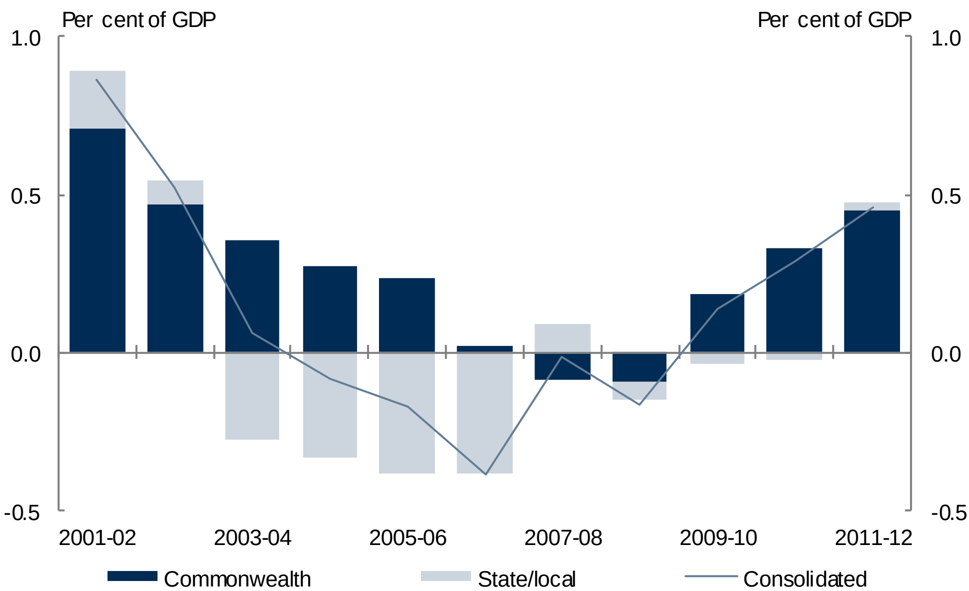
NET INTEREST PAYMENTS

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

Consolidated general government sector net interest payments reached a low in 2006-07, as the Commonwealth and State/local general government sectors recorded sustained budget surpluses, which were used, in part, to pay down debt.

Budget deficits and rising net debt associated with the global slowdown have caused net interest payments to rise. In 2011-12, consolidated general government sector net interest payments rose by 0.2 percentage points of GDP.

Chart 4.5: General government sector net interest payments



THE AUSTRALIAN LOAN COUNCIL

The Australian Loan Council (Loan Council) is a Commonwealth-State standing council that coordinates public sector borrowing. It 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 around March or April 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 included reporting on the macroeconomic implications of proposed expenditure from the Building Australia Fund, the Health and Hospitals Fund and the Education Investment Fund.

Outcome of the 2013 Loan Council meeting

The Loan Council met on 3 April 2013 to consider Loan Council Allocation nominations for 2013-14. The Loan Council approved each jurisdiction's nominated allocation. In aggregate, the nominations represent a deficit of $38.8 billion (Table 4.1). The States nominated a deficit of $28.5 billion and the Commonwealth nominated a deficit of $10.3 billion.

The Loan Council considered the macroeconomic implications of infrastructure spending from the three nation building funds. 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 funds is not likely to have a material impact on the economy.

In addition, given that the withdrawal of fiscal stimulus is now complete, the main objective of reporting on macroeconomic implications of infrastructure spending has now passed. In light of this, Loan Council members agreed that this year's report be the final report that is presented to the Loan Council.

Developments since the 2013 Loan Council meeting

As part of the Loan Council arrangements, all jurisdictions are required to update their Loan Council Allocation to reflect their Budget and to provide an explanation to the Loan Council if they are likely to exceed the tolerance limit.

2013-14 Loan Council Allocation budget updates will be available in the States' 2013-14 Budgets. Since the Loan Council meeting on 3 April 2013, Victoria has released its 2013-14 Budget.

The Commonwealth's 2013-14 Loan Council Allocation budget update is available in Budget Paper No. 1, Statement 9, Appendix B.

Table 4.1: Loan Council Allocation nominations for 2013-14[(a)]

	NSW	VIC	QLD	WA	SA	TAS	ACT	NT	C'wlth	Total
	$m	$m	$m	$m	$m	$m	$m	$m	$m	$m
Nominated 2013-14 LCAs										
General government sector cash surplus(-)/deficit(+)	3,400	1,631	4,368	2,194	1,597	-103	356	250	-4,835	
PNFC sector cash surplus(-)/deficit(+)	4,056	2,228	1,747	1,265	11	157	46	61	2,884	
Non-financial public sector cash surplus(-)/deficit(+)(b)	7,458	3,856	6,114	3,459	1,607	54	402	311	-1,951	
plus Acquisitions under finance leases and similar arrangements	929	0	159	682	0	0	0	521	470	
equals ABS GFS cash surplus(-)/deficit(+)	8,386	3,856	6,274	4,141	1,607	54	402	832	-1,481	
minus Net cash flows from investments in financial assets for policy purposes(c)	-37	-124	0	0	11	-8	2	-2	-12,732	
plus Memorandum items(d)	1,687	605	1,382	-451	-463	26	27	0	-985	
Loan Council Allocations	**10,110**	**4,585**	**7,656**	**3,690**	**1,133**	**88**	**427**	**834**	**10,265**	**38,789**
2013-14 tolerance limit(e)	1,579	1,099	1,124	868	330	185	98	118	7,982	

(a) Loan Council Allocation (LCA) nominations for 2013-14 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. Each jurisdiction will publish an updated LCA estimate as part of its budget documentation.
(b) The sum of the general government and PNFC sector balances may not equal the non-financial public sector (NFPS) balance 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 two per cent of NFPS cash receipts from operating activities in each jurisdiction.