Fiscal Developments in the States

Most States are expected to record small general government fiscal deficits in 2004-05, partly reflecting the expected downturn in revenue from property-related taxes,[1] and higher anticipated expenses.[2] However, by 2006-07, all States are forecasting an increase in their fiscal balances, with most expected to achieve small surpluses.

Most States are set to continue the trend of reducing non-financial public sector net debt as a per cent of gross state product (GSP). An increasing number of States are forecasting to be in a net financial asset position in their general government sector by 2006-07. This trend is primarily due to States implementing medium term fiscal strategies and asset sales.

State general government sector fiscal balance

The aggregate state fiscal balance for the general government sector is estimated to be -0.2 per cent of GDP, lower than in 2003-04. Only South Australia and Tasmania expect fiscal surpluses as a per cent of GSP in 2004-05 (Chart 4).

The fiscal balance measures, in accrual terms, the gap between government savings plus net capital transfers, and investment in non-financial assets. A fiscal surplus indicates that a government is lending to other sectors. A fiscal deficit indicates that a government is borrowing.

The aggregate state fiscal balance is expected to rise over the forward estimates period, reaching a small surplus in 2006-07. Looking forward, most States are expecting to achieve fiscal surpluses by 2006-07.

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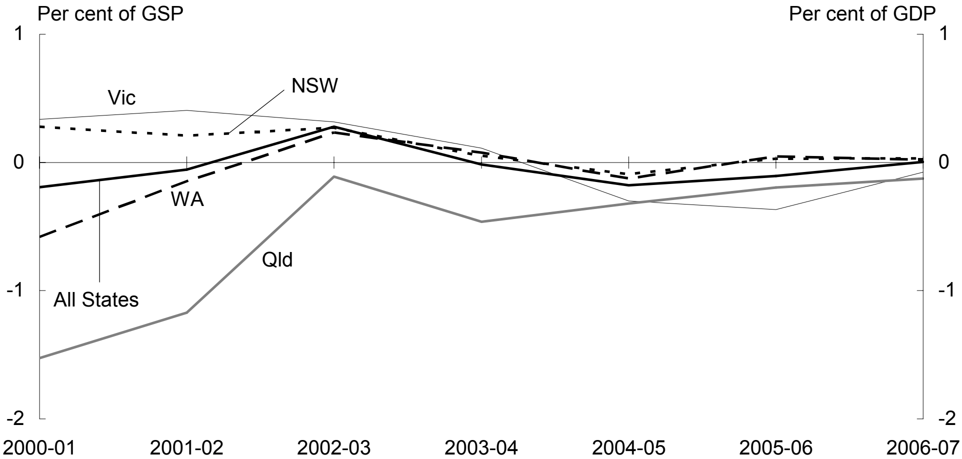
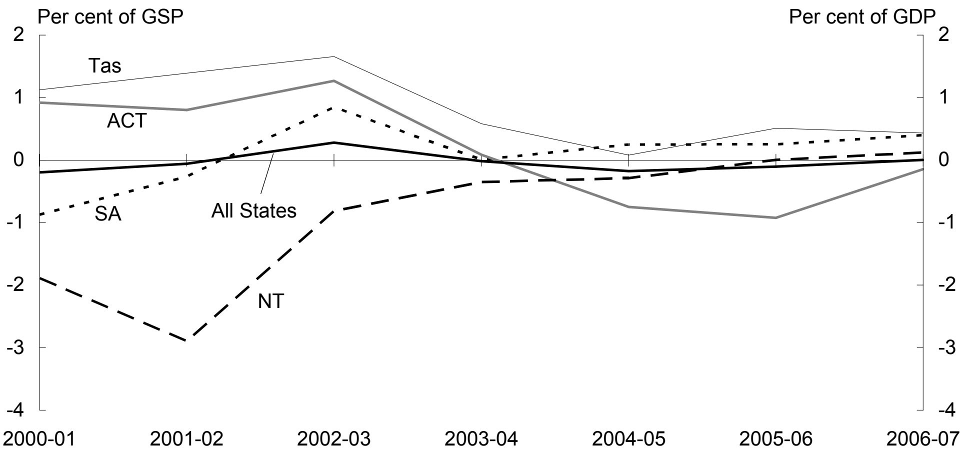
1 See, for example, NSW *2003-04 Half-Yearly Review*, pp1, 6-7 and Victorian 2004-05 Budget Paper No.2 *Strategy and Outlook* , p42.

2 See, for example, NSW *2003-04 Half-Yearly Review*, p9, SA 2003-04 *Mid-Year Budget Review* and Victorian 2004-05 Budget Paper No.2 *Strategy and Outlook*, p46.

Chart 4: Individual state general government sector fiscal balance[(a)(b)]





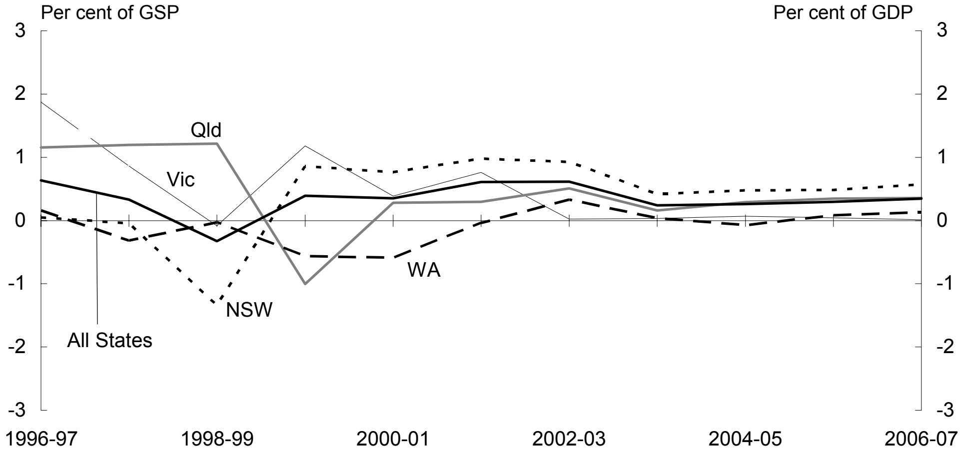
(a) Accrual time series data are being reviewed by the ABS, in consultation with all Treasuries in 2004, as accrual reporting is now established in all jurisdictions. This should result in improved quality in time series data, and may result in some changes to these series.
(b) States' fiscal balances are expressed as a per cent of GSP (left hand axis) and the all States fiscal balance is expressed as a per cent of GDP (right hand axis).
Sources: ABS Cat. No. 5512.0, state 2003-04 mid-year reports, Victoria, WA and the ACT 2004-05 Budgets and Treasury estimates.

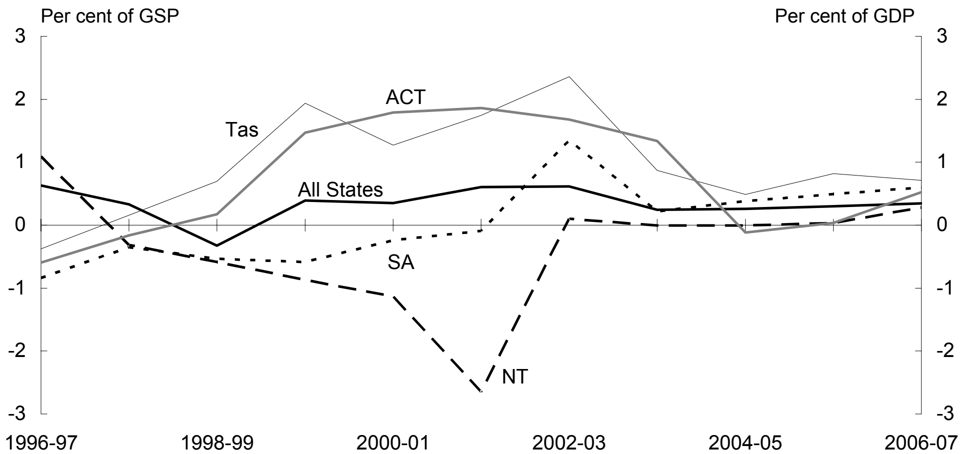
Trends in the aggregate fiscal balance for state/local general government, public non-financial corporations and the non-financial public sector are presented in Tables 1, 2 and 3, Statement 12, Budget Paper No. 1.

STATE GENERAL GOVERNMENT SECTOR CASH SURPLUS

In aggregate terms, the general government sector cash surplus is estimated to be 0.3 per cent of GDP in 2004-05. This compares to an estimated 0.2 per cent in 2003-04. Cash surpluses are estimated for all States, except Western Australia and the Australian Capital Territory, in 2004-05 (Chart 5).

Chart 5: Individual state general government sector cash surplus[(a)(b)]





(a) Accrual time series data are being reviewed by the ABS, in consultation with all Treasuries in 2004, as accrual reporting is now established in all jurisdictions. This should result in improved quality in time series data, and may result in some changes to these series.
(b) States' cash surpluses are expressed as a per cent of GSP (left hand axis) and the all States cash surplus is expressed as a per cent of GDP (right hand axis).
Sources: ABS Cat. No. 5512.0, state 2003-04 mid-year reports, Victoria, WA and the ACT 2004-05 Budgets and Treasury estimates.

An underlying 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). An underlying cash deficit measures the extent to which a government requires cash, either by running down financial assets or by borrowing.

Over the forward estimates period, the aggregate state general government sector cash surplus is expected to remain steady at 0.3 per cent of GDP. Despite considerable variation in the States' cash positions in recent years, from 2005-06 cash surpluses are forecast by all States (Chart 5).

Trends in the aggregate cash surplus for state/local general government, public non-financial corporations and the non-financial public sector are presented in Chart 2, Statement 12, Budget Paper No. 1.

STATE NET DEBT

In aggregate, state general government sector net debt[3] is expected to be -1.2 per cent of GDP in 2004-05, relative to -1.1 per cent in 2003-04. Net debt for the aggregate state public non-financial corporations sector is estimated to be 4.6 per cent of GDP in 2003-04,[4] up from 4.5 per cent in 2002-03. The public non-financial corporations sector nearly exclusively owns the stock of state non-financial public net debt.

The higher the net debt of a government, the greater the call it will impose on future revenue flows to service that debt.

Most States continue to reduce their levels of general government sector net debt (Chart 6). For example, between 1996-97 and 2006-07, South Australia and Tasmania are expected to reduce general government net debt by more than 12 percentage points of GSP. This primarily reflects the electricity privatisation process in South Australia,[5] and the application of budget surpluses and proceeds of assets sales in Tasmania to paying off debt.

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3 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, and investments, loans and placements). Net debt does not include superannuation or superannuation related liabilities.

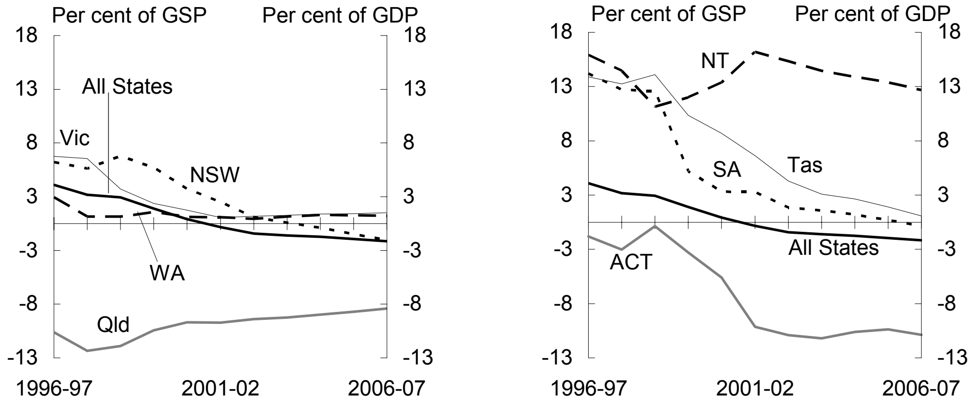
4 Estimates for the public non-financial corporations sector and the non-financial public sector are unavailable after 2003-04 in most States. The public non-financial corporations sector comprises bodies that provide goods and services (such as electricity, gas and water) that are mainly market, non-regulatory and non-financial in nature, and are financed predominantly through sales to the consumers of these goods and services.

5 SA Budget Paper No. 3, *Budget Statement 2002-03*, p63.

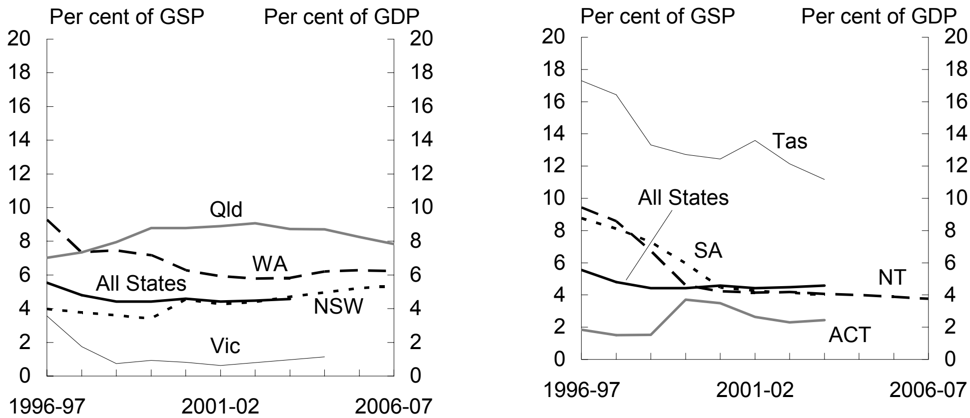
Aggregate state general government net debt is estimated to be -1.7 per cent of GDP by 2006-07. This reflects that an increasing number of States are forecasting to be in a net financial asset position in their general government sector by 2006-07. New South Wales is expected to join Queensland and the Australian Capital Territory in recording a net financial asset position from 2004-05, with South Australia forecasting to be in a similar position by 2006-07.

Chart 6: Individual state net debt by sector (as at end of financial year)[(a)(b)]

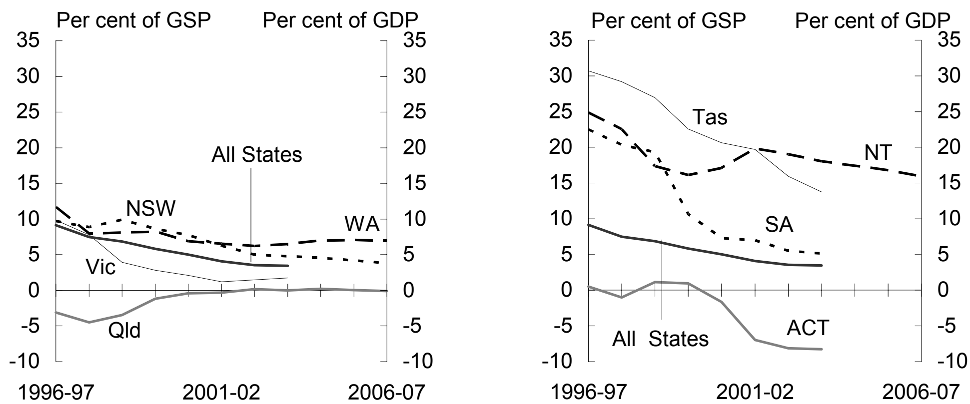
General Government



Public non-financial corporations



Non-financial public sector



(a) Accrual time series data are being reviewed by the ABS, in consultation with all Treasuries in 2004, as accruals reporting is now established in all jurisdictions. This should result in improved quality in time series data, and may result in some changes to these series.

(b) States' net debt is expressed as a per cent of GSP (left hand axis) and the all States net debt is expressed as a per cent of GDP (right hand axis).

Sources: ABS Cat. No. 5512.0, state 2003-04 mid-year reports, Victoria, Western Australia and the Australian Capital Territory 2004-05 Budgets and Treasury estimates.

LOAN COUNCIL ARRANGEMENTS

The Australian Loan Council is a Commonwealth-State Ministerial Council that coordinates public sector borrowing. The Loan Council comprises the Australian Government Treasurer as Chairman, and State and Territory Treasurers.

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.

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

Outcome of March 2004 Loan Council meeting

The Loan Council met on 26 March 2004 to consider Loan Council Allocation nominations for 2004-05. In aggregate, the nominations represent a surplus of $2.5 billion (Table 19). The Loan Council approved each State's nominated Allocation.

Table 19: Loan Council Allocation nominations for 2004-05(a)

	NSW	VIC	QLD	WA	SA	TAS	ACT	NT	C/wlth	Total
	$m	$m	$m	$m	$m	$m	$m	$m	$m	$m
Nominated 2004-05 LCAs										
General government sector cash deficit(+)/surplus(-)	-1,447	12	-429	130	-211	-75	-22	0	-3,829	-5,871
PNFC sector cash deficit(+)/surplus(-)	1,590	-128	727	681	-65	-75	-21	9	-1,412	1,306
Non-financial public sector cash deficit(+)/surplus(-)(b)	144	-186	297	811	-275	-150	-44	9	-5,241	-4,635
minus Net cash flows from investments										
in financial assets for policy purposes(c)	-59	48	0	13	5	30	14	7	-968	-910
plus Memorandum items(d)	724	221	138	-170	-200	20	-6	0	524	1,251
Loan Council Allocation	**927**	**-13**	**435**	**628**	**-481**	**-160**	**-64**	**2**	**-3,749**	**-2,475**
2004-05 tolerance limit	1,033	589	595	322	205	83	53	57	4,819	

(a) Loan Council Allocation (LCA) nominations for 2004-05 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 purposes of their mid-year reports, and projected bottom lines for each jurisdiction's public non-financial corporations sector, where actual estimates are unavailable. Each jurisdiction will publish an updated LCA estimate as part of its budget documentation. The two per cent (of non-financial public sector cash receipts from operating activities in each jurisdiction) tolerance limits around each jurisdiction's 2004-05 LCA are designed, amongst other things, to accommodate changes to the LCA resulting from changes in policy.

(b) The sum of the surpluses of the general government and the public non-financial corporations sectors may not equal the non-financial public sector surplus due to intersectoral transfers being netted out.

(c) This comprises 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, the cash flow from investments in financial assets for policy purposes has implications for governments' call on financial markets.

(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 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.

Note: Governments' contingent exposures under infrastructure projects with private sector involvement are identified in the Loan Council report, rather than included as components of LCAs. These exposures, which are measured as governments' contractual liabilities in the event of termination of projects, are unlikely to be realised and are thus materially different from actual borrowings undertaken to finance the public sector deficit. A government's outlays under these projects, such as equity contributions and ongoing commercial payments to the private sector, continue to be included in annual total public sector deficits, and hence the LCA.