

## FISCAL DEVELOPMENTS IN THE STATES

All states, except the Australian Capital Territory, are expected to record net operating surpluses in 2005-06. After allowing for capital investment, the majority of states are expecting general government fiscal deficits in 2005-06. However, most states are forecasting an improvement in their fiscal balances by 2007-08.

Most states are also set to continue the trend of reducing net debt or maintaining low levels of net debt as a percentage of gross state product (GSP). Most states are forecasting that they will be in a net financial asset position in their general government sector by 2005-06. This trend is primarily due to states implementing medium term fiscal strategies and asset sales.

The fiscal indicators presented below indicate that the fiscal outlook of the states is strong. However, the challenge is to sustain this in the longer term in light of emerging pressures associated with continuing increases in demand for services such as health, and the ageing population.

### STATE GENERAL GOVERNMENT SECTOR NET OPERATING BALANCE

The aggregate state net operating balance for the general government sector is estimated to be 0.2 per cent of gross domestic product (GDP) in 2005-06, slightly lower than in 2004-05 (Chart 4). The 2004-05 and 2005-06 surpluses are lower than in previous years, partly reflecting the impact of a softer housing market on revenue collections from property-related taxes.<sup>1</sup>

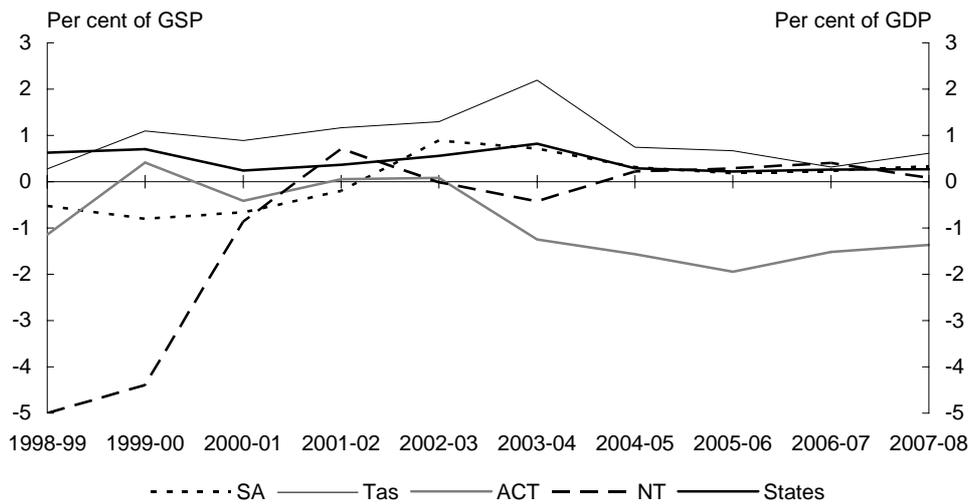
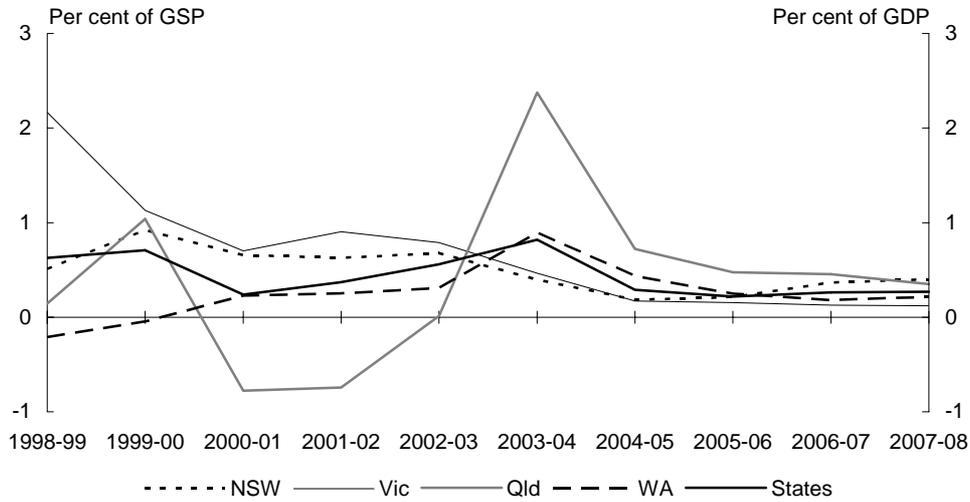
The net operating balance measures, in accrual terms, the gap between a government's expenses and revenue for a given period, and provides a good indication of the sustainability of the existing level of government services. An operating surplus indicates that a government can finance the services it provides in a period using revenues derived in that period. An operating deficit indicates that a government must borrow or sell assets in order to finance services provided in a period.

Aside from the Australian Capital Territory, every state is expected to record an operating surplus in 2005-06 and each of the forward years. The Australian Capital Territory is expecting to remain in deficit in 2005-06 and the forward years.

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<sup>1</sup> See, for example, NSW's 2004-05 *Half-Yearly Budget Review*, pp. 10, 17 and Victoria's Budget Paper No. 2, 2005-06 *Strategy and Outlook*, pp. 33, 43.

**Chart 4: Individual state general government sector net operating balance<sup>(a)(b)</sup>**



(a) The ABS is currently reviewing accrual time series data, in consultation with all Treasuries, as accrual reporting is now established in all jurisdictions. Improvements in the quality of the time series data have resulted in some changes to these series. Further revisions are expected over the next year.  
 (b) States' net operating balances are expressed as a percentage of GSP (left hand axis) and the states' aggregate net operating balance is expressed as a percentage of GDP (right hand axis).  
 Sources: ABS Cat. No. 5512.0, state 2004-05 mid-year reports, Victoria, Australian Capital Territory and Northern Territory 2005-06 Budgets and Treasury estimates.

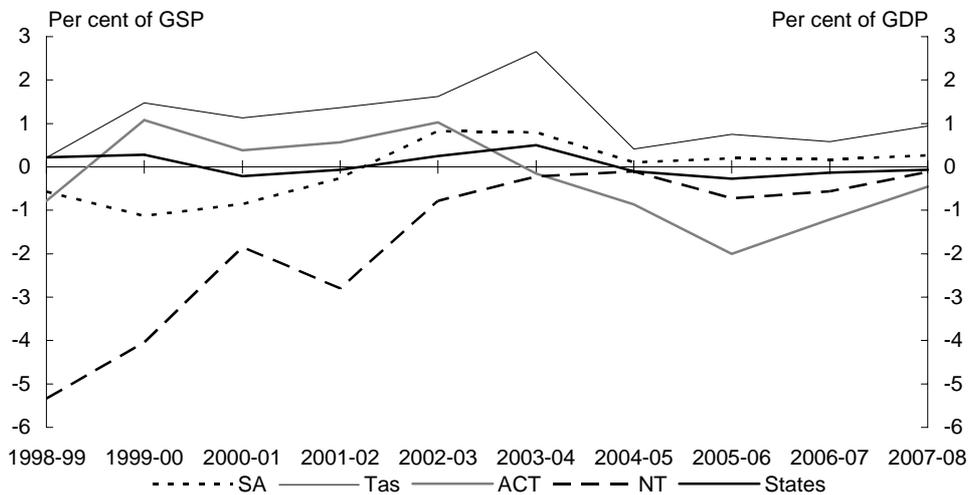
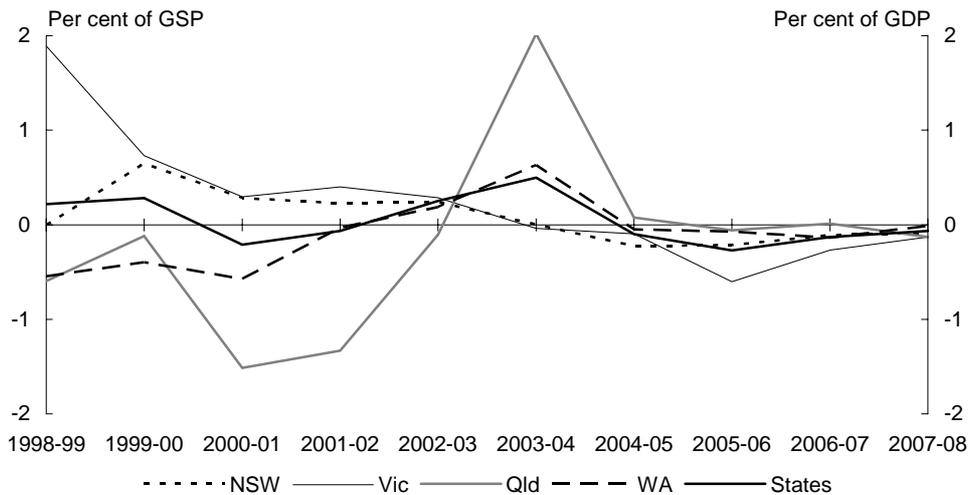
## STATE GENERAL GOVERNMENT SECTOR FISCAL BALANCE

The aggregate state fiscal balance for the general government sector is estimated to be -0.3 per cent of GDP in 2005-06, slightly lower than in 2004-05 due to the lower operating balances of the states (Chart 5).

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 slowly improve over the forward years, with most states either moving towards or maintaining a fiscal surplus.

**Chart 5: Individual state general government sector fiscal balance<sup>(a)(b)</sup>**



(a) The ABS is currently reviewing accrual time series data, in consultation with all Treasuries, as accrual reporting is now established in all jurisdictions. Improvements in the quality of the time series data have resulted in some changes to these series. Further revisions are expected over the next year.

(b) States' fiscal balances are expressed as a percentage of GSP (left hand axis) and the states' aggregate fiscal balance is expressed as a percentage of GDP (right hand axis).

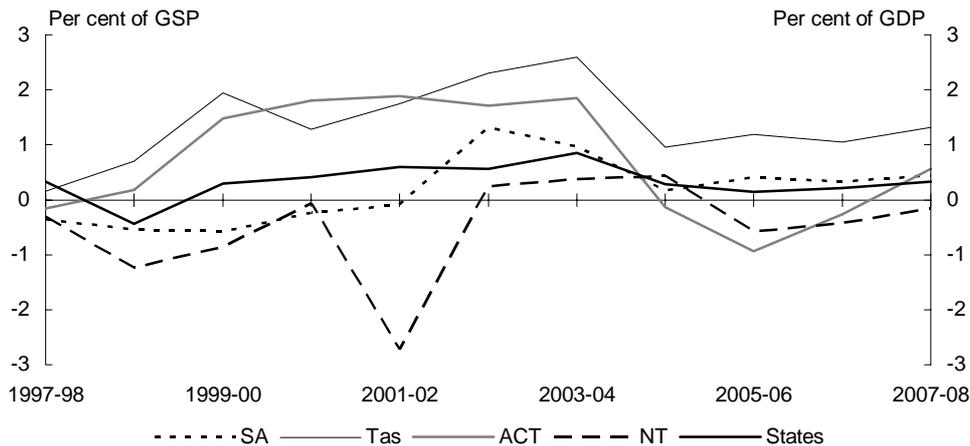
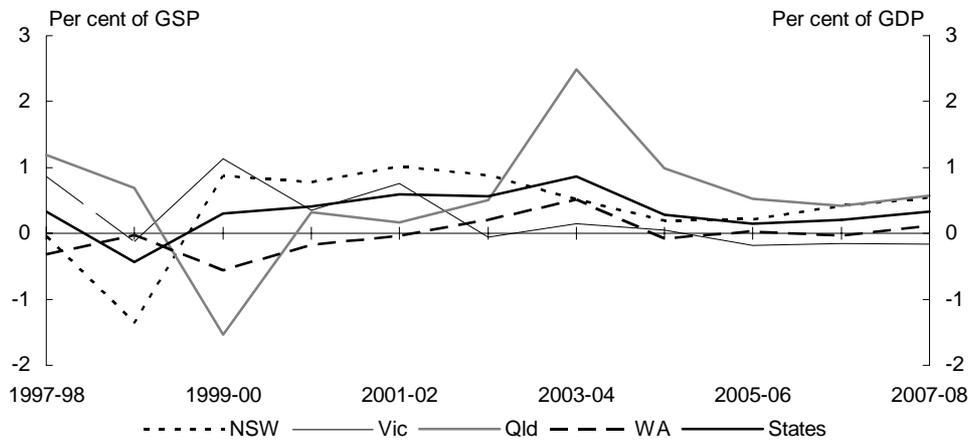
Sources: ABS Cat. No. 5512.0, state 2004-05 mid-year reports, Victoria, Australian Capital Territory and Northern Territory 2005-06 Budgets and Treasury estimates.

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 BALANCE

In aggregate terms, the general government sector cash surplus is estimated to be 0.1 per cent of GDP in 2005-06, compared to 0.3 per cent in 2004-05. In 2005-06, cash surpluses are expected for all states except Victoria, the Australian Capital Territory and the Northern Territory (Chart 6).

**Chart 6: Individual state general government sector cash balance<sup>(a)(b)</sup>**



(a) The ABS is currently reviewing accrual time series data, in consultation with all Treasuries, as accrual reporting is now established in all jurisdictions. Improvements in the quality of the time series data have resulted in some changes to these series. Further revisions are expected over the next year.

(b) States' cash balances are expressed as a percentage of GSP (left hand axis) and the states' aggregate cash balance is expressed as a percentage of GDP (right hand axis).

Sources: ABS Cat. No. 5512.0, state 2004-05 mid-year reports, Victoria, Australian Capital Territory and Northern Territory 2005-06 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 years, the aggregate state general government sector cash surplus is expected to remain steady. Despite considerable variation in the states' cash positions in recent years, most states are forecasting cash surpluses by 2007-08. However, Victoria and the Northern Territory are expecting small cash deficits in 2007-08.

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<sup>2</sup> is expected to remain at around -1.8 per cent of GDP in 2005-06. Net debt for the aggregate state public non-financial corporations sector is estimated to be 4.5 per cent of GDP in 2004-05,<sup>3</sup> up from 4.2 per cent in 2003-04. The public non-financial corporations sector owns nearly all of the stock of state non-financial public net debt.

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

Most states continue to reduce their levels of general government sector net debt (Chart 7). For example, between 1997-98 and 2007-08, South Australia and Tasmania are expected to reduce general government net debt by more than 13 per cent of GSP. This primarily reflects the sale of assets, such as the electricity privatisation process in South Australia,<sup>4</sup> and the application of budget surpluses to repay debt.<sup>5</sup>

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2 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.

3 Estimates for the public non-financial corporations sector and the non-financial public sector are unavailable after 2004-05 in some 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.

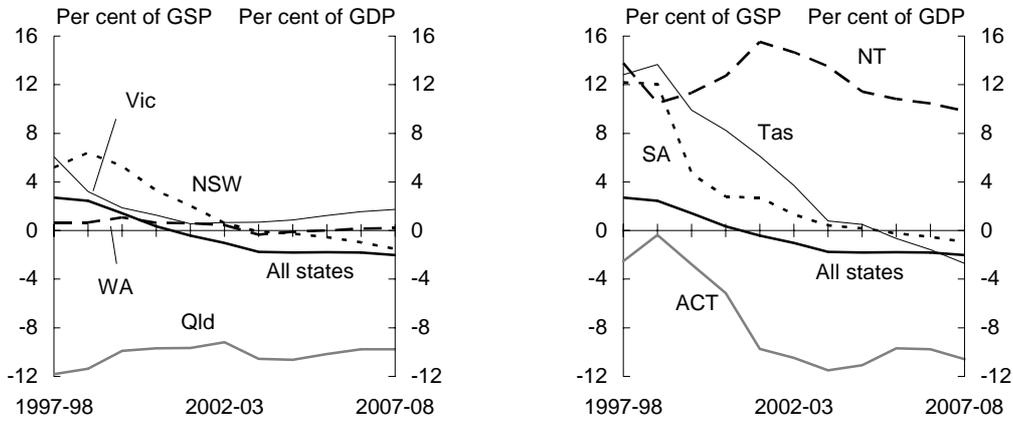
4 SA Budget Paper No. 3, *Budget Statement 2002-03*, p. 6.3.

5 SA Budget Paper No. 3, *Budget Statement 2004-05*, p. 5.1 and Tasmanian Budget Paper No. 1, *Budget Overview 2002-03*, p. 18.

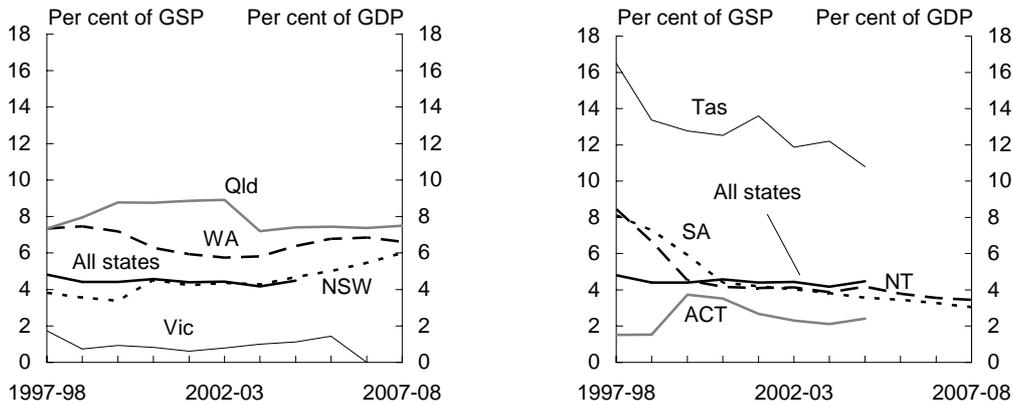
*Budget Paper No. 3*

Aggregate state general government net debt is estimated to fall to -2.0 per cent of GDP by 2007-08. From 2003-04, New South Wales joins Queensland and the Australian Capital Territory in forecasting an ongoing net financial asset position, with South Australia and Tasmania forecasting to be in a similar position from 2005-06.

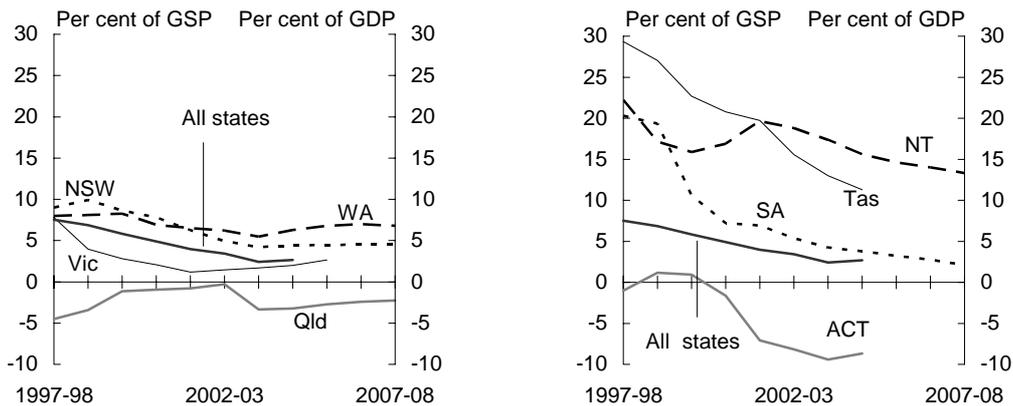
**Chart 7: Individual state net debt by sector (as at end of financial year)<sup>(a)(b)</sup>**  
**General government**



**Public non-financial corporations**



**Non-financial public sector**



(a) The ABS is currently reviewing accrual time series data, in consultation with all Treasuries, as accrual reporting is now established in all jurisdictions. Improvements in the quality of the time series data have resulted in some changes to these series. Further revisions are expected over the next year.

(b) States' net debt is expressed as a percentage of GSP (left hand axis) and the states' aggregate net debt is expressed as a percentage of GDP (right hand axis).

Sources: ABS Cat. No. 5512.0, state 2004-05 mid-year reports, Victoria, Australian Capital Territory and Northern Territory 2005-06 Budgets and Treasury estimates.

## **AUSTRALIAN 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.

### **Outcome of March 2005 Loan Council meeting**

The Loan Council met on 23 March 2005 to consider Loan Council Allocation nominations for 2005-06. The Loan Council approved each state's nominated allocation. In aggregate, the nominations represent a surplus of \$2.1 billion (Table 18).

**Table 18: Loan Council Allocation (LCA) nominations for 2005-06<sup>(a)</sup>**

	NSW	VIC	QLD	WA	SA	TAS	ACT	NT	AGov	Total
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
<b>Nominated 2005-06 LCAs</b>										
General government sector cash deficit(+)/surplus(-)	-691	-46	-871	-29	-254	-197	16	16	16	-4,459
PNFC sector cash deficit(+)/surplus(-)	2,060	761	1,291	1,136	65	68	10	1	1	-1,914
Non-financial public sector cash deficit(+)/surplus(-) (b)	1,370	715	422	1,107	-189	-129	26	17	17	-6,374
<i>minus</i> Net cash flows from investments										
in financial assets for policy purposes (c)	-46	9	0	0	-37	0	-2	0	0	-1,441
<i>plus</i> Memorandum items (d)	516	439	-30	-191	-219	22	-6	0	0	-1,039
<b>Loan Council Allocation</b>	<b>1,932</b>	<b>1,146</b>	<b>392</b>	<b>916</b>	<b>-445</b>	<b>-107</b>	<b>22</b>	<b>17</b>	<b>17</b>	<b>-5,972</b>
2005-06 tolerance limit	1,077	642	677	373	223	84	54	61	61	5,285

(a) Loan Council Allocation (LCA) nominations for 2005-06 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 the purpose 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 2005-06 LCA are designed, among 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.