

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

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 and net debt, at the Commonwealth level, State level, and the consolidated level, which includes Local Government.

This 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.¹ 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, *Budget Strategy and Outlook 2016-17, Statement 9: Australian Government Budget Financial Statements*.

State estimates in this Part come from the most recent publicly available State financial reports. Victoria's estimates are based on its 2016-17 Budget, while the remaining jurisdictions' estimates are drawn from their 2015-16 mid-year financial reports. Aggregate State data are only available to 2018-19, so references to the forward estimates in this Part relate to the period 2016-17 to 2018-19.

Additional data tables can be found in Appendix C (available online).

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.

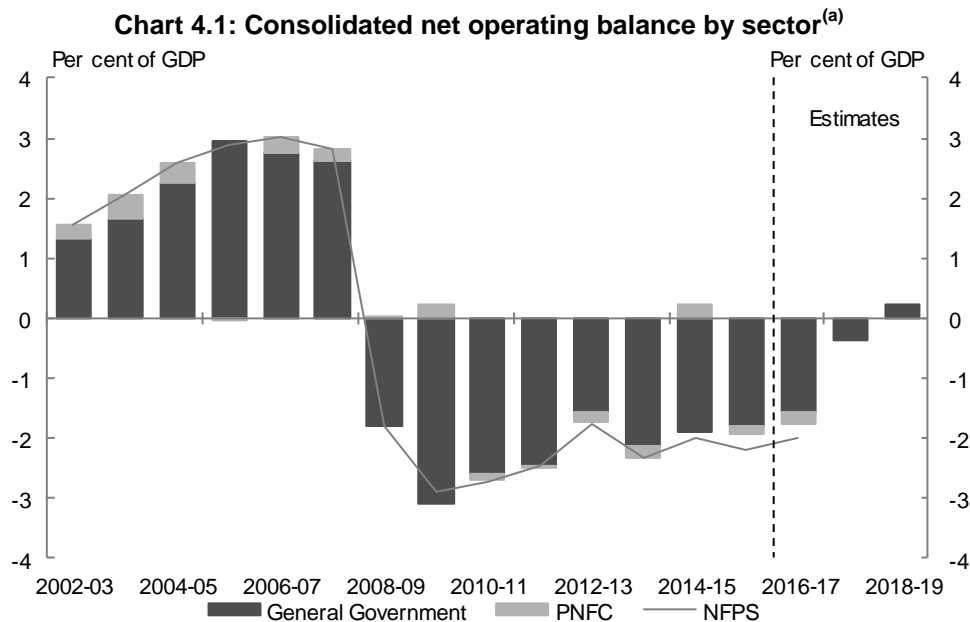
¹ Due to inter-sectoral transfers, NFPS does not always equal the sum of the general government and PNFC sectors.

In aggregate, the States are expecting the general government sector to record a net operating surplus of 0.3 per cent of GDP in 2016-17, remaining steady over the forward estimates.

In aggregate, on average across the forward estimates, the States are expecting revenue as a proportion of GDP to be 14.2 per cent, which is slightly below the pre-Global Financial Crisis 10 year average of 14.3 per cent of GDP.

The Commonwealth is expecting the general government sector to record a net operating deficit of 2.0 per cent of GDP in 2016-17, improving to a deficit of 0.3 per cent of GDP in 2018-19.

As shown in Chart 4.1, the consolidated general government sector is expected to record a net operating deficit of 1.6 per cent of GDP in 2016-17, improving to a surplus of 0.2 per cent of GDP in 2018-19.



(a) Data for the PNFC sector (and therefore NFPS) are not available beyond 2016-17.

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.

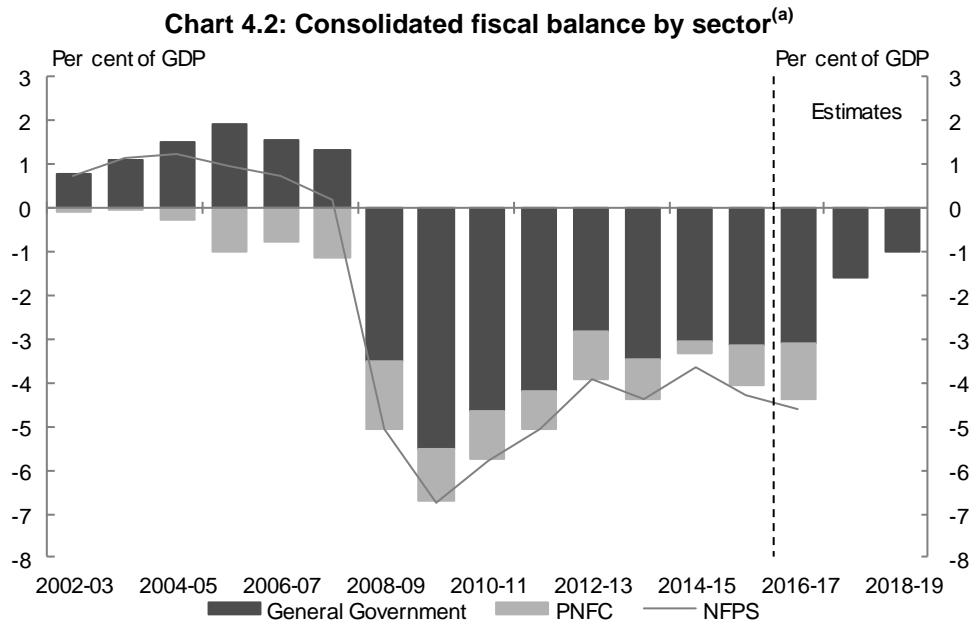
As the fiscal balance includes capital transfers and investment in non-financial assets, which are not included in the net operating balance, the difference between the fiscal

balance and the net operating balance is the effect of investment in non-financial assets, including infrastructure.

The fiscal balance of the Commonwealth general government sector is expected to remain in deficit over the forward estimates, however the 2016-17 deficit of 2.2 per cent of GDP is expected to decrease in both 2017-18 and 2018-19.

Aggregate State net capital investment is forecast to decline from 0.8 per cent of GDP in 2016-17 to 0.4 per cent of GDP in 2018-19. As a result of this decline in net capital investment and steady net operating balances over the forward estimates, the aggregate State fiscal balance is expected to improve from a deficit of 0.5 per cent of GDP in 2016-17 to a deficit of 0.1 per cent of GDP in 2018-19.

As shown in Chart 4.2, 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 3.1 per cent of GDP in 2016-17 to 1.0 per cent of GDP by 2018-19. A fiscal deficit of 1.3 per cent of GDP is expected in the PNFC sector for 2016-17, contributing to an NFPS deficit of 4.6 per cent of GDP in 2016-17.



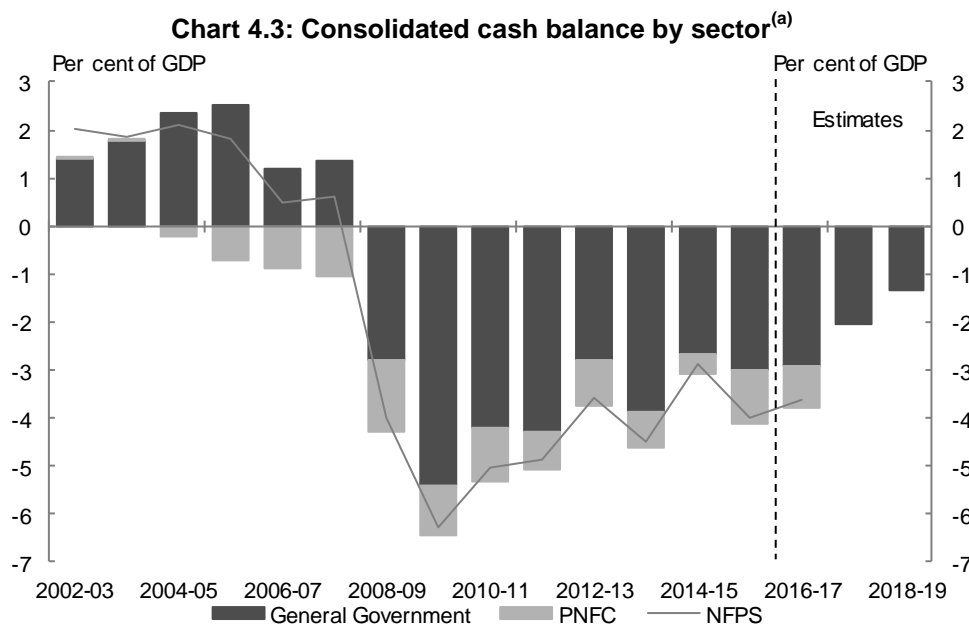
(a) Data for the PNFC sector (and therefore the NFPS) are not available beyond 2016-17.

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

The underlying cash balance of the Commonwealth general government sector is expected to remain in deficit over the forward estimates, with a deficit of 2.2 per cent of GDP in 2016-17 improving to a deficit of 0.8 per cent of GDP in 2018-19. At the State

level, the 2016-17 cash balance is expected to be a deficit of 0.4 per cent of GDP, improving to 0.2 per cent of GDP in 2018-19.

As shown in Chart 4.3, the consolidated general government sector cash balance is expected to be a deficit of 2.9 per cent of GDP in 2016-17, before improving to a deficit of 1.3 per cent of GDP in 2018-19. A cash deficit of 0.9 per cent of GDP is also expected in the PNFC sector in 2016-17, contributing to an NFPS deficit of 3.6 per cent of GDP in 2016-17.



(a) Data for the PNFC sector (and therefore the NFPS) are not available beyond 2016-17.

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.

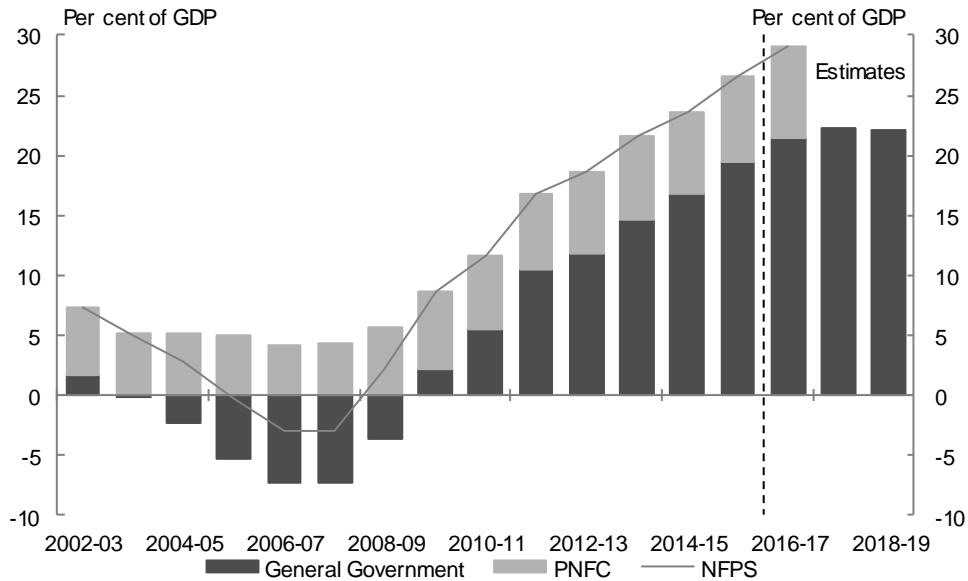
As shown in Chart 4.4, consolidated general government sector net debt is expected to increase from 21.5 per cent of GDP in 2016-17 to 22.2 per cent in 2017-18 before declining to 22.1 per cent of GDP in 2018-19.

Commonwealth general government sector net debt as a proportion of GDP is expected to increase from 18.9 per cent in 2016-17 to 19.2 per cent in 2017-18 before declining to 18.8 per cent in 2018-19. State net debt as a proportion of GDP is expected to reach 3.5 per cent in 2018-19. The Local Government sector is expected to continue

to have negative net debt, that is, selected financial assets will exceed selected financial liabilities.

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 2016-17.

THE AUSTRALIAN LOAN COUNCIL

The Australian Loan Council (Loan Council) is a Commonwealth-State council that monitors public sector borrowing. It consists of the Prime Minister and the Premier/Chief Minister of each State. 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 considers jurisdictions' nominated borrowings for the forthcoming year, having regard to each jurisdiction's fiscal position and infrastructure requirements, as well as to the macroeconomic implications of the aggregate figure.

Budget Paper No. 3

The Loan Council considered Loan Council Allocation (LCA) nominations for 2016-17 in April 2016. The Loan Council approved each jurisdiction's nominated allocation. In aggregate, the nominations represent a deficit of \$79.3 billion (Table 4.1). The States nominated a deficit of \$24.3 billion and the Commonwealth nominated a deficit of \$55.0 billion.

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

State 2016-17 LCA budget updates will be available in the States' 2016-17 budgets. The Commonwealth's 2016-17 LCA budget update is available in Budget Paper No. 1, *Budget Strategy and Outlook 2016-17, Statement 9: Budget Financial Statements, Appendix B*.

Table 4.1: Loan Council Allocation nominations for 2016-17^(a)

\$million	NSW	VIC	QLD	WA	SA	TAS	ACT	NT	C'wlth	Total
General government sector cash surplus(-)/deficit(+)	-23	1,219	752	3,991	184	20	567	113	29,950	
PNFC sector cash surplus(-)/deficit(+)	6,120	842	918	1,011	124	-141	51	55	7,484	
NFPS cash surplus(-)/deficit(+)(b)	6,098	2,077	1,670	5,002	308	-121	617	168	37,434	
<i>plus</i> Acquisitions under finance leases and similar arrangements	1,565	496	843	79	2,820	-	-	-	-5	
<i>equals</i> ABS GFS cash surplus(-)/deficit(+)	7,663	2,573	2,514	5,081	3,128	-121	617	168	37,430	
<i>minus</i> Net cash flows from investments in financial assets for policy purposes(c)	-1,117	59	-	-	305	-4	-	18	-18,922	
<i>plus</i> Memorandum items(d)	1,564	484	941	-581	-547	102	-35	-	-1,348	
Loan Council Allocations	10,344	2,998	3,455	4,500	2,276	-15	582	150	55,004	79,293
2016-17 tolerance limit(e)	1,750	1,217	1,202	907	384	168	111	136	8,489	

(a) LCA nominations for 2016-17 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 NFPS balance due to inter-sectoral 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 certain transactions in LCAs — 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.