

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. The consolidated level includes Commonwealth, State and Local Governments, and the multi-jurisdictional sector (primarily public universities).

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 (GGS) 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 2017-18, Statement 10: Australian Government Budget Financial Statements*.

State estimates in this Part come from the most recent publicly-available State financial reports. Estimates for Victoria and the Northern Territory are based on their 2017-18 budgets. Western Australia's estimates are from its 2016-17 Pre-election financial report. The remaining States' estimates are drawn from their 2016-17 mid-year financial reports.

Aggregate State data are only available to 2019-20, so references to the forward estimates in this Part relate to the period 2017-18 to 2019-20.

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

NET OPERATING BALANCE

The net operating balance measures, in accrual terms, the difference between recurrent expenses and revenue for a given period. It is a measure of the sustainability of the government's fiscal position over time and indicates the sustainability of the existing level of government services. For further information on the net operating balance as a

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

budget measure see Budget Paper No. 1, *Budget Strategy and Outlook 2017-18, Statement 4: Recurrent and Capital Budget.*

The Commonwealth is expecting the NFPS to record a net operating deficit of 1.5 per cent of GDP in 2017-18.

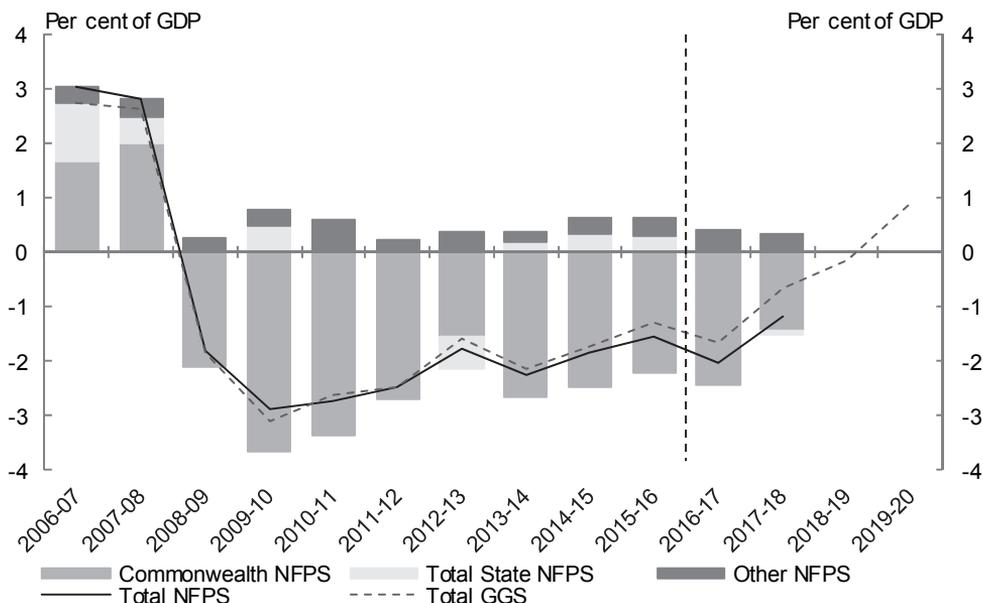
In aggregate, the States are expecting the NFPS to record a net operating deficit of 0.1 per cent of GDP in 2017-18. The States are expecting NFPS revenue as a proportion of GDP to be 16.4 per cent in 2017-18.

The consolidated NFPS net operating balance is expected to improve from a deficit of 2.0 per cent of GDP in 2016-17 to a deficit of 1.2 per cent of GDP in 2017-18.

The consolidated general government sector is expected to record a net operating deficit of 0.7 per cent of GDP in 2017-18, improving to a surplus of 0.9 per cent of GDP in 2019-20.

A breakdown of the consolidated NFPS net operating balance by jurisdiction is shown in Chart 4.1.

Chart 4.1: Consolidated net operating balance by jurisdiction



Note: Consolidated NFPS numbers beyond 2017-18 have not been calculated as Commonwealth data is not available for the PNFC sector. 'Other NFPS' includes Local Governments, the multi-jurisdictional sector and adjustments for transfers between jurisdictions.

Source: ABS cat. no. 5512.0, most recent State estimates and Treasury.

FISCAL AND CASH BALANCES

The fiscal balance is an accrual term that measures the difference between a government’s revenue and its capital and recurrent expenditure. The difference between the fiscal balance and the net operating balance is the effect of investment in non-financial assets, including infrastructure.

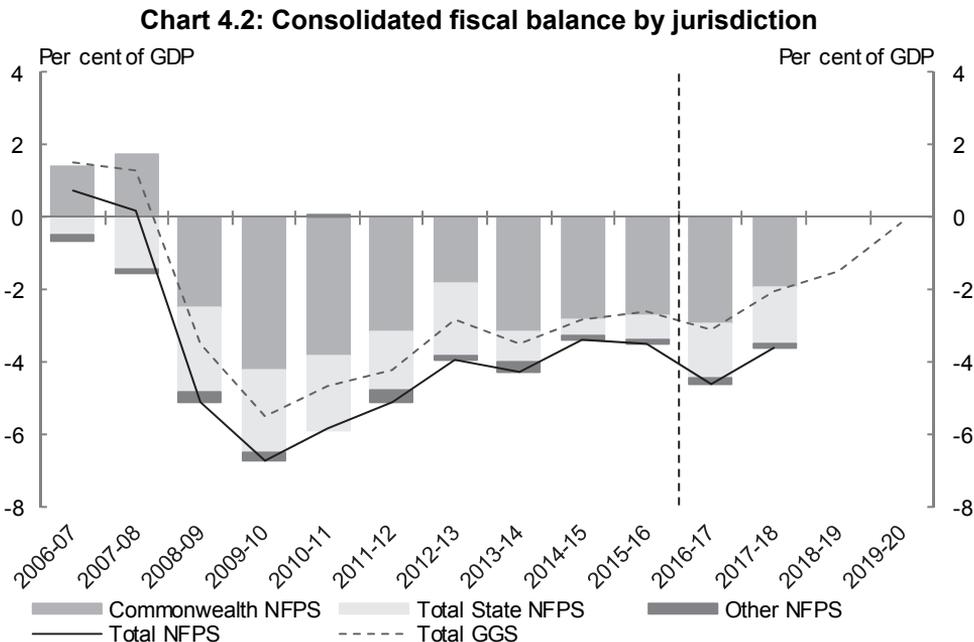
The fiscal balance of the Commonwealth NFPS is expected to remain in deficit at 1.9 per cent of GDP in 2017-18.

In aggregate, States’ fiscal balance for the NFPS is expected to decline to a deficit of 1.6 per cent of GDP in 2017-18.

A fiscal deficit of 3.6 per cent of GDP is expected in the consolidated NFPS sector for 2017-18.

The consolidated general government sector fiscal balance is expected to remain in deficit across the forward estimates, although the deficit is expected to narrow from 2.1 per cent of GDP in 2017-18 to 0.1 per cent of GDP by 2019-20.

A breakdown of the consolidated NFPS fiscal balance by jurisdiction is shown in Chart 4.2.



Note: Consolidated NFPS numbers beyond 2017-18 have not been calculated as Commonwealth data is not available for the PNFC sector. 'Other NFPS' includes Local Governments, the multi-jurisdictional sector and adjustments for transfers between jurisdictions.

Source: ABS cat. no. 5512.0, most recent State estimates and Treasury.

The cash balance is the equivalent of the fiscal balance but measured on a non-accrual basis, capturing both recurrent and capital payments and receipts as they occur.

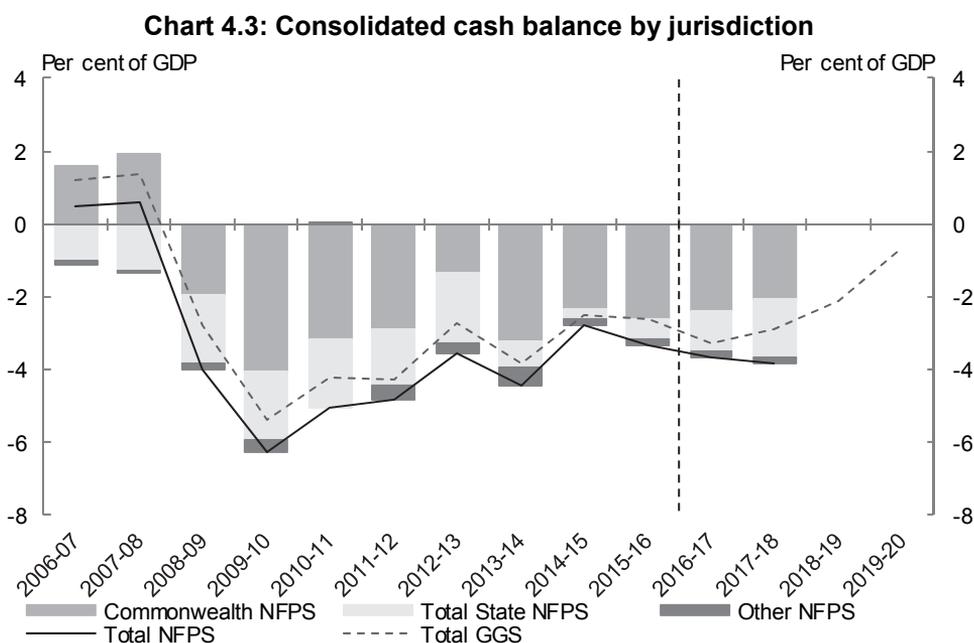
The underlying cash balance of the Commonwealth NFPS is expected to remain in deficit in 2017-18 at 2.1 per cent of GDP.

The aggregate State NFPS cash balance is expected to be a deficit of 1.6 per cent of GDP in 2017-18.

The consolidated NFPS cash deficit is expected to increase to 3.9 per cent of GDP in 2017-18.

The consolidated general government sector cash balance is expected to be a deficit of 2.9 per cent of GDP in 2017-18, before improving to a deficit of 0.7 per cent of GDP in 2019-20.

A breakdown of the consolidated NFPS cash balance by jurisdiction is shown in Chart 4.3.



Note: Consolidated NFPS numbers beyond 2017-18 have not been calculated as Commonwealth data is not available for the PNFC sector. 'Other NFPS' includes Local Governments, the multi-jurisdictional sector and adjustments for transfers between jurisdictions.

Source: ABS cat. no. 5512.0, most recent State estimates and Treasury.

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.

Commonwealth NFPS net debt as a proportion of GDP is expected to increase to 20.4 per cent in 2017-18.

Aggregate State NFPS net debt as a proportion of GDP is expected to reach 9.8 per cent in 2017-18.

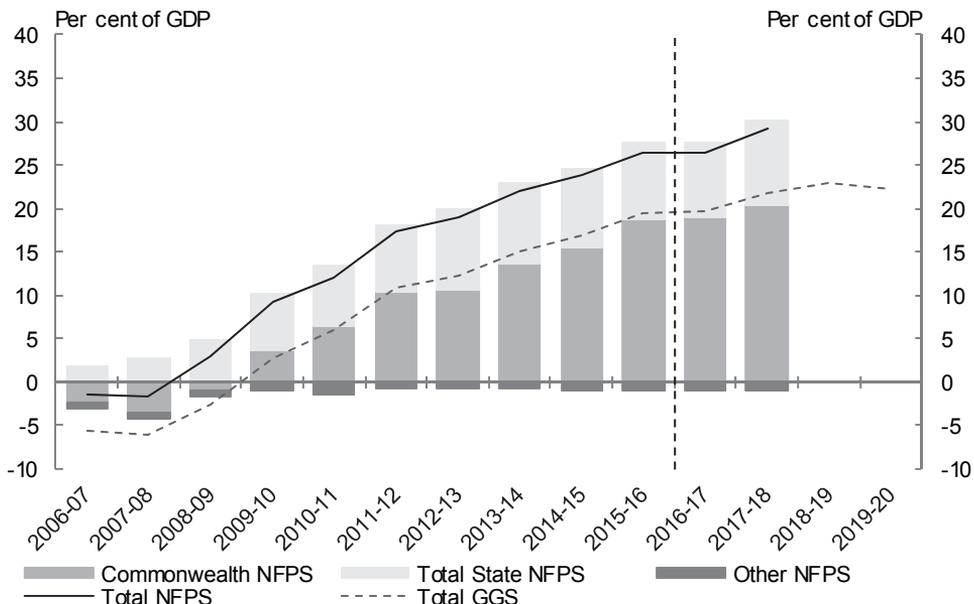
Consolidated NFPS net debt is expected to increase to 29.2 per cent of GDP in 2017-18.

Consolidated general government sector net debt is expected to increase from 21.8 per cent of GDP in 2017-18 to 22.8 per cent in 2018-19 before declining to 22.2 per cent of GDP in 2019-20.

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

A breakdown of consolidated NFPS net debt by jurisdiction is shown by Chart 4.4.

**Chart 4.4: Consolidated net debt by jurisdiction
(as at end of financial year)**



Note: Consolidated NFPS numbers beyond 2017-18 have not been calculated as Commonwealth data is not available for the PNFC sector. 'Other NFPS' includes Local Governments, the multi-jurisdictional sector and adjustments for transfers between jurisdictions.

Source: ABS cat. no. 5512.0, most recent State estimates and Treasury.

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.

The Loan Council considered Loan Council Allocation (LCA) nominations for 2017-18 in March 2017. The Loan Council approved each jurisdiction's nominated allocation. In aggregate, the nominations represent a deficit of \$80.2 billion (Table 4.1). The States nominated a deficit of \$28.7 billion and the Commonwealth nominated a deficit of \$51.5 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 2017-18 LCA budget updates will be available in the States' 2017-18 budgets. The Commonwealth's 2017-18 LCA budget update is available in Budget Paper No. 1, *Budget Strategy and Outlook 2017-18, Statement 10: Australian Government Budget Financial Statements, Appendix B*.

Table 4.1: Loan Council Allocation nominations for 2017-18^(a)

\$million	NSW	VIC	QLD	WA	SA	TAS	ACT	NT	Cwth	Total
General government sector cash surplus(-)/deficit(+)	5,917	3,412	2,088	2,964	485	8	193	400	25,273	
PNFC sector cash surplus(-)/deficit(+)	5,563	1,395	538	960	97	159	14	18	7,571	
NFPS cash surplus(-)/deficit(+)(b)	11,480	4,802	2,626	3,924	582	166	207	418	32,844	
<i>plus</i> Acquisitions under finance leases and similar arrangements	291	646	682	469	0	0	5	0	0	0
<i>equals</i> ABS GFS cash surplus(-)/deficit(+)	11,771	5,448	3,307	4,393	582	166	212	418	32,844	
<i>minus</i> Net cash flows from investments in financial assets for policy purposes(c)	-331	733	0	0	162	-4	3	14	-19,947	
<i>plus</i> Memorandum items(d)	2,066	291	944	-347	-66	63	-4	0	-1,277	
Loan Council Allocations	14,168	5,006	4,251	4,046	354	234	205	404	51,514	80,181
2017-18 tolerance limit(e)	1,751	1,305	1,294	937	401	175	113	132	8,831	

(a) LCA nominations for 2017-18 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.

