Chapter 3

State and territory bottom lines and debt levels

3.1 This chapter aims to provide a comparative analysis of the fiscal positions of each state and territory and their respective levels of debt and revenue. Such analyses can be highly technical, and can appear confusing to the uninitiated. This section aims to clarify the situation as far as possible and serve as guidance when interpreting the information contained in the rest of the chapter.[1]

Sectoral divisions of government

3.2 There are typically three main levels of government that are reported on across jurisdictions.

3.3 The first is the *General Government Sector* (GGS). This typically includes entities such as government departments. The shorthand way to consider the GGS is that it is the sector over which the executive has direct control.

3.4 The second is the *Public Non-Financial Corporations* (PNFC) sector.[2] This includes trading businesses that are owned by government, and do not perform specifically financial functions. This sector is separated because the executive is usually the shareholder of the business, and conceptually the decision making is at an arms length from the shareholder.

3.5 The third sector is the *Public Financial Corporations* (PFC). As the name implies these entities perform purely financial functions, such as the Reserve Bank or the various state Treasury corporations. Conceptually, this sector is also operated at an arms length to government. Limited forecast data is available in this sector.

3.6 Each of the sectors can be reported on under any of the commonly-accepted accounting standards (Australian Accounting Standards Board (AASB), International Accounting Standards Board (IASB),[3] Government Financial Statistics (GFS)[4]), and

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1 Much of the information in this chapter, including graphs relating to the fiscal position and debt levels of states was drawn from *The many bottom lines of Government*, Client Memorandum, Adrian Makeham-Kirchner, Parliamentary Library, July 2008.

2 Businesses owned by governments are known by various names, including, Government-owned Corporations (GOCs), Government-Trading Organisations (GTOs), Public Trading Enterprises (PTEs) and Government Business Enterprises (GBEs). For simplicity, the last of these will be used in this report.

3 AASB/IASB has been the reporting standard for businesses. Many government agencies have reported on this standard for some time. However, the aggregated government position really only started to move towards AASB reporting when governments adopted accrual accounting for whole-of-government reporting. In recent years the Board has incorporated standards within the AASB rules that relate specifically to government transactions.

on either a cash or accrual basis. Inconsistency in standards applied between states hinders easy analysis and comparison of fiscal positions.

What is the 'bottom line'?

3.7 There are three main bottom lines that are reported across levels of government, depending on the standard used.[5] All relate to the flow of financial transactions, as compared to balance sheet measures which are stocks of resources.

3.8 Jurisdictional interpretation and the Australian Bureau of Statistics (ABS) measurement of the balances can have different outcomes. This is important for time series comparisons which include both historical statistics (drawn from the ABS) and budget forecasts (made by a jurisdiction).

3.9 The first main result in the GFS standard is the *net operating balance* (NOB). This bottom line measures the difference between accrual GFS recurrent revenue and expenses, not accounting for any movement in the investment position of government. This measures how much of the general revenue raised by government is left within a financial year. It can indicate whether the government is borrowing to fund operations or what aspects of spending are impacting the economy at large.

3.10 The second main result is the *fiscal balance* (FB), which is sometimes called GFS net lending or borrowing depending on whether the budget is in surplus or deficit. The FB is measured as the NOB less the net acquisition of non-financial assets. Non-financial assets include infrastructure such as buildings, plant and equipment and inventories. As a net measure the lending figure discounts the purchase of these assets by their sales and depreciation.

3.11 The third headline is the *underlying cash balance* (UCB). This data is drawn from the cash flow statement (CFS) and is a 'dollars and cents' equivalent to the accrual fiscal balance. It represents the net cash operating balance plus net non-financial investing balance less net acquisition of assets under finance leases (and similar) less future fund earnings. For example, the underlying cash balance excludes proceeds from the privatisation of government business enterprises (GBEs).

3.12 There is no rule around which balance must be reported and jurisdictions are free to report on which level they wish to. However, the recent moves to harmonise the AASB/IASB and GFS concepts should bring some convergence to bottom line reporting. Although most jurisdictions have already done so, all jurisdictions are

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4 GFS is a system built, initially, through the International Monetary Fund (IMF) to enable consistent measurement of government finances on an economics standard. The marginal difference to other standards is that the end goal of the reporting is to measure the impact of government on the economy, not just the internal performance management of government.

5 Detailed explanations are available at www.treasury.gov.au/documents/186/HTML/docshell.asp?URL=accrualmeasures.asp.

required to report in accordance with AASB standard 1049 before their 2009–10 budgets.

The Uniform Presentation Framework

3.13 The committee took evidence from Treasury officials on the Uniform Presentation Framework (UPF), a fiscal reporting framework which the Australian Government and all state and territory governments have agreed to adopt in their budget papers or reporting.

3.14 Mr Derek Bazen, Analyst with the State Finance and Reporting Unit of Treasury, made the point that the existence and use of the UPF by states for fiscal reporting did not mean that states would not also publish budgetary information in a non-uniform way, to suit their own purposes. In the committee's view, this practice causes considerable confusion among those seeking to compare finances between states. Mr Bazen said that:

> In our monitoring of state finances we tend to rely on the uniform presentation framework, particularly because of the ability to compare what is happening between jurisdictions. But states do vary in terms of what they feel the most important fiscal indicator for their jurisdiction is, and this is why the headline measures that states report often seem a bit at odds in terms of how they present their material.[6]

3.15 The most recent iteration of the UPF (April 2008)[7], implemented nationally from this financial year, was developed to deliver alignment with Australian Accounting Standard 1049, which itself aims to standardise government reporting.[8] The committee welcomes the introduction of the common standard, the absence of which has made accurate financial analysis more difficult than it should be.[9]

3.16 However, the committee is concerned to note that the introduction of the standard could be undermined by allowing departure from prescribed accounting rules, as long as those departures are disclosed. Associate Professor Graeme Wines submitted that:

> In summary, AASB 1049 should result in greater uniformity in government financial reports, but the potential advantages will not be achieved if governments are allowed to depart from the prescribed rules. Accordingly, the Commonwealth and all States should be subject to Charters of Budget

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6 Mr Derek Bazen, Analyst, State Finance and Reporting Unit, Department of the Treasury, *Committee Hansard*, 25 July 2008, p. 79.

7 Available at www.treasury.gov.au/documents/1371/PDF/2008_UPF.pdf

8 Mr Derek Bazen, Analyst, State Finance and Reporting Unit, Department of the Treasury, *Committee Hansard*, 25 July 2008, pp 78–79.

9 The committee notes similar sentiments expressed by submitters. See, for example, Associate Professor Graeme Wines, personal capacity, *Submission 17*, p. 11.

> Honesty which require complete compliance with applicable accounting standards.[10]

3.17 The committee wholeheartedly agrees. Not only do consistent reporting standards across jurisdictions make good common sense, they also reduce the ability of governments to successfully pick, choose and publicise different headline data year-to-year to suit their political purposes. The committee elaborates on this subject in chapter 8, in which it also makes a recommendation (Recommendation 1) that each state adopt a charter of budget honesty.

3.18 The utility of producing truly comparable financial records between jurisdictions was widely acknowledged by witnesses giving relevant evidence. Mr Henry Ergas called for the development of standards to be strictly complied with by states:

> I believe that there would be gains from having greater consistency both between jurisdictions and over time. I wonder whether there would not be scope for a consultative process, involving the Commonwealth and the states, to reach agreement and try to monitor compliance with that agreement with regard to reporting standards. That might well be a function that could be allocated productively to the Productivity Commission, which has considerable expertise also in this area from its review of state government performance and which, I suspect, could quite readily come up with recommendations as to what might be done in that area.[11]

3.19 The committee supports the intention behind Mr Ergas' suggestion. The Productivity Commission may well have expertise to offer in the development of state-based charters of budget honesty which are the subject of Recommendation 1 in chapter 8.

Fiscal positions

3.20 The committee asked the Parliamentary Library to collate the fiscal positions of each state and territory. This section graphs state and territory GGS and PNFC sector bottom lines from 1998–99 to the latest available forward estimates (see Figure 3.1).[12]

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10 Associate Professor Graeme Wines, personal capacity, *Submission 17*, p. 13.

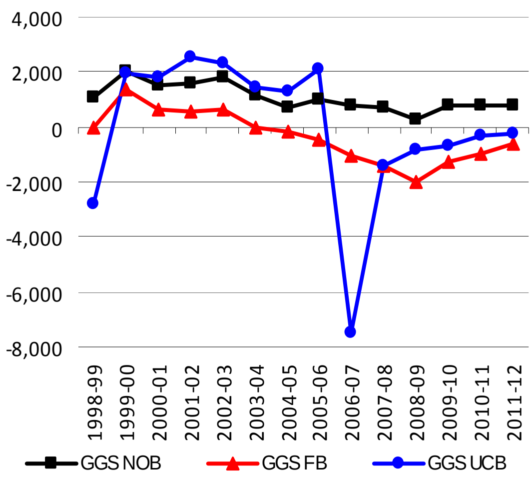
11 Mr Henry Ergas, personal capacity, *Committee Hansard*, 25 July 2008, p. 37.

12 The Library warns that volatility around 2006–07 may be more an issue of recording than actual changes in balance, as the data to 2006–07 is drawn from ABS data, while 2007–08 is drawn from the respective Uniform Presentation Framework section of the relevant state or territory Budget Paper. Adrian Makeham-Kirchner, *The many bottom lines of Government*, Client Memorandum, Parliamentary Library, July 2008, p. 5. All data is in nominal (current) dollars, not accounting for any inflationary impact, and the left hand chart relates to the GGS and the right hand chart relates to PNFC. NOB: Net Operating Balance. FB: Fiscal Balance. UCB: Underlying Cash Balance.

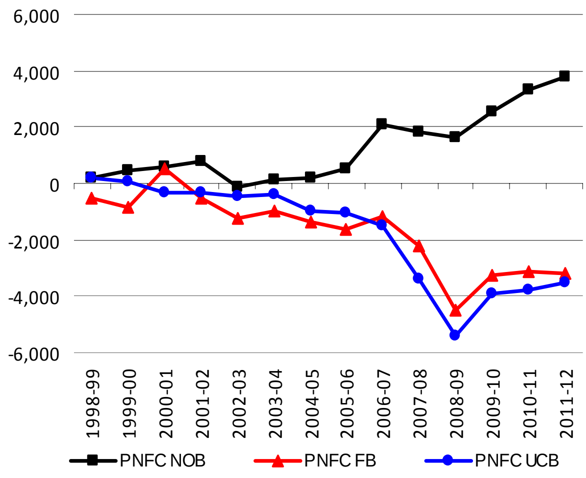
Figure 3.1—State and territory fiscal bottom lines, 1998–99 to 2011–12

New South Wales – GGS and PNFC (in $m)

General Government Sector

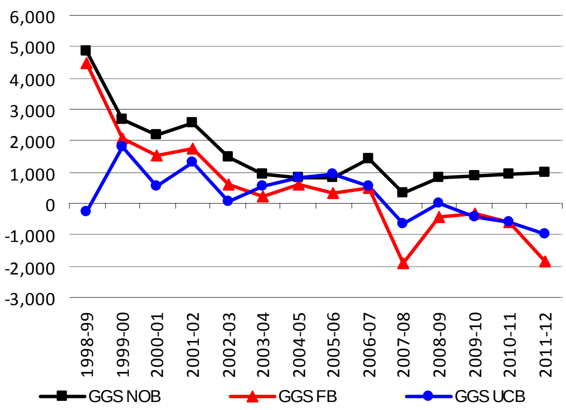


Public Non-Financial Corporations

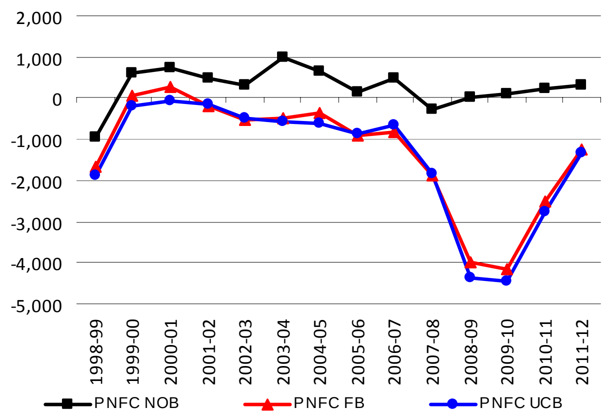


Victoria – GGS and PNFC (in $m)

General Government Sector

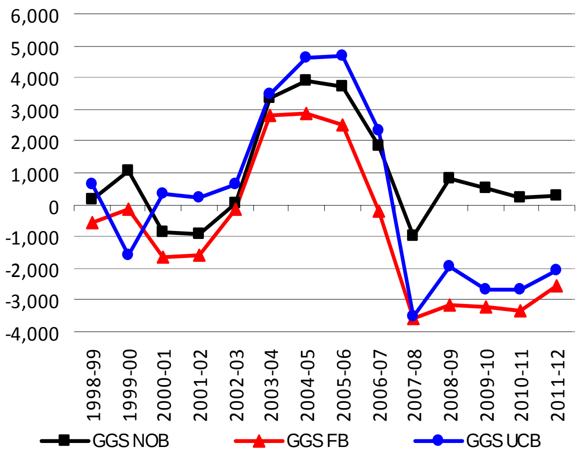


Public Non-Financial Corporations

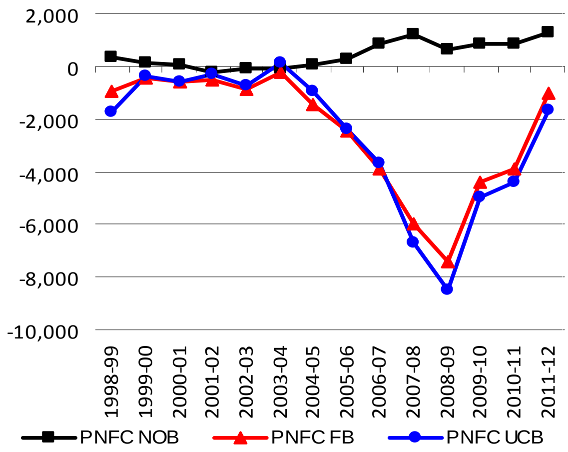


Queensland – GGS and PNFC (in $m)

General Government Sector

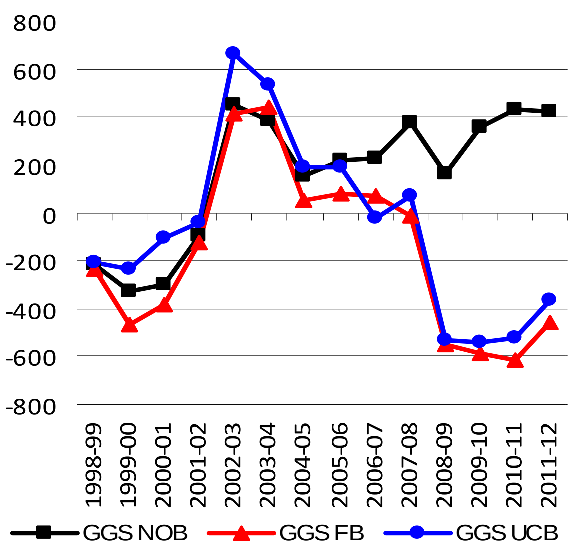


Public Non-Financial Corporations

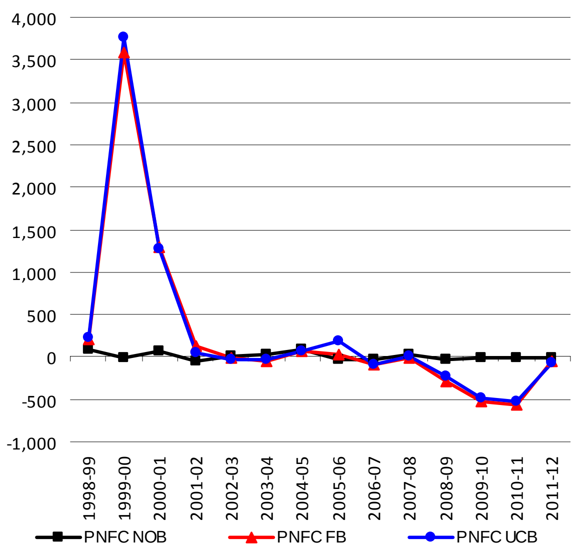


South Australia – GGS and PNFC (in $m)

General Government Sector

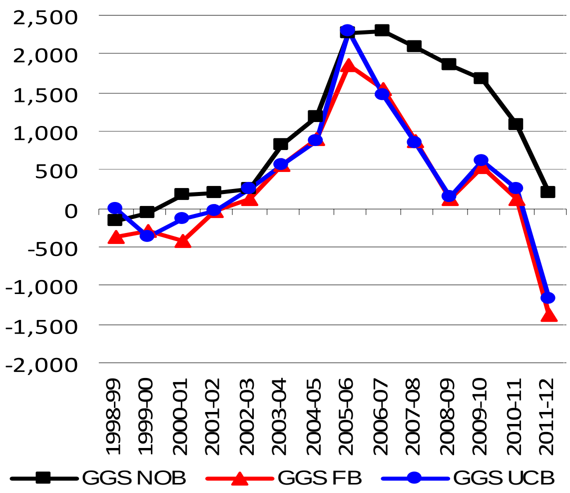


Public Non-Financial Corporations

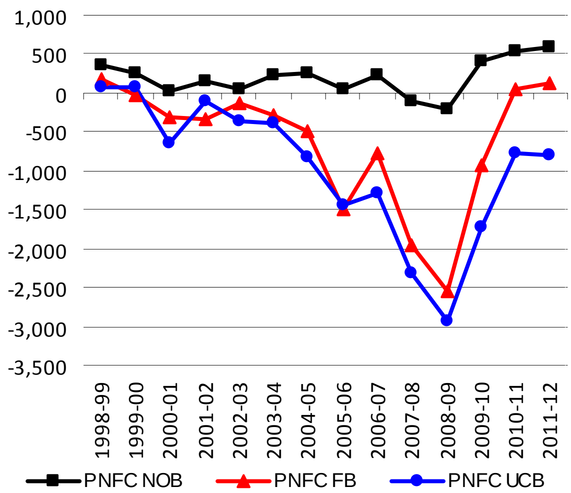


Western Australia – GGS and PNFC (in $m)

General Government Sector

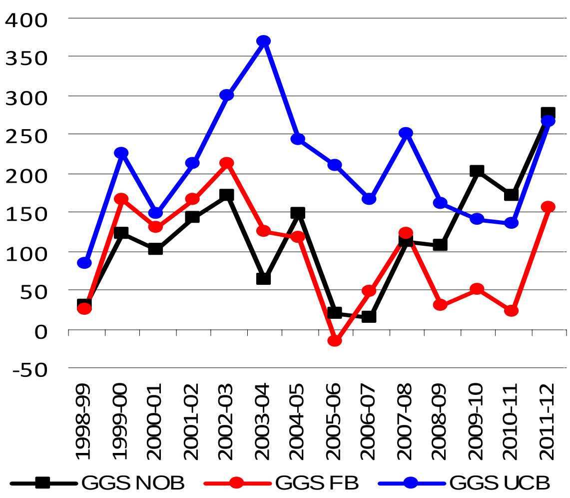


Public Non-Financial Corporations

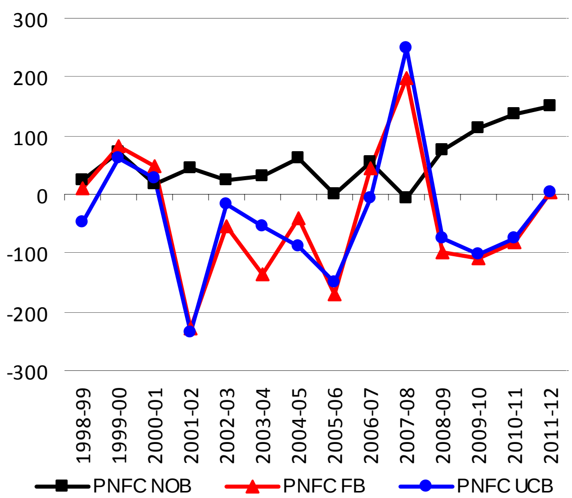


Tasmania – GGS and PNFC (in $m)

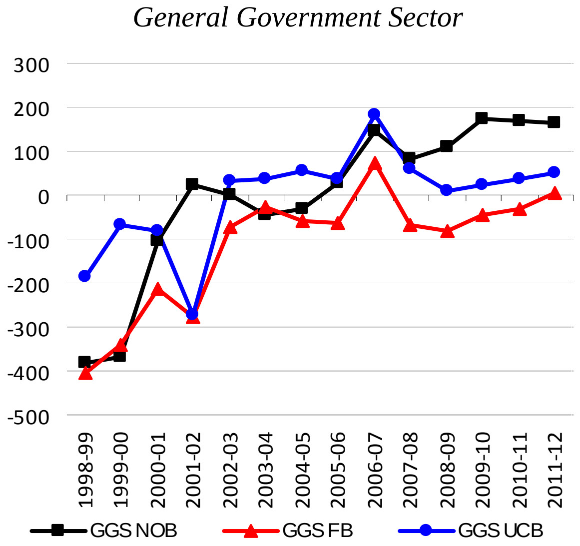
General Government Sector

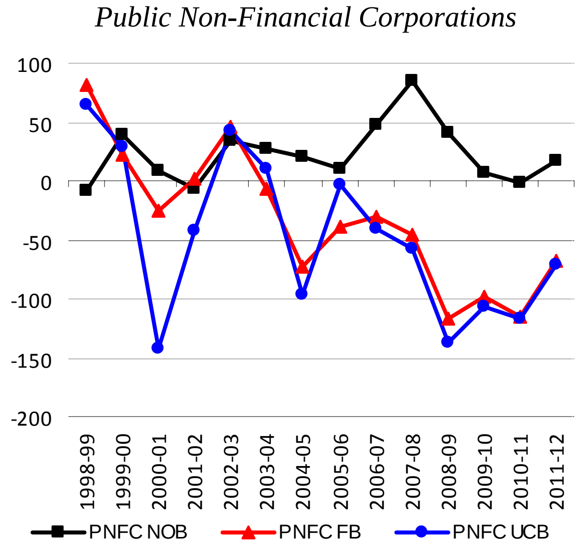


Public Non-Financial Corporations

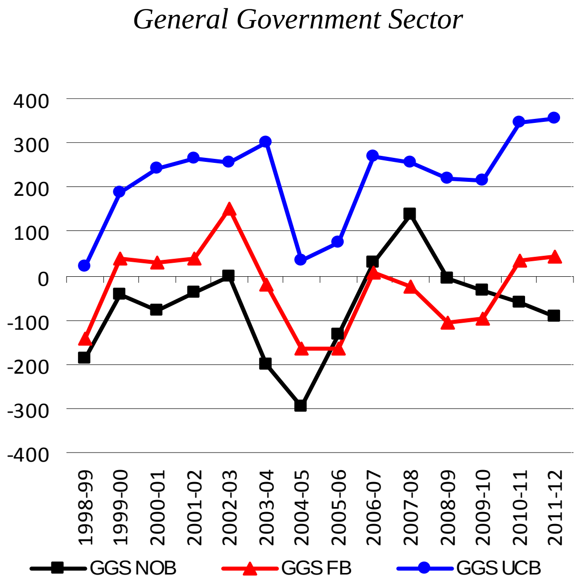


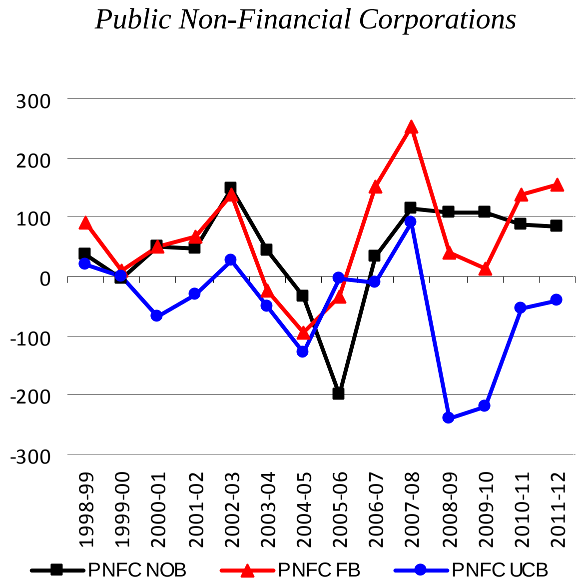
Northern Territory – GGS and PNFC (in $m)





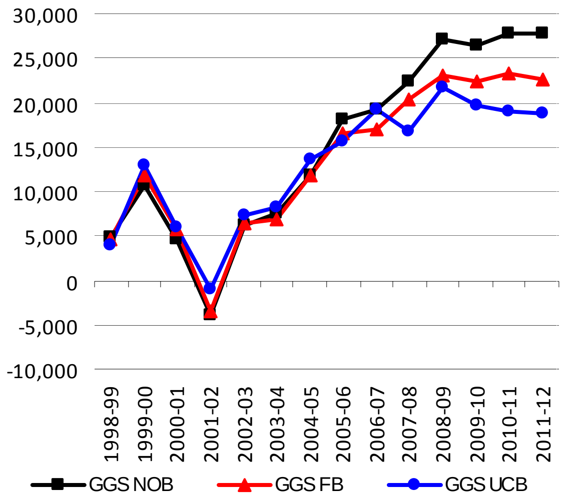
Australian Capital Territory – GGS and PNFC (in $m)



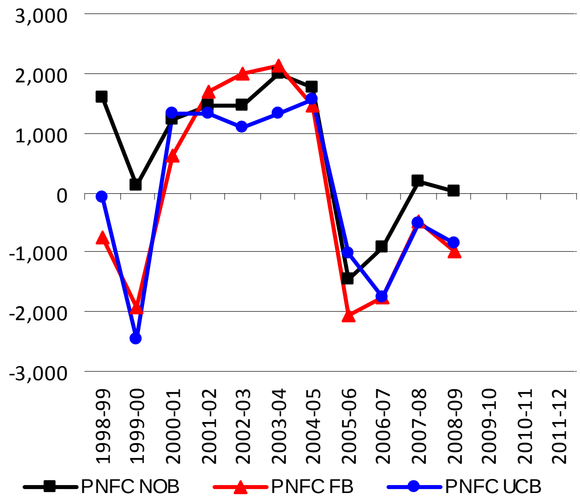


Commonwealth – GGS and PNFC (in $m)

General Government Sector



Public Non-Financial Corporations



3.21 In aggregate, the states are expected to record net operating surpluses in accrual terms for the GGS of about 0.3 per cent of GDP in 2007–08 and over the forward estimate period 2008–09 to 2010–11. The fall in states' operating balances, compared with 2005–06, largely reflects the impact of higher expenditures and slower revenue growth.[13]

3.22 The aggregate state fiscal balance (as distinct from the net operating balance) for the GGS is estimated to be in deficit by 0.5 per cent of GDP in 2007–08. This arises from the recent increased funding of capital expenditure. The deficit is expected to extend over the forward years. Western Australia is the only state expected to have a fiscal surplus in 2007–08 and in the forward years, reflecting its large operating surpluses, which are more than sufficient to cover its general government capital expenditures.[14]

3.23 The committee, from its own resources has attempted to provide a table that gives some broad understanding of what the above graphs may mean to a layperson.

3.24 The information contained in the state bottom lines graphs (Figure 3.1) is both complex and relatively high level. It provides an overall picture of the past and future financial performance of each jurisdiction. All of the various economic and fiscal activities that occur in a state are reflected in these bottom lines. As a result there is a limit to the extent to which such data can be interpreted. Different financial arrangements (such as the types of GBEs and relative economic circumstances)

13 Department of the Treasury, *Submission 25*, p. 1.

14 Department of the Treasury, *Submission 25*, p. 2.

between states make interstate comparisons difficult. However, it is possible to discern some basic overall projected trends within a state.

3.25 For instance, a positive NOB demonstrates that state revenues are meeting recurrent expenditure (in accrual terms). The gap between the NOB and the FB is an indication of the level of capital investment (including infrastructure investment). Adding state net debt (ND, defined in paragraph 3.27) position to this picture can provide information on whether state debt is being used to fund capital investment. Table 3.1 analyses the NOB, FB and ND positions of each state in the current budget year and the forward estimates period to 2011–2012. The descriptors used in this table, such as 'modest', 'stable', 'large', and 'sharp' are relative to the preceding period.

Table 3.1—Analysis of State fiscal and debt data, 2008–09 to 2011–12

State	Measure	GGS	PNFC
NSW	NOB	• modest positive and stable, suggesting recurrent expenditure met by revenue	• large positive and increasing, suggesting increasing revenues or decreasing expenses
	FB	• modest negative and increasing, suggesting small and declining capital investment	• large negative and stable, suggesting ongoing strong capital investment
	ND	• modest increase, suggesting debt funded infrastructure	• rising steadily, suggesting debt funded infrastructure
VIC	NOB	• modest positive and stable, suggesting recurrent expenditure met by revenue	• modest positive and stable, suggesting recurrent expenditure met by revenue
	FB	• modest negative and declining, suggesting small but increasing capital investment	• large negative and increasing, suggesting strong but declining capital investment
	ND	• rising steadily, suggesting debt funded infrastructure	• rising steadily, suggesting debt funded infrastructure
QLD	NOB	• modest positive with slight decline, suggesting recurrent expenditure met by revenue	• modest positive and steadily increasing, suggesting recurrent expenditure met by revenue
	FB	• large negative and stable, suggesting strong and steady capital investment	• large negative, increasing rapidly, suggesting very strong but sharply declining capital investment
	ND	• small negative (net investment), rising steadily, suggesting increasing use of debt funded infrastructure	• rising strongly, suggesting significant debt funded infrastructure
SA	NOB	• modest positive with moderate increase, suggesting improving operating balance	• near zero and stable, suggesting revenue matching recurrent expenditure
	FB	• large negative and stable, suggesting ongoing strong capital investment	• large negative and increasing, suggesting strong but declining capital investment
	ND	• rising steadily, suggesting debt funded infrastructure	• stable rising slowly, suggesting minor debt funded infrastructure

State	Measure	GGS	PNFC
WA	NOB	• large positive with strong decline, suggesting diminishing surplus	• minor negative (deficit) increasing to modest positive, suggesting improving operating balance
	FB	• moving from strongly positive to strongly negative, suggesting strong capital investment	• large negative but increasing rapidly, suggesting very strong but sharply declining capital investment
	ND	• minor negative (no net debt) and stable, suggesting little or no debt funded infrastructure	• slight increase, suggesting little debt funded infrastructure
TAS	NOB	• modest positive with steady increase, suggesting improving operating balance	• modest positive with steady increase, suggesting improving operating balance
	FB	• minor positive increasing over time, suggesting small and decreasing capital investment	• minor negative and increasing, suggesting moderate but declining capital investment
	ND	• small negative and decreasing, suggesting no debt funded infrastructure	• slight increase, suggesting little debt funded infrastructure
NT	NOB	• moderate positive with slight increase, suggesting improving operating balance	• modest positive and declining, suggesting recurrent expenditure is being met by revenue
	FB	• modest negative and steadily increasing, suggesting moderate but declining capital investment	• moderate negative and steadily increasing, suggesting strong but declining capital investment
	ND	• gradually decreasing, suggesting modest reduction in debt funded infrastructure	• rising steadily, suggesting increasing levels of debt funded infrastructure
ACT	NOB	• modest negative (deficit) steadily declining, suggesting a weakening operating balance	• modest positive and stable, suggesting recurrent expenditure is being met by revenue
	FB	• modest negative increasing to a modest positive, suggesting declining capital investment	• modest positive increasing over time, suggesting little capital investment
	ND	• small negative (net investment) and decreasing, suggesting no debt funded infrastructure	• modest positive rising gradually, suggesting low levels of debt funded infrastructure

Debt levels

3.26 Conceptually, the balance sheet is the representation of the assets and liabilities of government at a point in time. There are three key measures that are drawn from the balance sheet, which are typically of interest in analysing government.

3.27 The first is net debt (ND). ND is strictly defined as:

- The sum of deposits held, advances received, government securities issued, loans and other borrowings (liabilities); less

- The sum of cash and deposits, advances paid, investments, loans made and placements (assets).

3.28 The size of the ND is a measure which illustrates the potential call on recurrent resources from debt servicing, or conversely the potential revenue which might be gained from net investments (negative ND). Importantly, ND focuses on shorter-term liabilities, so liabilities such as superannuation are not typically included. Unfunded superannuation is discussed in the following chapter. A depiction of the 2008–09 and 2011–12 ND position of each state, for both the GGS and PNFC sectors, is presented in Table 3.2. These data show a general upward trend over time in ND levels across most jurisdictions, in both the GGS and PNFC sectors. Figure 3.2 below shows in graph form the relative debt position of each state.

Table 3.2—State and territory net debt positions, 2008–09 and 2011–12

	GGS (in $ million)		PNFC (in $ million)	
	2008–09	2011–12	2008–09	2011–12
NSW	6,191	7,809	23,833	36,790
VIC	3,739	9,465	7,278	13,415
QLD	-21,928	-13,277	30,847	40,455
SA	610	1,983	2,167	3,246
WA	-2,747	-2,041	11,985	15,022
TAS	-1,123	-1,665	2,076	2,360
NT	1,045	848	533	828
ACT[15]	-3,235	-4,421	585	834

Source: Parliamentary Library, September 2008

3.29 The next common measure is net financial worth (NFW). Like ND the NFW measure includes the amount of financial assets less financial liabilities. The difference is that NFW includes all financial assets and liabilities, such as provisions (like superannuation), whereas ND usually uses only selected financial assets and liabilities. It is therefore a wider measure than ND.

3.30 The final measure is the broadest measure on the balance sheet, measuring the net worth (NW) of government. NW is basically total assets less total liabilities (including superannuation provision), and is akin to the 'shareholders equity' concept in a corporation. Table 3.3 provides the 2008–09 and 2011–12 NW position of each state, for both the GGS and PNFC sectors.

15 The Net Debt figures for the ACT General Government Sector include superannuation related investments.

Table 3.3—State and territory net worth positions, 2008–09 and 2011–12

	GGS (in $ million)		PNFC (in $ million)	
	2008–09	**2011–12**	**2008–09**	**2011–12**
NSW	141,911	154,550	71,644	80,388
VIC	92,436	106,158	40,453	43,159
QLD	128,563	140,243	18,807	21,185
SA	22,425	25,427	16,116	17,910
WA	84,178	94,842	30,050	34,221
TAS	10,767	12,754	3,461	4,037
NT	2,946	3,671	974	985
ACT	13,514	15,211	5,402	6,244

Source: Parliamentary Library, September 2008

3.31 These data show that in general the NW of all jurisdictions is trending upwards over time in both the GGS and PNFC sectors.

3.32 The hierarchy of these data is important. NW measures a very broad figure on the worth of the government as if it were to be liquidated, implying how much the public owns through the government. The NFW excludes non-financial measures, and issues associated with their valuation (for example, a more valuable road, as measured on a balance sheet revaluation, doesn’t increase the resources of government to pay debt). The ND measure goes further and excludes some volatile financial measures such as superannuation (usually), which is subject to actuarial revaluation, and provides some methods to assess the operating cost impact of debt and the liquidity of government available to meet financial liabilities. It should be noted that differences in net debt among governments will partly reflect differences in the extent to which each government has chosen to hold financial assets vis-à-vis non-financial assets.[16]

3.33 These three measures are represented in Figure 3.2, from 1998–99 to the latest available forward estimates figures. Data to 2006–07 is drawn from ABS GFS data, while data and projections thereafter to 2011–12 are drawn from the Uniform Presentation Framework section of the relevant state/territory budget paper.[17]

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16 Department of the Treasury, *Submission 25*, p. 5.

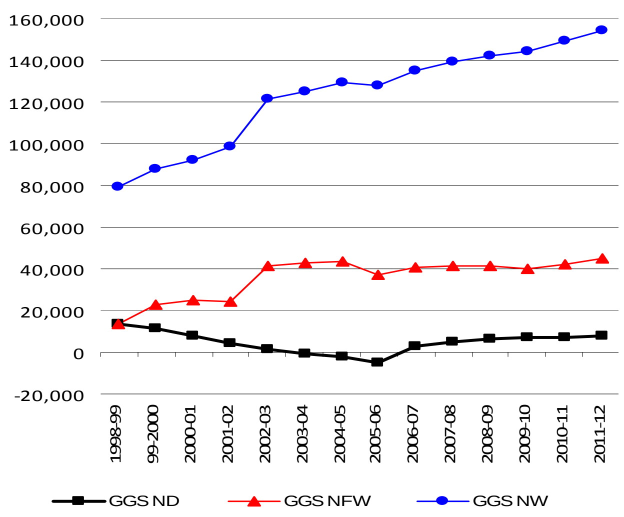
17 All data is in nominal (current) dollars, not accounting for any inflationary impact. Net worth figures are generally not available from the ABS, while only some forecast figures are available. The left hand chart relates to the GGS and the right hand chart relates to PNFC sector. Once again, volatility around 2006–07 may be more an issue of recording than actual changes in balance. In most jurisdictions there appears to be a level shift at the end of 2006–07, which implies a regime shift between the ABS and jurisdiction reporting. ND: Net debt. NW: Net worth. NFW: Net financial worth.

Figure 3.2—State and territory debt positions, 1998–99 to 2011–12

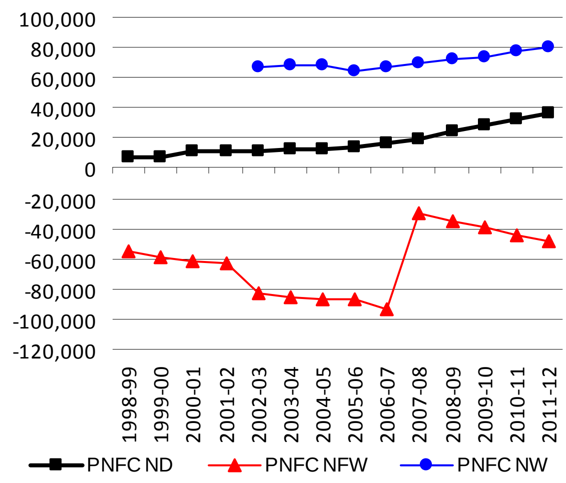
New South Wales

Key debt measures of the New South Wales GGS and PNFC (in $m)

General Government Sector



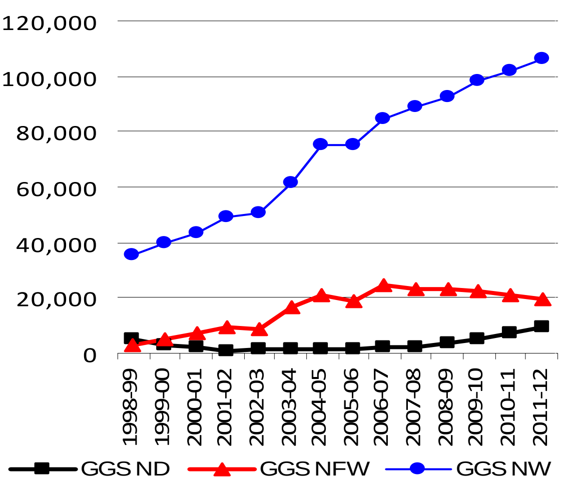
Public Non-Financial Corporations



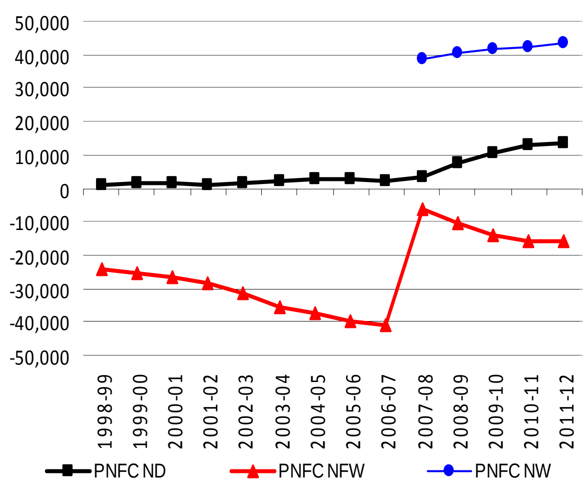
Victoria

Key debt measures of the Victorian GGS and PNFC (in $m)

General Government Sector



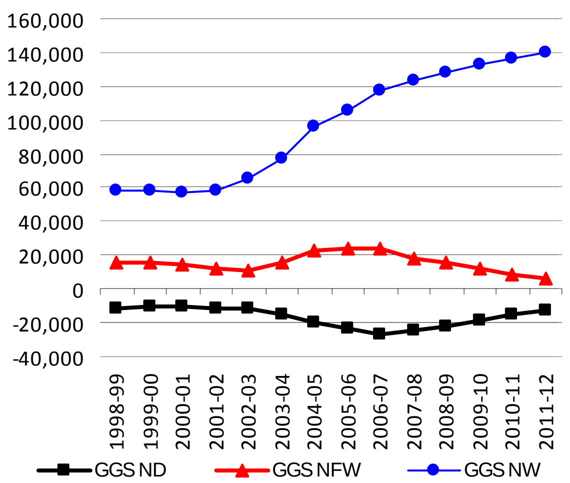
Public Non-Financial Corporations



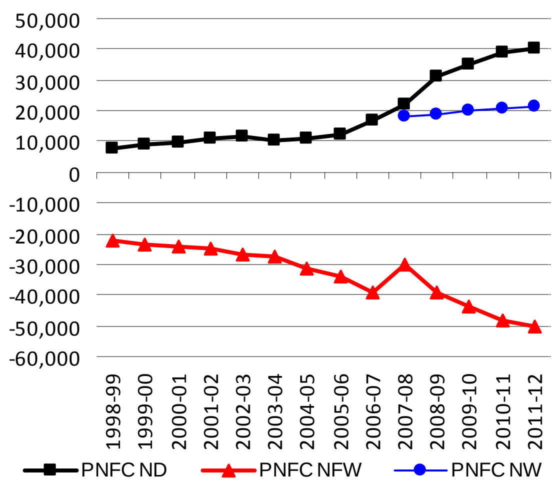
Queensland

Key debt measures of the Queensland GGS and PNFC (in $m)

General Government Sector



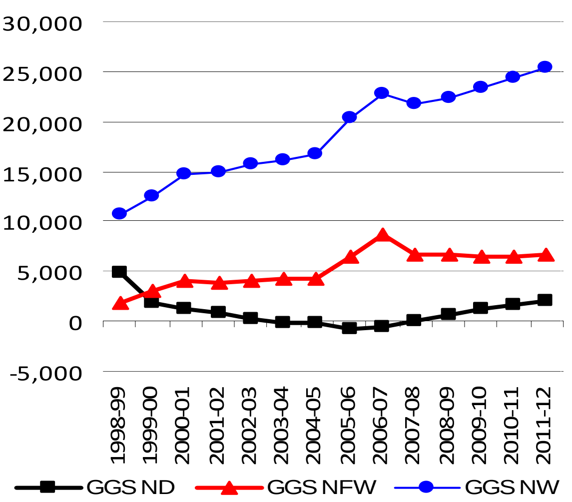
Public Non-Financial Corporations



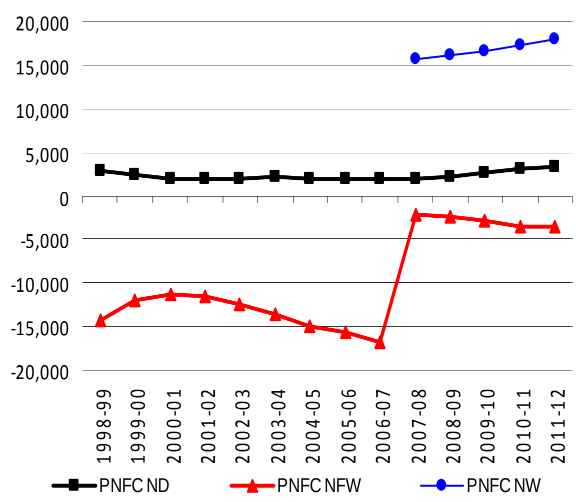
South Australia

Key debt measures of the South Australian GGS and PNFC (in $m)

General Government Sector



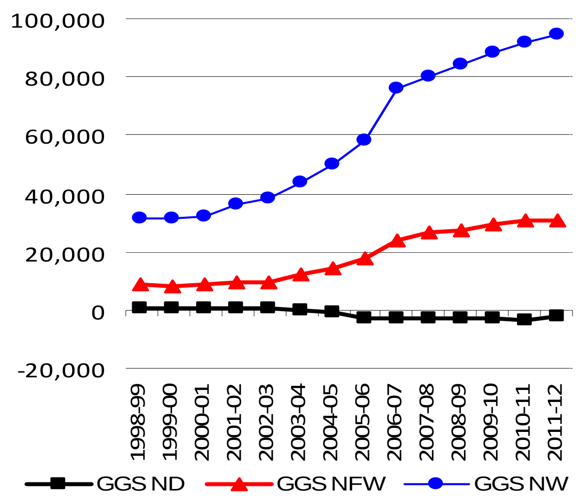
Public Non-Financial Corporations



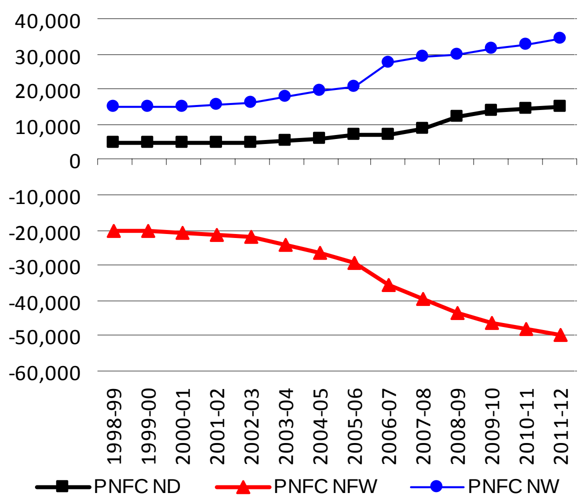
Western Australia

Key debt measures of the Western Australian GGS and PNFC (in $m)

General Government Sector



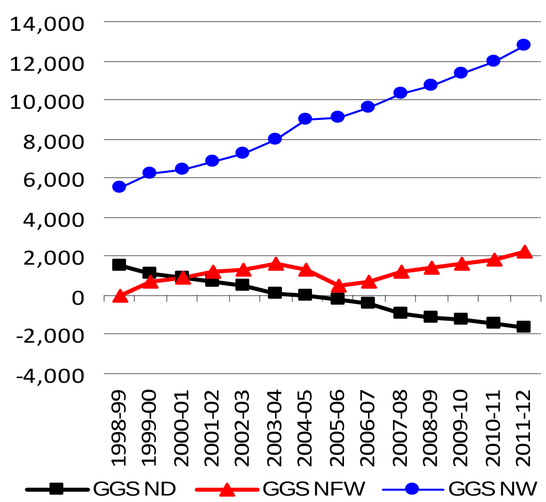
Public Non-Financial Corporations



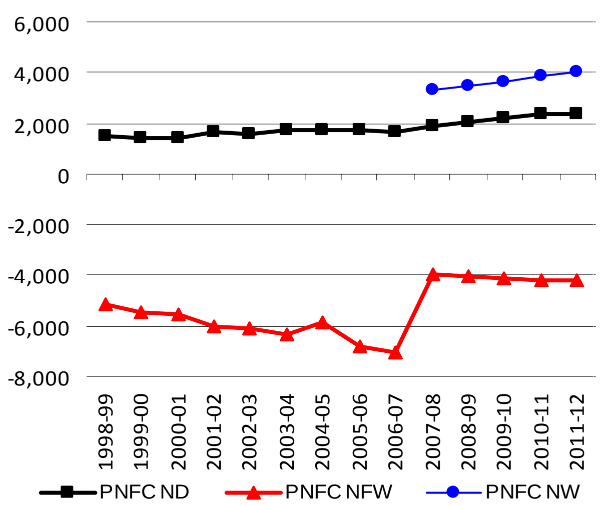
Tasmania

Key debt measures of the Tasmanian GGS and PNFC (in $m)

General Government Sector



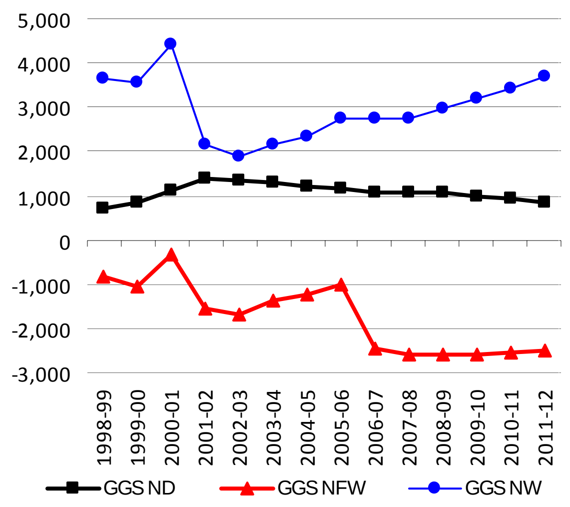
Public Non-Financial Corporations



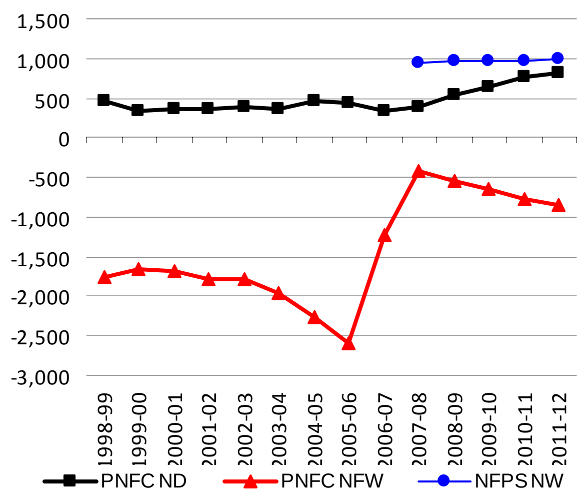
Northern Territory

Key debt measures of the Northern Territory GGS and PNFC (in $m)

General Government Sector



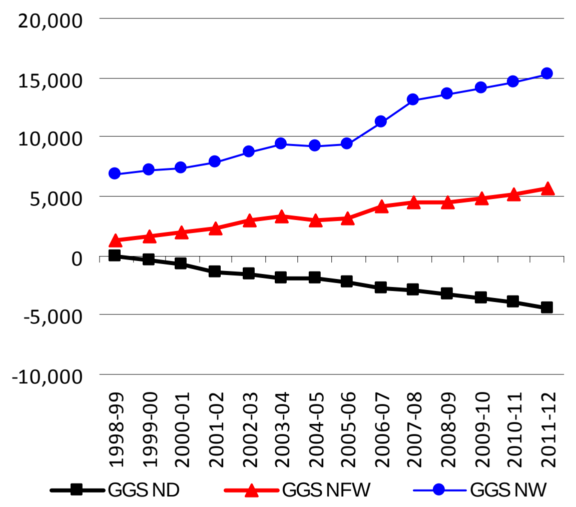
Public Non-Financial Corporations



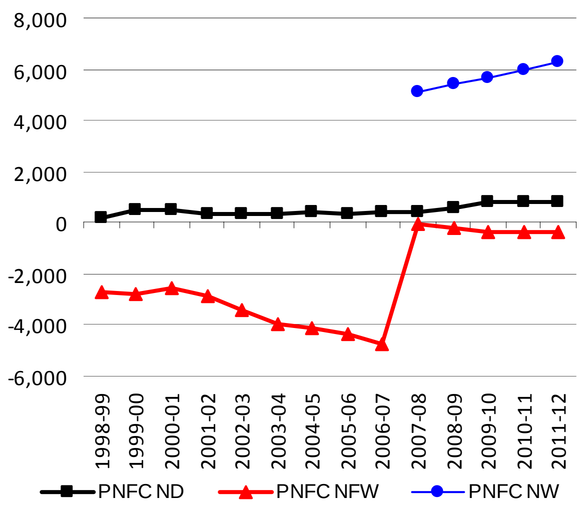
Australian Capital Territory

Key debt measures of the Australian Capital Territory GGS and PNFC (in $m)

General Government Sector



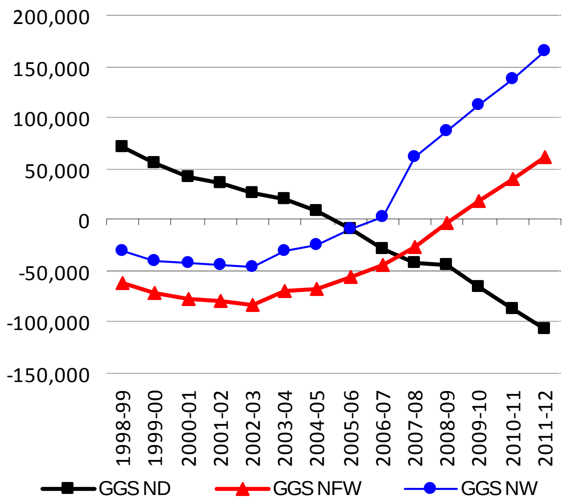
Public Non-Financial Corporations



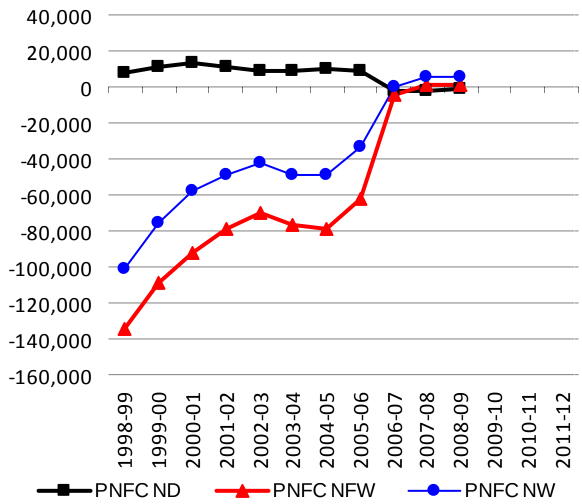
Commonwealth

Key debt measures of the Commonwealth GGS and PNFC (in $m)

General Government Sector



Public Non-Financial Corporations



3.34 The tabulated data on which these graphs are based forms Appendix 5 to this report.

3.35 Figure 3.2 demonstrates that most states are forecasting an increase in GGS ND in 2007–08 and in the forward years. Increased spending notwithstanding, Queensland, Western Australia, Tasmania and the Australian Capital Territory expect to have a ND position below zero (that is, a surplus) in 2007–08 and the forward years.[18]

3.36 However, the level of ND for the state PNFC sector is perhaps more relevant, because this sector owns nearly all of the stock of state public debt. It was estimated to be 4.5 per cent of GDP in 2006–07, up from 4.2 per cent in 2005–06.[19] Significantly, aggregate ND of the state total non-financial public sector (which combines GGS and PNFC) is expected to be $37.148 billion (3.3 per cent of GDP) in 2007–08. It is expected to increase to $86.265 billion (6.6 per cent of GDP) in 2010–11.[20]

3.37 Table 3.4 below disaggregates state level net debt for the PNFC sector. The forward figures are based on 2008–09 State Budget papers.

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18 Department of the Treasury, *Submission 25*, p. 5.

19 Department of the Treasury, *Submission 25*, p. 5. Note these figures are based on 2007–08 State Budget papers.

20 Department of the Treasury, *Submission 25*, p. 5.

Table 3.4—Net debt of State and territory Public Non-Financial Corporations, 2005–06 to 2010–11 (in $ million)

	2005–06	2006–07	2007–08	2008–09	2009–10	2010–11
NSW	13,873	16,895	18,639	23,833	28,268	32,782
VIC	2,981	1,946	3,449	7,278	10,717	12,666
QLD	12,326	16,969	22,282	30,847	35,183	39,119
SA	1,905	2,013	1,948	2,167	2,651	3,172
WA	6,978	6,904	8,941	11,985	13,599	14,290
TAS	1,729	1,689	1,924	2,076	2,242	2,345
NT	449	338	396	533	640	757
ACT	373	378	395	585	781	815
Total	40,614	47,132	57,974	79,304	94,081	105,947

Source: Parliamentary Library, September 2008.