

THE AUSTRALIAN LOAN COUNCIL

The Australian Loan Council is a Commonwealth-State ministerial council that coordinates public sector borrowing. The Loan Council consists of the Prime Minister of Australia and the Premier/Chief Minister of each State and Territory. However, in practice each member is represented by a nominee, usually the Treasurer of that jurisdiction, with the Australian Treasurer as Chairman.

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 traditionally meets annually in March to consider jurisdictions' nominated borrowings 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 THE 2007 AUSTRALIAN LOAN COUNCIL

The Loan Council met on 30 March 2007 to consider Loan Council nominations for 2007-08. The Loan Council approved each jurisdiction's nominated allocation. In aggregate, the nominations represent a surplus of \$4.3 billion (Table 18). The States nominated a deficit of \$12.8 billion and the Australian Government nominated a surplus of \$17.2 billion.

Table 18: Loan Council Allocation (LCA) nominations for 2007-08^(a)

	NSW \$m	VIC \$m	QLD \$m	WA \$m	SA \$m	TAS \$m	ACT \$m	NT \$m	A/Gov \$m	Total \$m
Nominated 2007-08 LCAs										
General government sector cash deficit(+)/surplus(-)	1,604	613	995	-363	259	-85	-6	40	-12,736	
PNFC sector cash deficit(+)/surplus(-)	3,395	1,553	4,694	778	28	148	39	4	882	
Non-financial public sector cash deficit(+)/surplus(-)(b)	4,988	2,179	5,688	415	287	63	34	44	-11,854	
<i>minus</i> Net cash flows from investments in financial assets for policy purposes(c)	-50	2	0	0	-6	-3	-1	0	4,878	
<i>plus</i> Memorandum items(d)	-309	180	77	-564	-307	21	-6	0	-431	
Loan Council Allocation	4,729	2,357	5,765	-149	-14	87	29	44	-17,163	-4,315
2007-08 tolerance limit	1,193	719	824	455	246	109	60	72	5,744	

(a) LCA nominations for 2007-08 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 (PNFC) sector, where actual estimates are unavailable. Each jurisdiction will publish an updated LCA estimate as part of its budget documentation. The 2 per cent (of non-financial public sector cash receipts from operating activities in each jurisdiction) tolerance limits around each jurisdiction's 2007-08 LCA are designed, inter alia, to accommodate changes to the LCA resulting from changes in policy.

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

(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. The Australian Government's estimates include cash flows from the sale of Telstra.

(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 non-financial public sector deficit/surplus 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.