

CHAPTER 5

TRENDS IN THE PHYSICAL ASSETS HELD AND NET FINANCIAL WORTH OF THE STATE GENERAL GOVERNMENT SECTOR

INTRODUCTION

- 1 The decisions States make in relation to the acquisition of physical assets and how the acquisitions are funded have an impact on State fiscal capacities. Understanding these relationships and what has been happening to them is important to the process of horizontal fiscal equalisation.
- 2 In the 2004 Review, the Commission aimed to give States the same capacity to provide physical assets for the delivery of assessed services through depreciation and net debt charges assessments. These assessments recognised differences in:
 - States' need for physical assets and the impact this had on the amounts States needed to borrow to provide these assets;
 - the impact that population changes had on accumulated budget deficits which also affected State borrowing requirements; and
 - their costs of borrowing.Attachment 5-A explains how this was done.
- 3 At the time of the 2004 Review, States were paying more debt charges on their gross debt than they were earning interest on their investments. States held net debt. This situation has now changed and States are earning more in interest than they are paying in debt charges. As a result the debt charges average expense has become a revenue and, except for depreciation, no assessment of State physical asset requirements has been undertaken since 2003-04. The 2010 Review will address the issue of how to ensure State needs relating to physical assets used in service provision are recognised in the assessments.
- 4 Over recent times, many States have signalled in their budget documents that changes are likely to occur in the rate of acquisition of physical assets and how they will be funded. They suggest

that expenditure on physical assets will increase rapidly because of population growth and economic development. They also suggest that States will increase their borrowing to fund this increase, although they will try to provide more assets through private public partnerships (PPPs). Increases in borrowing will have an impact on State net financial worth. Fiscal capacities are likely to change as States respond to their changing circumstances.

- 5 This chapter attempts to explore what has been happening in relation to State physical assets and net financial worth. It sets out available data on these aggregates. It presents the total for all States as well as the experiences of individual States. It also discusses the relationships set out in Attachment 5-B between these balance sheet aggregates and operating statement outcomes.

DATA AND SOME KEY CONCEPTS

Data

- 6 Australian Bureau of Statistics (ABS) Government Finance Statistics (GFS) data have been used for the analyses in this chapter. Since 1998-99, the ABS has published comprehensive data on each State operating statement, cash flow statement and balance sheet. Cash flow information has been comprehensively available since 1979-80.
- 7 Most operating statement expenses and cash flow expenditure data are available by government function. Balance sheet items are not available by function. Thus data are available by function on expenses and capital expenditure but not on physical or financial assets.
- 8 Non-financial assets and capital expenditure data are available by type of asset. They are disaggregated into produced and non-produced assets which themselves are disaggregated further.
- 9 While there are some concerns about the comparability¹ of the data used, they are the best available. In addition, it is hoped that by using them, their limitations may be revealed and their quality improved.

Some key ABS GFS concepts

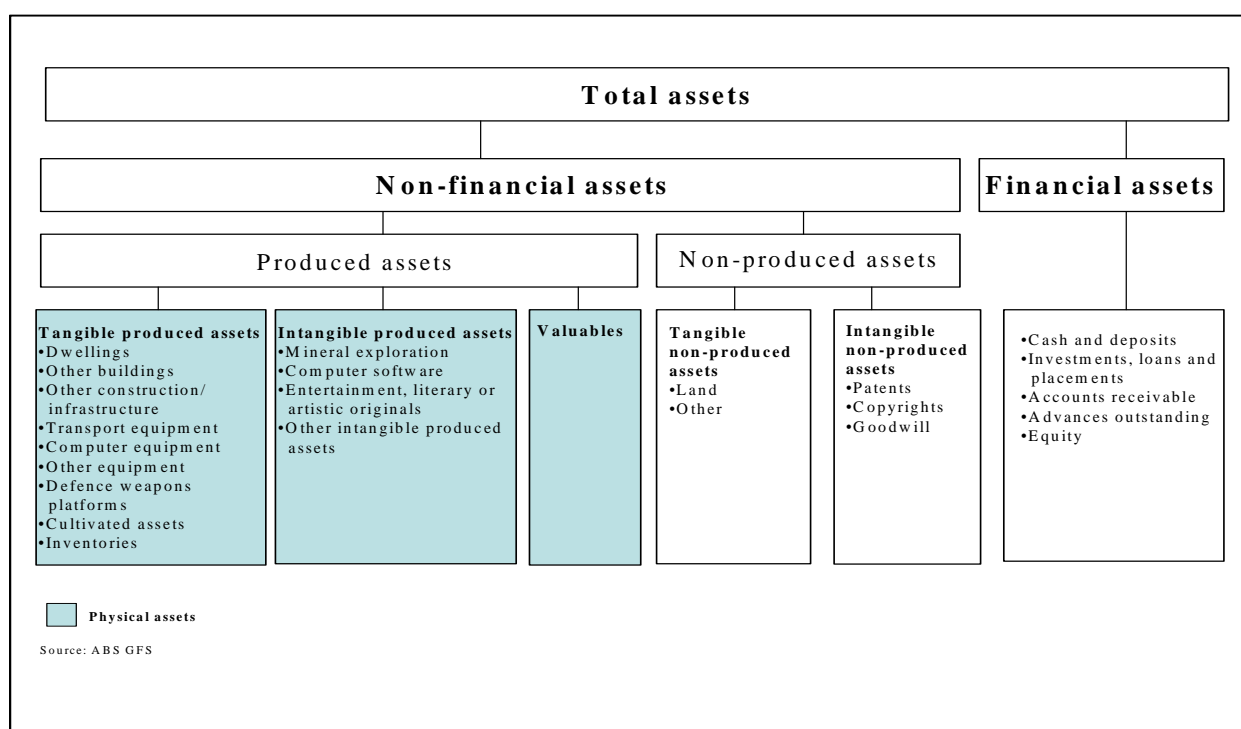
- 10 This chapter focuses on physical assets and net financial worth. Physical assets are a subset of what the ABS terms non-financial assets. Under the ABS definitions, non-financial assets are:
- non-financial produced assets, such as buildings, infrastructure, plant and equipment, cultivated assets, intangible assets (for example capitalised mineral exploration, computer software, artistic originals), inventories, and valuables (for example precious metals and stones, antiques and works of art);

¹ At face value, the data suggest some large differences between the States. In addition, there are known differences in coverage. For example, the data reflect the scope of the general government sector at the time they were collected. This has changed in different States at different times. Also, the ACT data include municipal transactions and stocks.

- non-financial non-produced assets, such as land and subsoil assets such as mineral deposits; non-cultivated biological resources and water resources such as virgin forests, fishing grounds and natural water resources; and intangible non-produced assets such as patents, copyrights and goodwill; and
- other non-financial assets which are assets not elsewhere classifiable.

11 In this chapter, the term physical asset is used to mean non-financial produced assets. Box 5-1 shows schematically the ABS GFS classification of assets.

Box 5-1 ABS GFS classification of assets



12 Net financial worth is defined by the ABS as the sum of financial assets minus the sum of liabilities. Financial assets include:

- cash and deposits, which includes notes, coins and cheques, cash and deposits in Australian currency and foreign currency, deposits placed in the short term money market, and units issued by cash management trusts and withdrawable share capital of building societies;
- investments, loans and placements, which include non-negotiable, non-transferable loans, other than advances, credit foncier loans, deferred payment schemes, securities such as promissory notes, bills of exchange, certificates of deposit, fixed term deposits, Treasury notes and bonds; redeemable preference shares, debentures, long term notes, and net value of swaps and other derivatives that are in a net asset position;
- accounts receivable, which include short and long term trade credit and accounts receivable, accounts and interest receivable, and prepayments made;

- advances outstanding, which includes loans and other non-equity financial assets acquired for policy rather than liquidity management purposes; and
 - equity, which includes claims on other entities entitling the holder to a share of the income of the entity and a right to a share of the residual assets of the entity should it be wound up. The item includes the market value of shares on issue in listed corporations and preference shares and convertible notes after conversion. It also includes the book value of assets (real and financial) less liabilities of unlisted public corporations.
- 13 Liabilities include:
- borrowing, including finance leases, loans and securities;
 - accounts payable, which includes short and long term trade debt and accounts payable, accounts and interest payable, and prepayments received;
 - provisions that are in the nature of liabilities, such as unfunded superannuation, other employee entitlements such as sick leave paid on resignation or retirement, recreation leave, long service leave, workers' compensation and other unfunded provisions, such as provisions for income tax and dividends if the underlying amounts are liabilities of the entity; and
 - other liabilities - this item covers all liabilities not elsewhere classifiable.
- 14 In this chapter, the term capital expenditure means the ABS' gross fixed capital formation. Gross fixed capital formation is a national accounting concept and is defined as the value of acquisitions less disposals of new and existing produced assets that can be used in production, other than inventories. Acquisition and disposal of valuables are excluded because, although they may be produced assets, valuables are not used in production. Gross fixed capital formation also excludes the acquisition and disposal of non-produced assets such as land, sub-soil assets and virgin forests. In practice, for transactions involving land and structures located on the land, separation of the value of land from the value of the structures may be difficult and the transactions are classified to the category (gross fixed capital formation or other transactions in non-financial assets) accounting for the major part of the value of the transaction. Acquisition of produced assets includes own-account capital works. Disposal of produced assets excludes their consumption through depreciation.
- 15 Gross fixed capital formation can be split into replacement and non-replacement capital expenditure. Following the ABS practice, replacement capital expenditure equates with depreciation. Non-replacement capital expenditure is the difference between gross fixed capital formation and depreciation.
- 16 The term 'non-replacement capital expenditure' used in this chapter is slightly different to the ABS' net acquisition of non-financial assets, which is defined as gross fixed capital formation less depreciation plus changes in inventories plus other transactions in non-financial assets. Any recoverable or deductible GST is excluded.

- 17 GFS net operating balance plus net acquisition of non-financial assets is equal to GFS net lending(+)/borrowing(-).

Valuation and depreciation practices

- 18 *Australian Accounting Standard AASB1041* provides guidance on how physical assets should be valued by public sector entities. Most States interpret this standard as requiring all classes of physical assets except for plant, equipment and vehicles to be measured at fair value. Buildings, cultural assets, earthworks, infrastructure systems and roads are assumed to be measured in this way. 'Fair value' is defined in paragraph 11.1 of the standard as 'the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction'. Fair value is therefore usually based on market value.
- 19 Revaluations for assets measured using fair value must be made with sufficient regularity to ensure that the amount recorded in the accounting record for each asset does not differ materially from its fair value at the reporting date. States tend to revalue these assets annually, biennially or once every three years.
- 20 Plant, equipment and vehicles are generally measured at cost. Cost is usually the cost of acquisition less any accumulated depreciation and accumulated recoverable amount write-downs.
- 21 *Australian Accounting Standard AAS 4* depreciation notes that the operating capacity of assets is used up over their useful lives and that this consumption needs to be accounted for as a depreciation expense. There are many depreciation methods available for use discussed in AAS 4. The simplest and most common is the straight line method which is used when assets expire at a constant rate over their useful lives. Other common methods include reducing balance (where an asset is expected to yield more service in the earlier part of its operating life) and units of use (where the loss of service potential is allocated as the asset is used in production).

Conclusion

- 22 While the GFS framework and accounting standards provide guidance on how assets should be classified, valued and depreciated, States adopt different practices and caution should be used in making comparisons of asset values, depreciation expenses or derivatives.
- 23 The most reliable GFS data are transaction based data, although classification differences can mean these are not comparable across States. The greater the estimation required, or reliance on a range of methodologies, to obtain a value for an operating statement or balance sheet item, the more uncertainty surrounds its accuracy and comparability. In other words, capital expenditure data are more likely to be reliable than depreciation data or asset values. The range of assumptions and judgments required to derive net worth make it a highly subjective outcome which is unlikely to be comparable across States.

KEY BALANCE SHEET OUTCOMES

24 Table 5-1 presents the key aggregates from the ABS GFS general government sector balance sheet² for all States as at end June 2006. It shows the following:

- States hold considerable physical assets, such as buildings, plant and equipment and other constructed assets. These are used to provide government services, such as in education, health and transport. At the end of June 2006, the State general government sector held over \$205 billion worth of physical assets. This represents almost \$10 000 for every man, woman and child in Australia. Victoria, Western Australia and South Australia had less physical assets per capita than average. The ACT had the highest value of physical assets per capita of all States.³
- For all States, other non-financial assets including land represent about a third of State non-financial assets. However, on a State by State basis, this split is quite different. For example, for Western Australia, other non-financial assets represent half of total non-financial assets. For the ACT, they represent only 6 per cent. For South Australia and the Northern Territory, they represent 15 and 12 per cent⁴, respectively.
- States also hold considerable net financial worth. The net value as at end June 2006 was \$106 billion or \$5 000 per capita. Only the Northern Territory had negative net financial worth, with its liabilities exceeding its financial asset holdings. Tasmania had net holdings of less than \$1 000 per capita while Victoria and South Australia also had below average holdings. The ACT and Western Australia had well above average holdings. Queensland and New South Wales had about average holdings.
- As at end June 2006, States' net cash, loans and investments exceeded their accounts payable and borrowings by some \$30 billion (their aggregate net debt). Only Victoria and the Northern Territory had net debt. Victoria's per capita debt was quite low (some \$350 per capita) but the Northern Territory's was high at \$5 580 per capita. Queensland and the ACT had large per capita net investments (negative net debt) – respectively, almost \$6 000 and \$7 000 per capita.
- The equity States hold in private and public corporations contributes to State net financial worth. States held \$172 billion in equity, some \$8 400 per capita. The States with the largest equity investments on a per capita basis were Western Australia, the ACT and the Northern Territory. Those with below average equity were Victoria, Queensland and Tasmania.
- All States had substantial unfunded superannuation liabilities and other employee entitlements, representing more than 60 per cent of total liabilities (see Table 5-C-1). Average per capita liabilities were \$4 300. Tasmania, the ACT and the Northern Territory

² Attachment 5-C provides a summary of the ABS GFS balance sheets of the total State general government sector from 1999 to 2006. It also provides definitions of key concepts used in the chapter.

³ ACT assets include those classified in other jurisdictions as local government assets.

⁴ These differences may be the result of very different policies on asset holdings or they could reflect different valuation or classification practices.

had well above average liabilities, while Victoria and Western Australia had below average.

Table 5-1 State general government balance sheets, June 2006

	NSW	Vic	Qld	WA	SA	Tas	ACT (a)	NT	Aust
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Non-financial assets									
Physical assets (b)	68 821	38 191	50 747	19 482	11 779	6 888	5 903	3 281	205 091
Other non-financial assets	22 145	18 457	30 925	20 916	2 078	1 754	392	461	97 130
Total	90 966	56 648	81 672	40 398	13 857	8 642	6 295	3 742	302 221
Net financial worth (c)									
Net investment (d)	4 149	-1 783	23 243	2 737	119	259	2 228	-1 145	29 807
Equity (e)	65 446	39 196	22 066	21 870	14 190	3 049	4 219	2 240	172 275
Unfunded superannuation and employee entitlements (f)	-29 116	-16 326	-19 786	-7 009	-7 847	-3 555	-3 156	-2 135	-88 930
Other net assets	-3 627	-1 346	-2 162	-56	-616	712	-141	25	-7 210
Total	36 852	19 741	23 361	17 542	5 846	465	3 150	-1 015	105 942
Net worth (g)	127 818	76 389	105 033	57 941	19 703	9 107	9 445	2 727	408 163
	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc
Non-financial assets									
Physical assets	10 120	7 550	12 638	9 591	7 607	14 128	18 031	15 992	10 017
Other non-financial assets	3 256	3 649	7 701	10 296	1 342	3 597	1 199	2 250	4 744
Total	13 376	11 199	20 339	19 887	8 949	17 725	19 230	18 242	14 761
Net financial worth									
Net investment	610	-352	5 788	1 347	77	531	6 806	-5 582	1 456
Equity	9 623	7 749	5 495	10 766	9 164	6 253	12 888	10 920	8 414
Unfunded superannuation and other employee entitlements	-4 281	-3 227	-4 927	-3 450	-5 068	-7 291	-9 641	-10 408	-4 343
Other net assets	-533	-266	-538	-28	-398	1 460	-431	122	-352
Total	5 419	3 903	5 818	8 636	3 776	954	9 623	-4 948	5 174
Net worth	18 795	15 101	26 157	28 523	12 725	18 678	28 852	13 294	19 935

Note: Numbers with positive signs indicate an asset holding. Numbers with negative signs indicate a liability.

(a) Includes local government.

(b) Includes non-financial produced assets, such as buildings and plant and equipment. Non-financial non-produced assets, such as land, are included in other non-financial assets.

(c) Net financial worth is equal to financial assets (cash, investments, accounts receivable, advances outstanding and equity) minus liabilities (deposits held, proceeds from advances, borrowing, accounts payable, provisions and other liabilities). It is a broader measure than net debt in that it incorporates provisions made (such as superannuation, but excluding depreciation and bad debts) as well as holdings of equity. Net financial worth includes all classes of financial assets and liabilities, only some of which are included in net debt.

(d) Net investment is the same as negative net debt. Net debt is defined as being equal to (deposits held plus proceeds from advances plus borrowing) minus (cash and deposits plus investments plus advances outstanding). It does not include provisions. For this table, where a State has net debt, this is shown as a negative net investment. Where a State has net investments, net debt is shown as a positive. This allows the table to add.

(e) Includes equity investments, including equity of public corporations.

(f) Unfunded accrued expenses for superannuation purposes and other unfunded employee entitlements. Information provided by the States to the Commission indicates that not all States report these liabilities, and related recurrent expenses, in a uniform manner. The ABS advises that guidelines are being developed to ensure that uniform reporting is achieved.

(g) Net worth is equal to assets minus liabilities, plus allowances for doubtful debts.

Source: ABS GFS, 2005-06.

PHYSICAL ASSETS

- 25 State governments use physical assets in providing a wide range of State services. In aggregate, transport services use the largest proportion (34 per cent), followed by education (21 per cent), health (14 per cent), law and order (7 per cent) and public housing (4 per cent)⁵. In 2005-06, States spent the largest proportion of their capital expenditure on transport assets (31 per cent), followed by health (17 per cent), education (16 per cent) and law and order assets (11 per cent)⁶.
- 26 About 95 per cent of the States' infrastructure and equipment are owned by government⁷. The value of these assets are recorded on State balance sheets and depreciated in operating statements. Some assets are provided through leasing arrangements – both operating and financing leases. The value of assets provided through financing leases is, like owned assets, included on State balance sheets and depreciated. Assets provided through operating leases are not recognised on balance sheets but are recorded as an expense on operating statements over the term of the lease.
- 27 Nearly all States have now entered into PPPs to provide assets. The ACT is the exception. PPP assets are created through private sector financing and control for a concession (usually a pre-defined period). They typically include a capital component and an on-going service delivery component paid for by a government payment stream, user charges or a combination. Because of the high upfront costs in developing and implementing PPPs, most are large, high value projects. Table 5-2 provides an indicative summary of State use of PPPs as at November 2007.

Table 5-2 Number of PPPs^(a), November 2007

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT
Projects under construction or completed	13	18	2	1	1	1	0	1
Projects in the bidding and bidding evaluation stages	2	2	2	0	2	0	0	0
Projects proposed	9	8	6	3	3	2	4	0

(a) There are differences in how States define and report on PPPs relevant to the State general government sector. The numbers of PPPs reported in this table are only indicative of their presence in the State general government sector. Source: National PPP Forum (2008); Infrastructure and Privatisation report (2008), 22 January; Malone, N (2005) 'The evolution of private financing of government infrastructure in Australia', *The Australian Economic Review*, vol 38, no 4 pp 420-30.

- 28 There is currently no Australian accounting standard that addresses how to account for such private sector financed assets. States have indicated that PPPs are not recognised as assets or liabilities on balance sheets but are expensed systematically over the term of the agreements. At this stage, States are providing a very small, but increasing, proportion of their assets in this way.

⁵ Commonwealth Grants Commission estimates.

⁶ GFS estimates.

⁷ Information provided by States in response to Commission data request, 2006.

- 29 A small quantity of assets held by States has been the result of gifts or transfers from local governments or the private sector after contractual arrangements have been met.
- 30 States appear to have very different quantities of physical assets. Table 5-1 shows that Victoria holds physical assets worth only \$7 550 per capita while the ACT holds \$18 031 per capita. This may reflect differences in revaluation or classification practices, different composition of expenses, scale effects, or differences in State policies on how capital is used. While the pattern of asset ownership per capita has remained similar across the States over time, there have been some changes of note.

Changes in value of physical assets over time

- 31 Table 5-3 shows the value of State physical assets since end June 1999. It shows that, other than for the Northern Territory, they have grown in value over time in total and in per capita terms.

Table 5-3 Physical assets, State general government sector, current prices, June 1999 to June 2006

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT (a)	Aust
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Jun-1999	55 783	25 923	31 740	12 709	8 674	5 458	5 069	4 158	149 515
Jun-2000	55 551	27 282	30 775	12 919	8 447	4 819	5 088	4 165	149 046
Jun-2001	56 815	28 024	32 341	13 362	9 688	4 786	4 948	4 314	154 277
Jun-2002	60 126	31 147	33 327	14 630	9 965	4 944	4 992	3 404	162 534
Jun-2003	62 171	32 578	38 783	15 362	10 376	5 154	5 068	3 234	172 727
Jun-2004	62 448	33 280	41 687	15 612	10 237	5 683	5 405	3 170	177 522
Jun-2005	65 594	35 849	46 333	18 071	10 593	6 306	5 745	3 199	191 690
Jun-2006	68 821	38 191	50 747	19 482	11 779	6 888	5 903	3 281	205 091
	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc
Jun-1999	8 749	5 559	9 136	6 918	5 807	11 569	16 308	21 732	7 945
Jun-2000	8 613	5 786	8 715	6 934	5 623	10 220	16 216	21 452	7 828
Jun-2001	8 699	5 870	8 998	7 076	6 423	10 150	15 602	21 953	8 001
Jun-2002	9 099	6 446	9 083	7 644	6 576	10 471	15 583	17 178	8 323
Jun-2003	9 336	6 669	10 321	7 933	6 815	10 856	15 713	16 311	8 743
Jun-2004	9 317	6 739	10 840	7 947	6 691	11 836	16 705	15 936	8 883
Jun-2005	9 725	7 177	11 785	9 060	6 891	13 026	17 690	15 876	9 483
Jun-2006	10 120	7 550	12 638	9 591	7 607	14 128	18 031	15 992	10 017

(a) The Northern Territory introduced accrual accounting in 2002-03, following a trial balance sheet in 2001-02. With the transition to accrual accounting, the valuation methodologies became more robust (supported in the main by independent valuations conducted by the AVO). These changes in methodology resulted in a significant reduction in the value of the Territory's physical assets, largely related to the Territory's road network. A similar stabilising trend in asset values was observed for other States when they introduced accruals accounting, between 1999 and 2000.

Source: ABS *Government Finance Statistics*, catalogue no 5512, 2005-06.

- 32 Over the period covered by the ABS GFS data, the value of physical assets grew, on average, by 37 per cent in aggregate, or 26 per cent on a per capita basis. In New South Wales, Tasmania, the

ACT and the Northern Territory the value of assets per capita grew less than average. The value of New South Wales's assets grew by 16 per cent, Tasmania's grew by 22 per cent, whilst the ACT's grew only by 11 per cent. The substantially lower than average growth in physical assets for the ACT is largely due to the transfer during this period of some significant functions (land development) and assets (water and sewerage pipes) from the general government to the public trading sector. The major bushfire in 2003 also had a significant impact. Over the same period, the value of the Northern Territory's physical assets decreased by 26 per cent. This substantial decrease was due to significant downward valuations of existing assets following the introduction of the accruals accounting framework (see footnote to table 5-3).

- 33 Table 5-4 shows the changes in the value of physical assets owned by States in constant prices⁸. It is indicative of how stocks or quantities of assets grew, without price effects. It shows that total State stocks of physical assets per capita have grown by only five per cent over the period. They reduced in value during 1999-2000 and 2000-01 before increasing from a low of \$9 163 per capita as at end June 2001 to \$10 017 per capita as at end June 2006.

Table 5-4 Physical assets, State general government sector, 2005-06 prices^(a), June 1999 to June 2006

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Aust
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Jun-1999	66 953	31 113	38 096	15 254	10 411	6 551	6 084	4 990	179 452
Jun-2000	65 549	32 192	36 314	15 245	9 967	5 687	6 004	4 915	175 871
Jun-2001	65 064	32 093	37 037	15 302	11 094	5 481	5 666	4 940	176 678
Jun-2002	67 529	34 982	37 430	16 431	11 192	5 553	5 607	3 823	182 546
Jun-2003	67 583	35 414	42 159	16 699	11 279	5 603	5 510	3 515	187 762
Jun-2004	67 257	35 843	44 897	16 814	11 025	6 121	5 821	3 414	191 192
Jun-2005	68 330	37 344	48 266	18 825	11 035	6 569	5 984	3 332	199 685
Jun-2006	68 821	38 191	50 747	19 482	11 779	6 888	5 903	3 281	205 091
	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc
Jun-1999	10 500	6 672	10 965	8 304	6 970	13 886	19 573	26 083	9 536
Jun-2000	10 163	6 827	10 283	8 182	6 635	12 060	19 134	25 313	9 236
Jun-2001	9 962	6 722	10 304	8 103	7 355	11 624	17 868	25 140	9 163
Jun-2002	10 219	7 239	10 202	8 586	7 386	11 760	17 502	19 294	9 347
Jun-2003	10 148	7 249	11 219	8 624	7 408	11 801	17 081	17 731	9 504
Jun-2004	10 034	7 258	11 674	8 559	7 207	12 747	17 992	17 163	9 567
Jun-2005	10 130	7 477	12 276	9 438	7 178	13 569	18 427	16 538	9 879
Jun-2006	10 120	7 550	12 638	9 591	7 607	14 128	18 031	15 992	10 017

(a) Using the general government State and local gross fixed capital formation deflator. The same deflator has been used for all States.

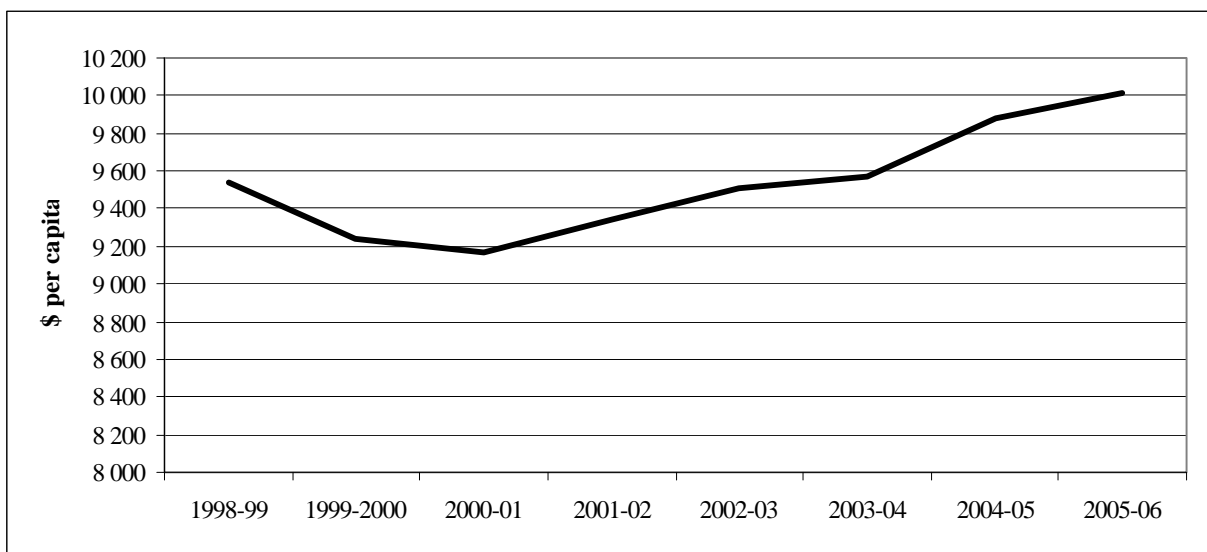
Source: ABS *Government Finance Statistics*, catalogue no 5512, 2005-06.

⁸ The assumption that prices rose in all States at the same rate may also be of concern.

34 For individual States, physical assets per capita remained fairly constant, except for the Northern Territory. Per capita stocks of physical assets rose in all States but New South Wales, the ACT and the Northern Territory from end June 2000⁹. For New South Wales, stocks per capita fluctuated, finishing at end June 2006 just below its end June 1999 level. For the Northern Territory stocks per capita decreased over the entire period, a reduction of 39 per cent. Most of the fall occurred between end June 2002 and end June 2003, the year in which the Territory adopted accrual accounting.

35 Figure 5-1 illustrates this pattern for the total State general government sector. Figure 5-2 illustrates the pattern for individual States.

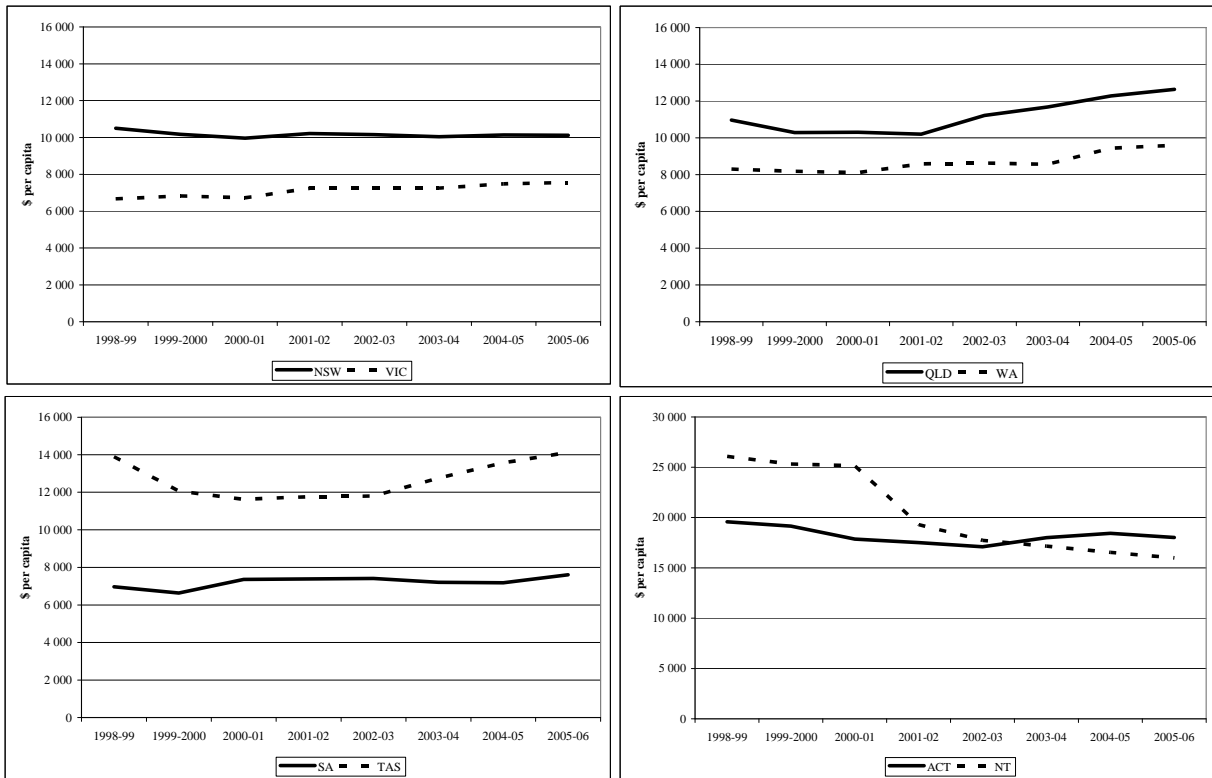
Figure 5-1 Estimated physical assets per capita, State general government sector, 2005-06 prices^(a), 1998-99 to 2005-06



(a) Using the general government State and local gross fixed capital formation deflator. Values are as end June. Source: ABS GFS.

⁹ Stocks of assets fell in all States but Victoria in 1999-2000. GFS changed from a cash to an accrual basis in 1998-99 and the fall in asset values may reflect the bedding down of accrual concepts and the use of improved recording and valuation methods for the production of the new State balance sheets.

Figure 5-2 Estimated physical assets per capita by State, State general government sector, 2005-06 prices^(a), June 1999 to June 06



(a) Using the general government State and local gross fixed capital formation deflator. Values are as at end June.
Source: ABS GFS.

- 36 There can be several reasons why a State’s requirement for physical assets can vary independently from the level of services provided in the State. For example:
- greater use of private services could reduce demand for publicly provided services and assets, such as the growing share of children educated in private schools;
 - increased use of asset provisions alternatives, such as PPPs, could reduce the quantity of assets held by State governments;
 - assets could be used more productively, reducing the quantity required;
 - assets used to deliver services could be transferred to government business enterprises; and
 - there could be a change in the composition of government services which changes the capital needs per capita.
- 37 **Greater use of private services.** The use of private services has increased in Australia. For example, the proportion of students in non-government schools has increased steadily, as shown in Table 5-5. Similarly, the share of private hospital services has increased over time.

Table 5-5 Use of private services

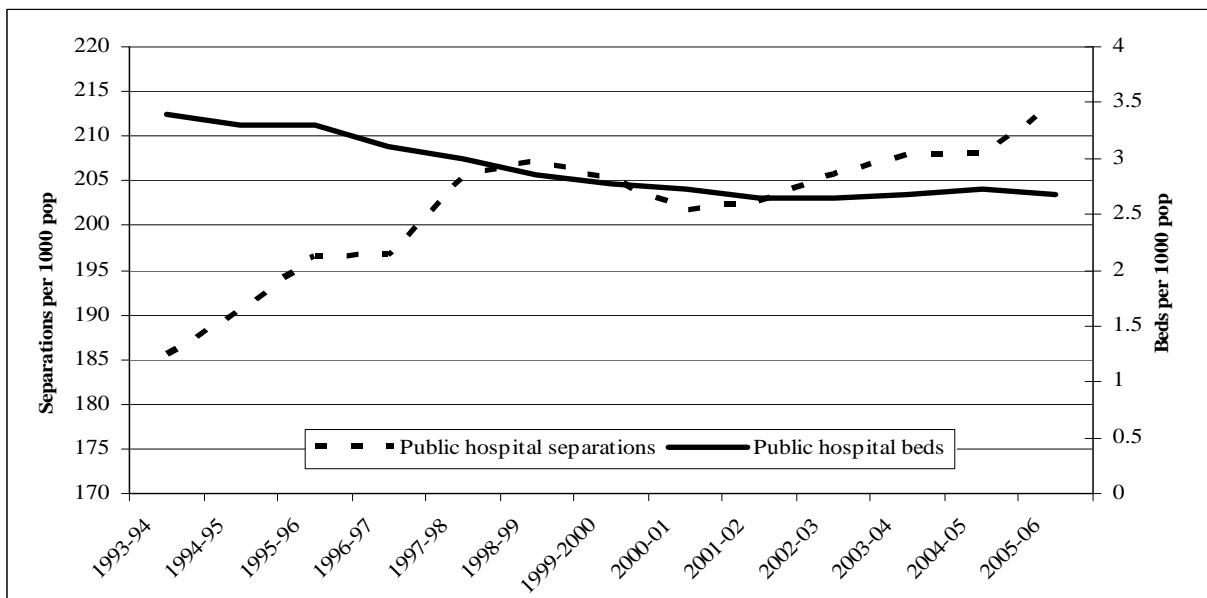
	1985	1990	1995	2000	2004
	%	%	%	%	%
Share of students in non-government schools	25.8	27.9	29	30.8	33.4
Share of separations in private hospitals	na	na	30.5	36.9	39.1

na: not available.

Source: ABS, *Year Book Australia*, Australian Institute of Health and Welfare, Australian Hospital Statistics.

- 38 **Public private partnerships.** According to the National PPP Council, States have 37 PPPs completed or under construction as at November 2007. Almost half of those projects (18) are located in Victoria. The six smallest States have only six PPPs between them. The ACT has none.
- 39 There are 43 PPPs either proposed or in the bidding and bidding evaluation stages. Ten of them are located in Victoria and 22 in the six smallest States.
- 40 The total value of these projects is likely to be considerably less than \$10 billion. Given the available information, it is difficult to arrive at an estimate of the likely contribution PPPs are making to State physical assets provision.
- 41 **Increasing productivity.** Data on the number of hospital beds, which is used as a proxy for physical stock in the hospital sector, average length of stay and separations show increased productivity in the hospital sector. More specifically, Figure 5-3 shows declining number of beds in public hospitals but increasing number of separations per bed. This is mainly due to a decrease in average length of stay. Similarly, the proportion of road user per total road length has increased over time (Table 5-6).

Figure 5-3 Public hospital separations and beds per 1000 population



Source: Australian Institute of Health and Welfare, Australian Hospital Statistics.

Table 5-6 Population and road length

	1995	2003
Road length (a)	1 565 000	1 642 612
Million vehicle kilometre travelled (MVKT)	160 200	192 815
MVKT per road length	0.102	0.117

(a) State total road lane-km including, local, State and national roads.

Source: Austroads, Roadfacts, 1999 and 2005.

- 42 **Change in ownership of government business enterprise assets.** States have corporatised or privatised many services such as urban transit and electricity. However, this does not appear to have significantly affected States' general government sector equity. Equity has grown at an annual rate of 6.4 per cent since end June 1999 compared with 7.2 per cent, on average for all financial assets. This may be because the timing of the decisions to corporatise in most States was taken in the 1980s and 1990s.
- 43 **Compositional change.** The transfer of assets to government business enterprises can also have resulted in State government sectors providing less capital intensive services. A shift to less capital intensive services will see assets per capita decline. Instead of providing rolling stock for rail services, States now provide subsidies. Instead of building public housing, some States provide grants by way of direct subsidy or leasing. On the other hand, some services may require more assets to deliver best practice services. For example, technological changes in the delivery of health services may mean higher asset to expense inputs.

Reasons for change in the value of assets held by States

- 44 The value of physical assets change because of net additions to the stock or revaluations to reflect changes in market values. ABS GFS data do not identify these two sources of changes in the value of assets. However, they can be estimated:
- Net additions to stock = gross fixed capital formation – depreciation.
- Revaluations = total change in value of stock – net additions.
- 45 Net additions to the stock of assets represent new or non-replacement assets. Gross fixed capital formation represents the value of all stock purchased less sales. Depreciation is a measure of what assets States themselves consider have been used up and needs to be replaced through capital expenditure. Deducting depreciation from gross fixed capital formation will give an estimate of net additions to stock. For example, gross fixed capital formation in 2005-06 was \$10 754 million and the depreciation expense was \$6 446 million. Gross fixed capital formation on additions to the stock was therefore \$10 754 million minus \$6 446 million, \$4 308 million.
- 46 Any further change in value of stock would then be due to revaluations.

47 The ABS data used in the way described above suggest, on average, 39 per cent of increases in the value of physical stock over the period were due to additions and 61 per cent were due to revaluations. Table 5-7 illustrates the calculations.

Table 5-7 Changes in value of physical assets^(a), State general government sector, current prices, 1998-99 to 2005-06

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Aust
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Value of physical stock June 1999	55 783	25 923	31 740	12 709	8 674	5 458	5 069	4 158	149 515
<i>plus</i> expenditure on physical assets	19 833	11 839	15 863	6 163	3 248	993	1 074	1 589	60 606
<i>less</i> depreciation	12 348	6 530	10 545	3 814	2 794	1 141	965	1 007	39 148
<i>equals</i> net addition to physical stock	7 485	5 309	5 318	2 349	454	-148	109	582	21 458
<i>plus</i> revaluations and other	5 553	6 959	13 689	4 424	2 651	1 578	725	-1 459	34 118
Value of physical stock June 2006	68 821	38 191	50 747	19 482	11 779	6 888	5 903	3 281	205 091

(a) Net addition to physical stock is the sum of non-replacement capital expenditure over the period (total capital expenditure minus accumulated depreciation). The difference between this sum and total change is attributed to revaluations and other.

Source: ABS GFS.

48 These proportions vary considerably between States. However, over the period, all States except Tasmania spent enough to replace their assets and add to their stock. Tasmania did not spend enough to cover its depreciation but the revaluations of its stock increased its value at the end of the period. The Northern Territory spent more than enough to cover its depreciated assets and added to its stock but reduced the value of the stock it held by some 22 per cent. As noted earlier, this was the result of the fall in the value of its roads following the introduction of accrual accounting.

49 Other observed differences in Table 5-7 could be due to different depreciation and valuation policies. Table 5-7 shows depreciation over the seven year period represented 19 per cent of the value of assets at the end of the period. Except for the Northern Territory¹⁰, State depreciation was between 16 (Tasmania and the ACT) and 24 per cent (South Australia) of asset values at the end of the period. Table 5-8 shows that depreciation as a proportion of State assets has been about 3 per cent annually on average, but has varied across States and over time. It has been highest in Queensland, South Australia and the Northern Territory (average of 4 per cent) and lowest in New South Wales and the ACT (2.7 and 2.6 per cent respectively).

50 Table 5-7 also shows that, on average, revaluations over the period represented 16 per cent of asset values at the end of the period. They represented some 20 per cent of asset values for most States, with the highest revaluations occurring in Queensland (26 per cent) and the lowest in New South Wales (8 per cent).

¹⁰ The Northern Territory's depreciation represented some 31 per cent of the value of its assets at the end of the period because of the large reduction in the value of assets it held.

51 The observations above depend on the assumption that depreciation provisions are equal to replacement capital expenditure over the period.

Table 5-8 Depreciation as a proportion of State physical assets, State general government sector, 1998-99 to 2005-06

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Aust
	%	%	%	%	%	%	%	%	%
1998-99	1.9	3.0	4.3	3.3	3.7	1.6	2.5	3.6	2.9
1999-2000	2.6	2.8	4.7	3.5	4.0	2.9	2.4	3.6	3.3
2000-01	2.5	2.9	4.3	3.4	3.4	2.9	2.7	4.3	3.1
2001-02	2.7	2.8	4.5	3.9	3.9	3.0	2.6	3.8	3.3
2002-03	2.9	2.9	3.8	3.9	3.9	3.2	2.8	3.9	3.2
2003-04	3.1	3.0	3.5	3.4	4.2	2.9	2.5	4.4	3.3
2004-05	3.1	3.0	3.4	3.4	4.3	2.9	2.6	4.3	3.2
2005-06	3.1	2.9	3.3	3.0	3.7	3.0	2.7	4.3	3.1

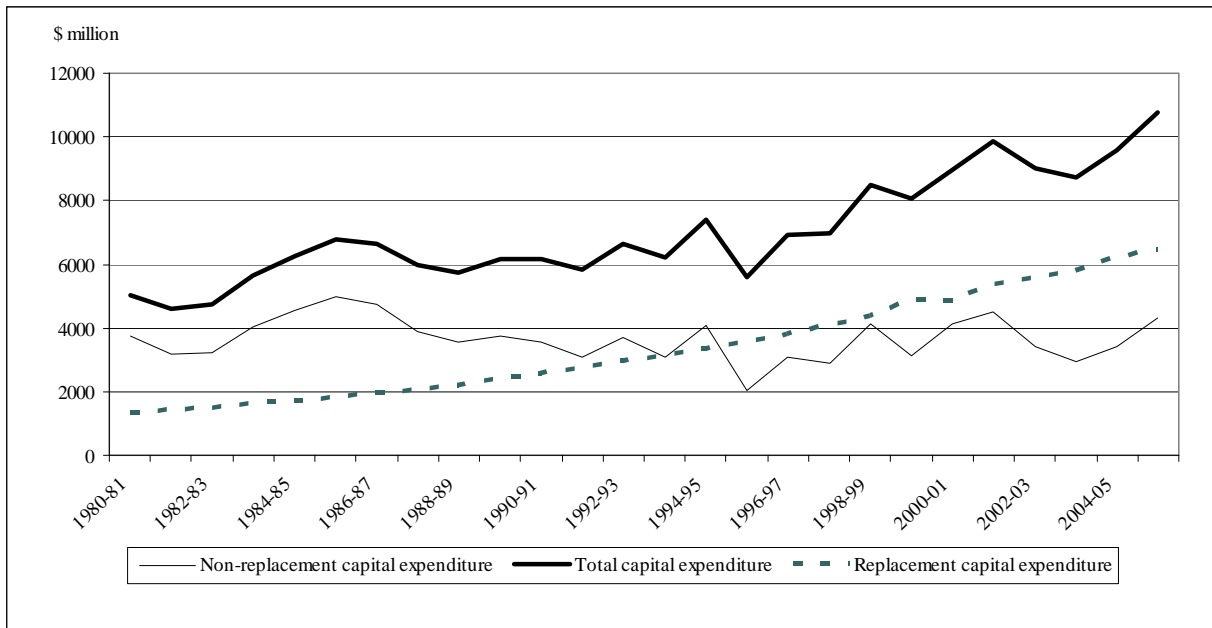
Source: ABS *Government Finance Statistics*, catalogue no 5512, 2005-06.

52 Capital expenditure funds the replacement of assets which are past their useful life and net additions to capital stock. However, as noted above, ABS GFS data on capital expenditure are not split between replacement and non-replacement expenditure. On the assumption that what States themselves allocate to depreciation is a measure of annual State expenditure on replacement, a time series of capital stocks can be constructed.

53 Figure 5-4 shows capital expenditure in constant prices – in total and split between replacement and non-replacement expenditure. It suggests that since the early 1980s, total State capital expenditure has been sufficient to replace assets, and to increase capital stock¹¹, but at a reducing rate. Depreciation (replacement capital expenditure) has increased slightly faster than total capital expenditure. Non-replacement capital expenditure in real terms has fallen as a result.

¹¹ ABS GFS do not provide depreciation figures before 1998-99. The depreciation figures for 1980-81 to 1997-98 were estimated.

Figure 5-4 Capital expenditure in Australia, State general government sector, 2005-06 prices^(a), 1980-81 to 2005-06



(a) Using the general government State and local gross fixed capital formation deflator.
Source: ABS GFS.

54 Attachment 5-D shows this information for each State. It shows a similar pattern for the four larger States. The four smaller States have had flatter constant price total capital expenditure. In addition, for these States, there were some years where total capital expenditure was less than replacement expenditure (depreciation expenses).

55 States have told us that they make decisions about the level of capital expenditure and asset acquisition based on:

- analyses of community needs for services. This may include information on demographic characteristics, population growth information, and community expectations;
- desired community outcomes, such as the availability of improved technologies;
- high level government priorities for service delivery, such as changes required to implement best practice;
- departmental/agency level policies for service provision, including replacement policies;
- costing of services and assets; and
- proposals or alternatives for procurement of assets.

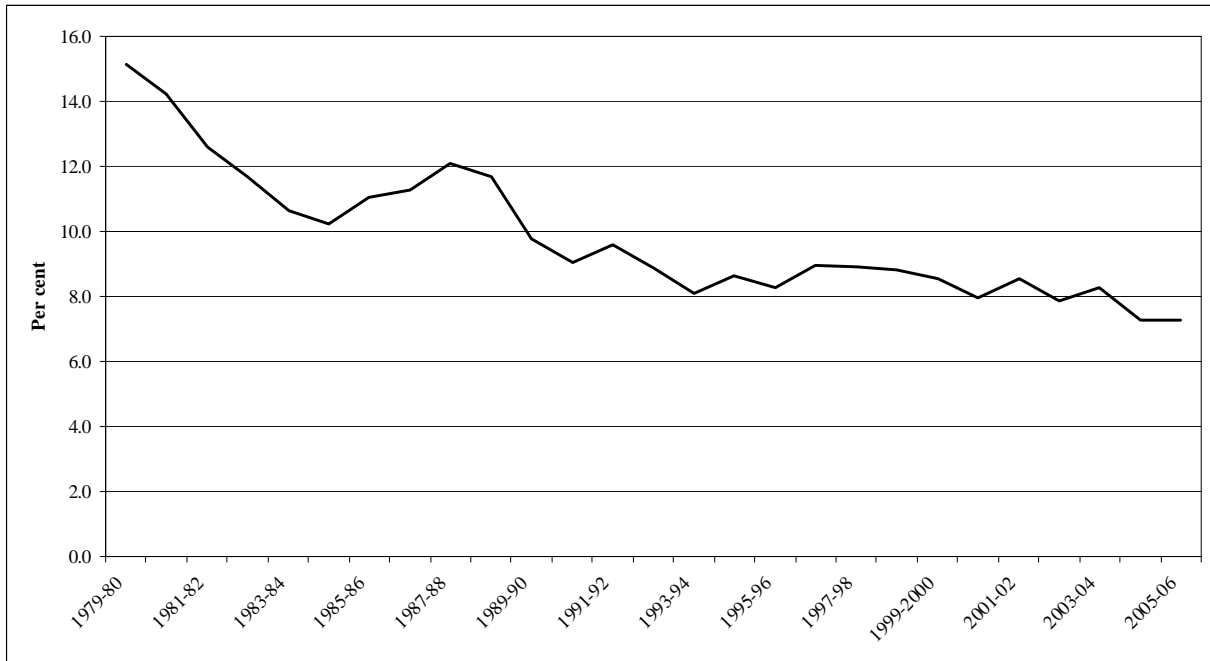
56 The next section considers capital expenditure as a proportion of State expenses and per capita.

Capital expenditure

Proportion of State expenses

57 Figure 5-5 shows that State expenditure on the acquisition of assets has grown more slowly than State expenses. Annual capital expenditure now represents about 7 per cent of total State expenses. It has declined steadily from about 15 per cent since the early 1980s.

Figure 5-5 Capital expenditure as a proportion of total expenses, State general government sector, current prices, 1979-80 to 2005-06



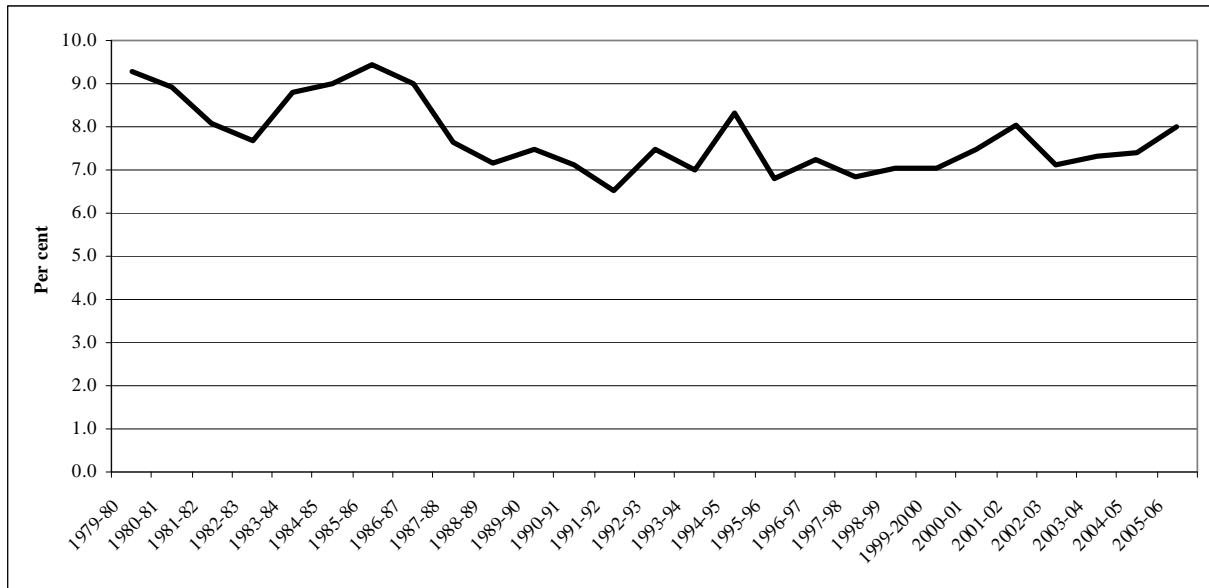
Source: ABS GFS.

58 This decline is partly due to the difference in changes in prices between recurrent expenses and capital expenditure. Figure 5-6 shows capital expenditure as a proportion of total expenses in constant prices. It shows a much smaller decline than Figure 5-5, with the ratio of capital expenditure to State expenses falling from 9 to 8 per cent. The difference between the two figures is due to higher growth in prices for current expenses compared with capital expenditure¹². Between 1979-80 and 2005-06, the current expenses price index grew by 285 per cent while the capital expenditure price index grew by 252 per cent.

59 Part of the decline could also be due to a reduced need for government owned assets for the reasons discussed in paragraphs 37 to 43, such as greater use of private services, compositional changes resulting in State government sectors providing less capital intensive services or alternative procurement methods.

¹² Current expenses were adjusted with the ABS national account general government, State and local final consumption expenditure deflator and capital expenditure was adjusted with the general government State and local gross fixed capital formation deflator.

Figure 5-6 Capital expenditure as a proportion of total expenses, State general government sector, 2005-06 prices^(a), 1979-80 to 2005-06

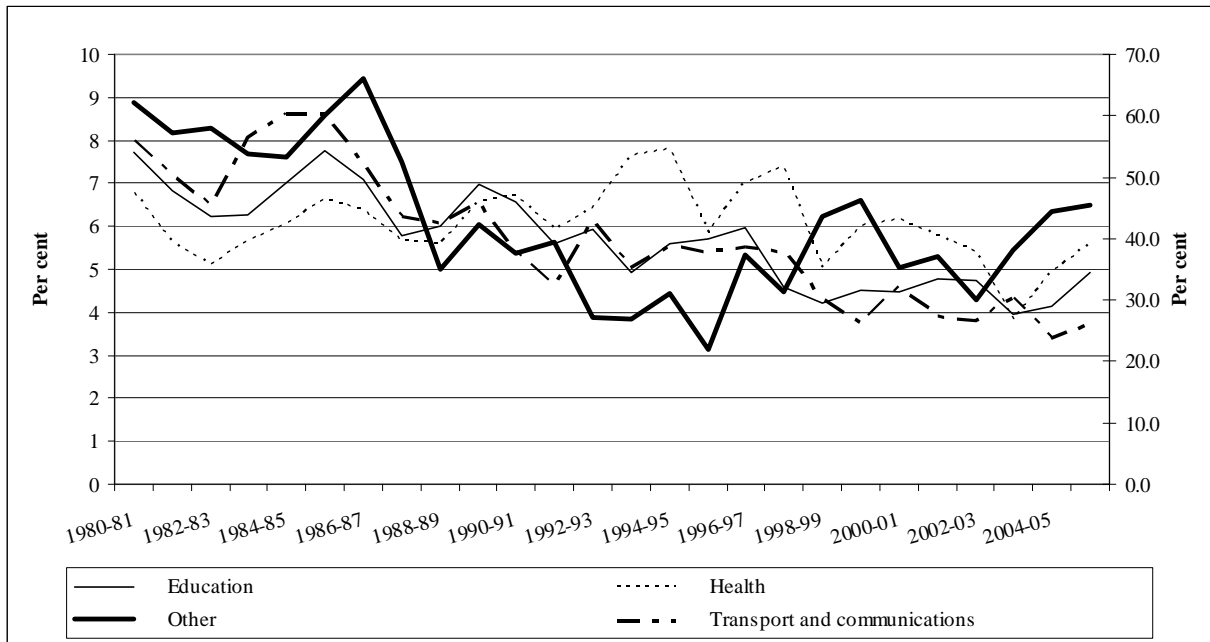


(a) Current expenses were adjusted using the ABS National Accounts general government, State and local final consumption expenditure deflator. Capital expenditure was adjusted using the general government State and local gross fixed capital formation deflator.

Source: ABS GFS.

60 Figure 5-7 shows that capital expenditure on all functions as a proportion of expenses on those functions has also declined. It suggests that there have been some compositional changes as capital expenditure on health services as a proportion of health expenses has declined less than on other services. In the 1980s, it represented the smallest proportion of expenses but is now the second highest. The transport and communications function was the second highest but is now the lowest. The health change is likely to be due to changes in technological requirements and the transport change to the corporatisation or privatisation of State transport services. Capital expenditure on other services as a proportion of expenses has remained the most capital intensive.

Figure 5-7 Capital expenditure as a proportion of functional expenses, State general government sector, current prices, 1980-81 to 2005-06



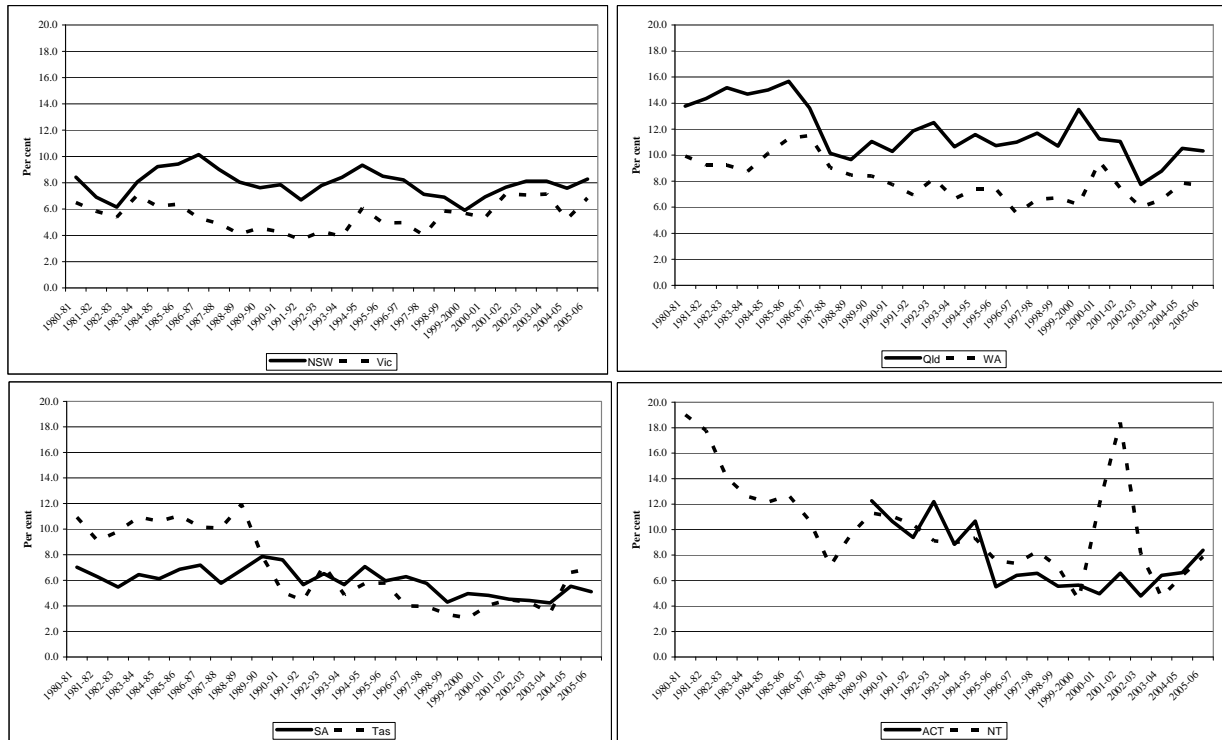
Note: Transport and communications refer to the right vertical axis.
Source: ABS GFS.

61 This declining trend in capital expenditure as a proportion of total expenses was experienced by all States. More specifically, State proportions of capital expenditure to total State expenses show the following (Figure 5-8).

- New South Wales — the proportion capital expenditure represented of State expenses has been around 8 per cent.
- Victoria — after steadily declining from 6 per cent to less than 4 per cent in 1993-94, the proportion started to increase but has remained low compared with other States.
- Queensland — its proportion has halved over the last 25 years but has remained well above the national average.
- Western Australia — its proportion declined until the early 1990s and since then has generally remained below the national average.
- South Australia — its proportion has declined up to 2001-02 and picked up slightly after. In recent years, its ratio has been well below the national average.
- Tasmania — its pattern has been similar to that of South Australia.
- The ACT — its proportion has been generally constant and below the national average.

- Northern Territory — in the last ten years, its proportion has been around the national average¹³.

Figure 5-8 Capital expenditure as a proportion of total expenses by State, State general government sector, 2005-06 prices, 1980-81 to 2005-06



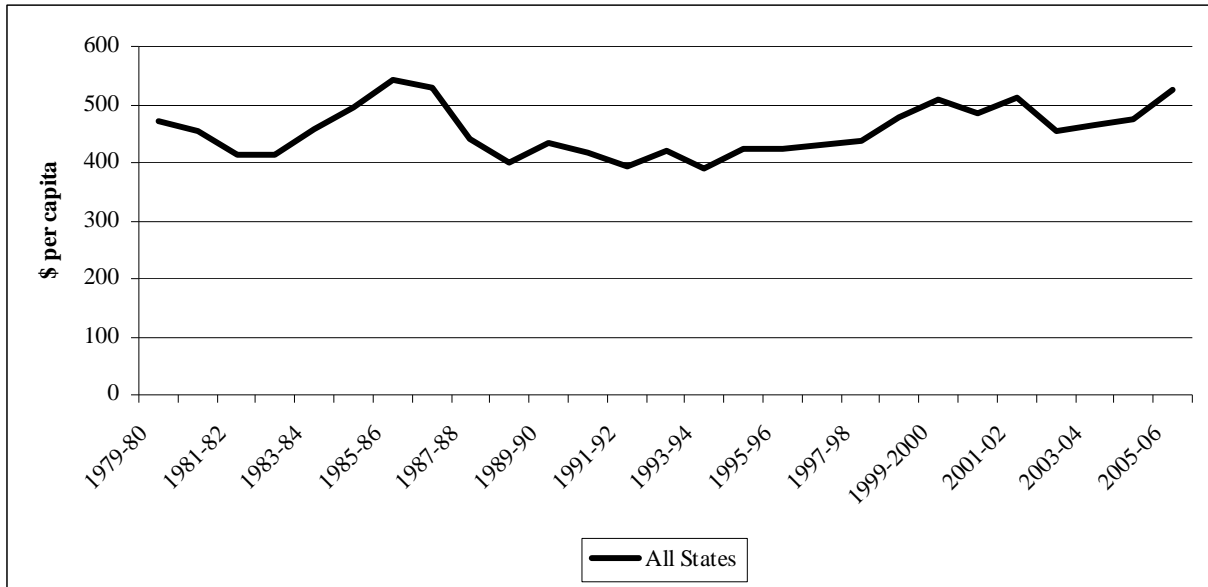
Source: ABS GFS.

Capital expenditure per capita

- 62 Figure 5-9 shows total capital expenditure in constant prices per capita for all States. On a per capita basis, total capital expenditure has been relatively constant, fluctuating between \$400 and \$500 per capita since 1979-80. It occasionally exceeded \$500 per capita, including in 2005-06.
- 63 Figure 5-10 shows total per capita expenditure in constant prices per capita for each State. There were much greater fluctuations in the per capita spending of individual States:
- Queensland generally spent well above the all-State average.
 - Western Australia and the ACT spent more than average.
 - New South Wales spent about average.
 - Capital spending per capita for Tasmania and the Northern Territory has fallen rapidly since the early 1980s.

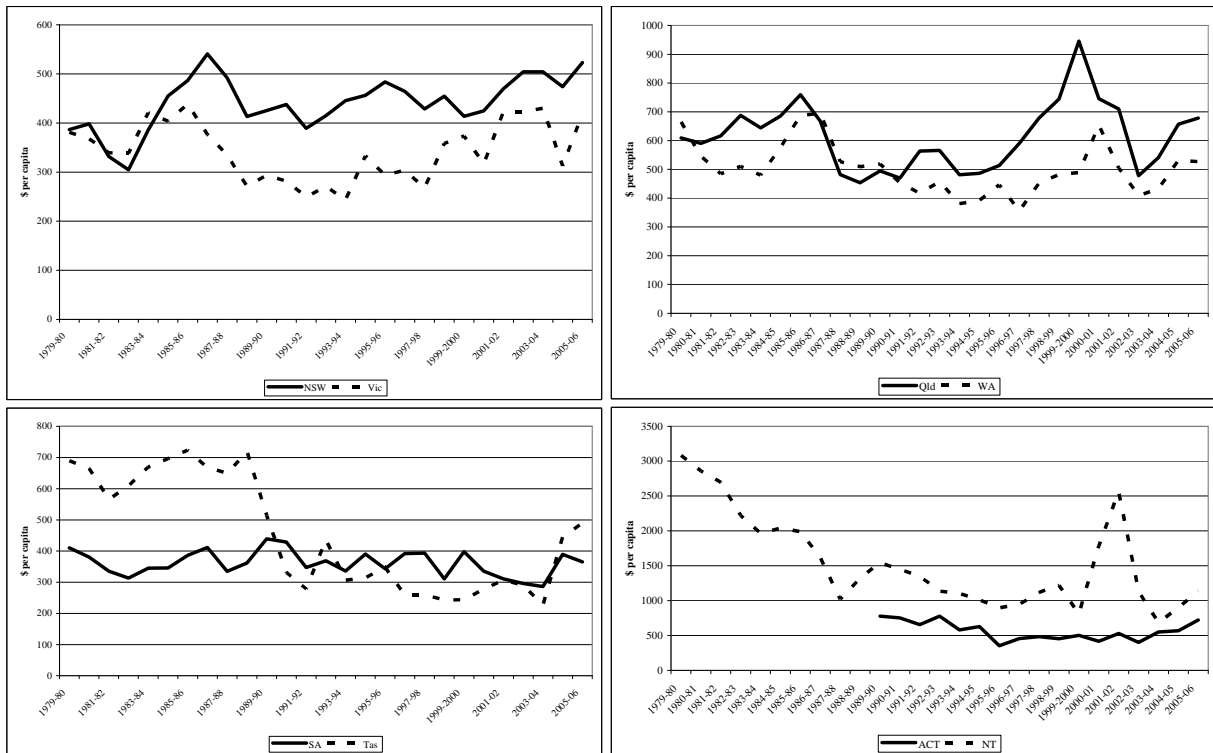
¹³ The high capital expenditure figure in GFS for 2002-03 includes the purchase of some \$400 million of assets for Australasia Rail Corporation. This is not included in the Northern Territory's expenditure in its capital works program.

Figure 5-9 Total capital expenditure per capita, all States, State general government sector, 2005-06 prices^(a), 1979-80 to 2005-06



(a) Using the general government State and local gross fixed capital formation deflator.
Source: ABS GFS.

Figure 5-10 Total capital expenditure per capita for each State, State general government sector, 2005-06 prices^(a), 1979-80 to 2005-06



(a) Using the general government State and local gross fixed capital formation deflator.
Source: ABS GFS.

Conclusion

- 64 In summary, based on available ABS GFS data, States hold very different quantities of physical assets – from some \$7 500 per capita in Victoria to almost \$16 000 per capita in the Northern Territory¹⁴. Whether this is due to different requirements, different policies, different valuation methods or a mix is difficult to say.
- 65 In real terms, the national stock of State physical assets per capita appears to have remained relatively constant over the last 10 years. This appears to be the case in most States, although there has been a large recorded decline in the asset holdings of the Northern Territory. Growth in physical assets has exceeded population growth in all States but New South Wales, the ACT and the Northern Territory.
- 66 This small growth in physical assets per capita may have been possible because of changes in the way States have provided and used assets in service provision:
- there has been a trend towards the greater use of private services;
 - there has been an increase in the use made of leasing and PPP arrangements to supplement what is owned in the provision of services;
 - there have been efficiency gains; for example, for some States, economies of scale in asset use could be captured;
 - there have been transfer of assets to PTEs and sales to the private sector; and
 - there has been a compositional change in the services provided by State governments.
- 67 On the basis of available data, capital expenditure has not been the main determinant of increases in value of physical assets recorded in GFS balance sheets. The main driver was revaluations.
- 68 In addition, capital expenditure has been growing more slowly than expenses but has been relatively constant on a per capita basis. This could be due to changes in way State governments are using and procuring assets. There has been greater volatility in capital expenditure across the States, perhaps reflecting their different needs and policy choices.

NET FINANCIAL WORTH

- 69 Using the ABS GFS framework, the financial positions of States can be measured in several ways.
- net debt;
 - net financial worth (assets)¹⁵; or
 - net worth.

¹⁴ The ACT has almost \$18 000 per capita of physical assets but this includes State and local government assets.

¹⁵ The ABS uses the term ‘net financial worth’ to refer to the difference between a State’s financial assets and its liabilities. State budget documents often use the term ‘net financial assets’ to refer to the same concept.

- 70 These are related. Net debt is an element of net financial worth and net financial worth is an element of net worth. Net debt, plus equity, minus unfunded superannuation and other liabilities and provisions equals net financial worth. Net financial worth plus non-financial assets (physical assets, land and other) equals net worth. As for physical assets, States can choose how to hold their financial worth – as cash, equity or as liabilities such as unfunded superannuation.
- 71 The next section covers what has happened to State financial worth and its main components – equity, net debt and superannuation liabilities. It also explores the relationship between changes in net financial worth and operating statement outcomes – net lending/borrowing, net interest payments and dividends.

Net financial worth

- 72 States have holdings of financial worth to provide liquidity for their operations, for investment in public and private corporations of importance to State economies (such as electricity and transport enterprises) and for other loans and investments designed to achieve particular government policy objectives. These holdings are available to finance repayable loans (advances), to meet employee superannuation and other entitlements, government insurance liability costs as they fall due, and borrowings for the provision of physical assets and to fund budget deficits.
- 73 Table 5-9 shows States' general government sector net financial worth from June 1999 to June 2006. At the end of June 2006, the States held over \$106 billion worth of net financial assets. This represents over \$5 000 per capita.
- 74 Only the Northern Territory had negative net financial worth as at end June 2006. It was large, representing just less than \$5 000 per capita. Its net financial worth was negative over the entire period, rising to over minus \$8 000 per capita in the financial year ending June 2003, but falling subsequently.
- 75 Victoria, South Australia and Tasmania had less than average net financial worth per capita over the period. Tasmania held only \$954 per capita as at end June 2006 while Victoria and South Australia had close to \$4 000 per capita.
- 76 The ACT held the highest level of financial worth per capita of all States. It maintained that position over the whole period and, as at end June 2006, had almost double the national average at \$9 623 per capita. Queensland and Western Australia similarly have had high levels of net financial worth over the entire period. As at end June 2006, Western Australia had \$8 636 per capita and Queensland had \$5 818 per capita. New South Wales' net financial worth levels have been about average, usually above, and on occasions, well above.
- 77 Between end June 1999 and end June 2006, the total value of net financial worth grew, on average, by 146 per cent, or 126 per cent on a per capita basis. Net financial assets grew more than average in New South Wales, Victoria, South Australia, Tasmania and the ACT.
- 78 The net financial worth of the State general government sector has grown largely because States have:

- increased their equity in public corporations, increasing from \$112 billion as at end June 1999 to \$172 billion as at end June 2006; and
- reduced their net debt from \$14.5 billion to a net holding of almost \$30 billion over the same period.

This increase in net financial worth is despite an increase in unfunded superannuation liabilities and other employee entitlements from some \$50 billion to \$89 billion.

Table 5-9 Net financial worth of State general government sector, current prices, 1998-99 to 2005-06

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Aust
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Jun-1999	13 723	2 624	15 847	8 531	1 892	-48	1 266	-853	42 982
Jun-2000	22 604	5 382	15 939	8 265	3 038	708	1 623	-1 049	56 510
Jun-2001	24 658	7 526	14 021	8 670	4 092	956	1 920	-311	61 532
Jun-2002	23 562	9 258	12 602	9 230	3 417	1 213	2 309	-1 576	60 015
Jun-2003	41 049	8 690	10 982	9 544	3 519	1 307	2 941	-1 670	76 362
Jun-2004	42 725	16 450	15 741	12 050	3 875	1 659	3 372	-1 387	94 485
Jun-2005	43 249	21 023	22 421	14 248	3 851	1 314	3 058	-1 235	107 929
Jun-2006	36 852	19 741	23 361	17 542	5 846	465	3 150	-1 015	105 942
	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc
Jun-1999	2 152	563	4 561	4 644	1 267	-102	4 073	-4 459	2 284
Jun-2000	3 505	1 141	4 513	4 436	2 023	1 501	5 172	-5 403	2 968
Jun-2001	3 776	1 576	3 901	4 591	2 713	2 027	6 054	-1 583	3 191
Jun-2002	3 566	1 916	3 435	4 823	2 255	2 569	7 207	-7 954	3 073
Jun-2003	6 164	1 779	2 922	4 929	2 311	2 753	9 118	-8 424	3 865
Jun-2004	6 374	3 331	4 093	6 134	2 533	3 455	10 423	-6 973	4 728
Jun-2005	6 412	4 209	5 703	7 144	2 505	2 714	9 417	-6 129	5 339
Jun-2006	5 419	3 903	5 818	8 636	3 776	954	9 623	-4 948	5 174

Source: ABS *Government Finance Statistics*, catalogue no 5512, 2005-06.

Equity

79 Table 5-10 shows the equity States hold in private and public corporations. Such equity gives the States a share of the income of the entity (through dividends) and a right to a share of the residual assets of the entity should it be wound up. This is the largest component of States' financial assets.

80 At the beginning of the period, States held \$112 billion in equity, increasing to \$172 billion as at end June 2006. Equity increased for all States, except Tasmania, over the period. New South Wales had the largest share of State equity — some 38 per cent as at end June 2006 compared with its population share of 33 per cent. Western Australia also had more than its population

share (some 13 per cent compared with 10) and Queensland had much less than its population share (13 per cent compared with 20).

- 81 On a per capita basis, as at end June 2006 the ACT had the highest equity levels (almost \$13 000 per capita), followed by the Northern Territory and Western Australia. These States have corporatised their government business enterprises rather than selling them to the private sector. Queensland had the lowest equity per capita, at only \$5 495. This may be because Queensland has chosen to hold more of its assets in the general government sector. This is consistent with its above average level of physical assets per capita shown in Table 5-1. The high level of asset sales in Victoria explains its below average levels of equity.

Table 5-10 Equity, State general government sector, current prices, 1998-99 to 2005-06

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Aust
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
1998-99	41 501	22 762	13 740	14 667	11 661	3 258	2 692	1 363	111 643
1999-2000	46 596	24 439	13 081	14 754	9 966	3 595	2 765	1 402	116 598
2000-01	47 542	25 690	14 004	15 198	10 158	3 741	2 890	2 361	121 583
2001-02	48 337	27 969	12 800	15 874	10 297	3 974	2 778	1 459	123 488
2002-03	66 779	29 501	12 779	16 341	10 482	4 032	3 419	1 408	144 741
2003-04	68 067	34 761	14 633	18 278	11 811	4 229	3 895	1 636	157 310
2004-05	68 544	37 777	17 320	19 888	13 391	3 782	4 010	1 893	166 606
2005-06	65 446	39 196	22 066	21 870	14 190	3 049	4 219	2 240	172 275
	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc
1998-99	6 509	4 881	3 955	7 984	7 807	6 906	8 660	7 124	5 933
1999-2000	7 224	5 183	3 704	7 919	6 635	7 624	8 812	7 221	6 123
2000-01	7 279	5 381	3 896	8 048	6 734	7 934	9 113	12 015	6 306
2001-02	7 315	5 788	3 489	8 295	6 796	8 416	8 671	7 364	6 323
2002-03	10 028	6 039	3 401	8 439	6 885	8 493	10 600	7 102	7 326
2003-04	10 155	7 038	3 805	9 304	7 721	8 807	12 039	8 224	7 872
2004-05	10 162	7 564	4 405	9 971	8 710	7 813	12 348	9 395	8 242
2005-06	9 623	7 749	5 495	10 766	9 164	6 253	12 888	10 920	8 414

Source: ABS *Government Finance Statistics*, catalogue no 5512, 2005-06. Values as at end June.

Net debt

- 82 Table 5-11 shows State general government sector net debt positions over the period end June 1999 to end June 2006. It is a measure of the net value of the deposits, advances and investments/borrowings of States. At the beginning of the period, most States had net debt. This was highest in South Australia (\$3 200 per capita), Tasmania (\$3 237 per capita) and the

Northern Territory (\$3 716 per capita). Only Queensland had negative net debt¹⁶, at more than \$3 100 per capita.

- 83 States' net debt positions have changed over the period. As at end June 2006, most States had negative net debt. Now only Victoria and the Northern Territory have net debt. Queensland and the ACT have the highest negative net debts and the Northern Territory the highest net debt. All States, except the Northern Territory, have reduced their net debts. This is because most States have had policies in place which aimed at zero net debt at some time in the future.

Table 5-11 Net debt, State general government sector, current prices, 1998-99 to 2005-06

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Aust
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
1998-99	13 311	4 833	-11 068	416	4 780	1 527	-45	711	14 465
1999-2000	11 703	3 076	-10 123	726	1 920	1 109	-355	849	8 905
2000-01	7 702	2 162	-10 672	456	1 246	949	-688	1 120	2 275
2001-02	5 056	1 024	-11 609	472	1 303	752	-1 358	1 379	-2 981
2002-03	1 587	1 297	-11 843	396	666	485	-1 575	1 344	-7 643
2003-04	-209	1 399	-14 851	-291	224	114	-1 869	1 279	-14 204
2004-05	-1 698	1 480	-19 446	-997	144	-28	-1 993	1 196	-21 342
2005-06	-4 149	1 783	-23 243	-2 737	-119	-259	-2 228	1 145	-29 807
	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc
1998-99	2 088	1 036	-3 186	226	3 200	3 237	-145	3 716	769
1999-2000	1 814	652	-2 867	390	1 278	2 352	-1 131	4 373	468
2000-01	1 179	453	-2 969	241	826	2 013	-2 169	5 700	118
2001-02	765	212	-3 164	247	860	1 593	-4 239	6 960	-153
2002-03	238	265	-3 152	204	437	1 022	-4 883	6 779	-387
2003-04	-31	283	-3 862	-148	146	237	-5 777	6 430	-711
2004-05	-252	296	-4 946	-500	94	-58	-6 137	5 936	-1 056
2005-06	-610	352	-5 788	-1 347	-77	-531	-6 806	5 582	-1 456

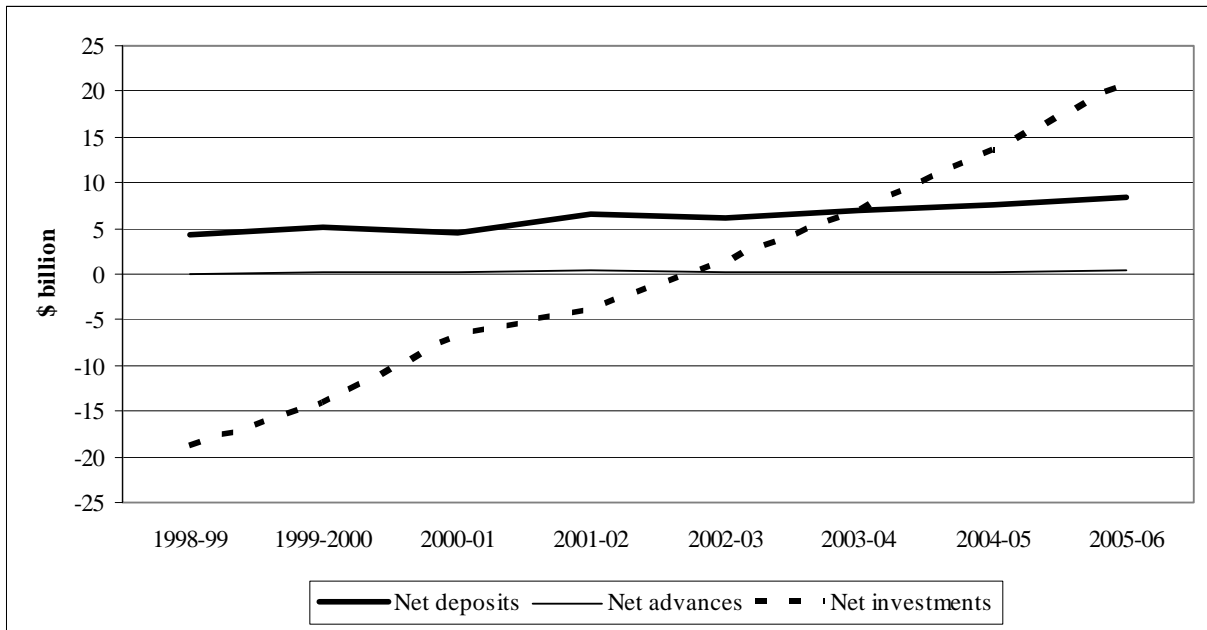
Source: ABS *Government Finance Statistics*, catalogue no 5512, 2005-06. Values as at end June.

- 84 Figure 5-11 illustrates how States reduced their net debt over the period. It shows that deposits and net advances were stable and that there was a big turnaround on net investments. States were no longer net borrowers but net investors. However, there are recent indications that some States may become net borrowers during 2006-07 to allow them to fund their physical asset programs.
- 85 States, however, are still borrowing. Total borrowing has declined in the last few years but States still carry significant amounts of gross debt. This is offset by significant increases in investments

¹⁶ Net debt is negative when the sum of deposits held plus proceeds from advances plus borrowing is smaller than the sum of cash and deposits plus investments plus advances outstanding. Negative net debt is shown as net investment in Table 5-1.

which are intended, among other purposes, to meet outstanding superannuation liabilities. How this is done varies across the States, including the extent to which the State's policy is to invest its accrued superannuation expenses itself rather than passing them to a superannuation fund for that purpose. This policy is especially significant in Queensland.

Figure 5-11 Components of net debt, State general government sector, current prices, 1998-99 to 2005-06



Source: ABS *Government Finance Statistics*, catalogue no 5512, 2005-06. Values as at end June.

Unfunded superannuation liabilities and other employee entitlements

86 Table 5-12 shows the increase in unfunded superannuation liabilities and other employee entitlements of the general government sector of all States over the period end June 1999 to end June 2006. Despite State policies of moving to funding superannuation expenses and provisioning for employee entitlements, these liabilities have grown in all States over the period and in total by some 78 per cent. For some States, the significant increase in liabilities during 2005-06 is largely explained by their introduction of the Australian equivalent of the International Financial Reporting Standards (AIFRS). This standard requires future liabilities to be valued using a long term government bond rate instead of the previously higher assumed investment return as the discount rate.

87 New South Wales, Victoria and Western Australia have below average per capita liabilities. The other States have above average liabilities, with the ACT and the Northern Territory's liabilities being well above average. Differences in how States classify and report their funded and unfunded superannuation liabilities partly account for these variations in per capita liabilities.

Table 5-12 Superannuation liabilities and other employee entitlements^(a), State general government sector, current prices, 1998-99 to 2005-06

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Aust
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
1998-99	11 608	13 645	9 532	5 853	4 521	1 924	1 436	1 267	49 787
1999-2000	9 631	14 414	8 508	6 046	4 374	1 899	1 558	1 297	47 726
2000-01	12 172	14 163	10 578	6 248	4 180	2 015	1 662	1 624	52 642
2001-02	15 719	15 929	12 332	6 364	5 055	2 149	1 831	1 688	61 067
2002-03	19 423	16 235	14 204	6 542	5 796	2 396	1 994	1 708	68 298
2003-04	20 615	14 688	14 536	6 834	7 163	2 553	2 338	1 778	70 504
2004-05	22 038	13 695	15 183	7 023	8 825	2 621	2 789	1 956	74 130
2005-06	29 116	16 326	19 786	7 009	7 847	3 555	3 156	2 135	88 930
	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc
1998-99	1 821	2 926	2 744	3 186	3 027	4 078	4 620	6 623	2 646
1999-2000	1 493	3 057	2 409	3 245	2 912	4 027	4 965	6 680	2 506
2000-01	1 864	2 967	2 943	3 309	2 771	4 273	5 241	8 265	2 730
2001-02	2 379	3 296	3 361	3 325	3 336	4 551	5 715	8 519	3 127
2002-03	2 917	3 323	3 780	3 378	3 807	5 047	6 182	8 615	3 457
2003-04	3 076	2 974	3 780	3 479	4 682	5 317	7 227	8 938	3 528
2004-05	3 267	2 742	3 862	3 521	5 740	5 414	8 588	9 707	3 667
2005-06	4 281	3 227	4 927	3 450	5 068	7 291	9 641	10 408	4 343

(a) Includes provisions for unfunded superannuation; provisions for other employee entitlements such as sick leave paid on resignation or retirement, recreation leave, long service leave, workers' compensation, and accrued wages and salaries; and provisions other than those for employee entitlements, such as provisions for income tax and dividends if the underlying amounts are liabilities of the entity. The item excludes provisions for bad debts. Information provided by the States to the Commission indicates that not all States report these liabilities, and related recurrent expenses in a uniform manner. The ABS advises that guidelines are being developed to ensure that uniform reporting is achieved. Values are as at end June.

Source: ABS *Government Finance Statistics*, catalogue no 5512, 2005-06.

Relationships between net financial worth and the operating statement

88 The financial worth of States is increased when:

- there is a net lending outcome on the operating statement of States (there is a surplus of revenue over current operations and capital acquisition); and/or
- financial assets, such as shares and other investments, are upwardly revalued; and/or
- liabilities fall.

The previous section showed that all of the above have occurred, principally through increased equity and reduced net debt.

89 Increasing net financial worth has also had an impact on the operating statement of States. The result of falling net debt is that net interest payments (debt charges less interest earnings) have

reduced so that States are now net interest earners. Dividends have also increased because of increases in equity.

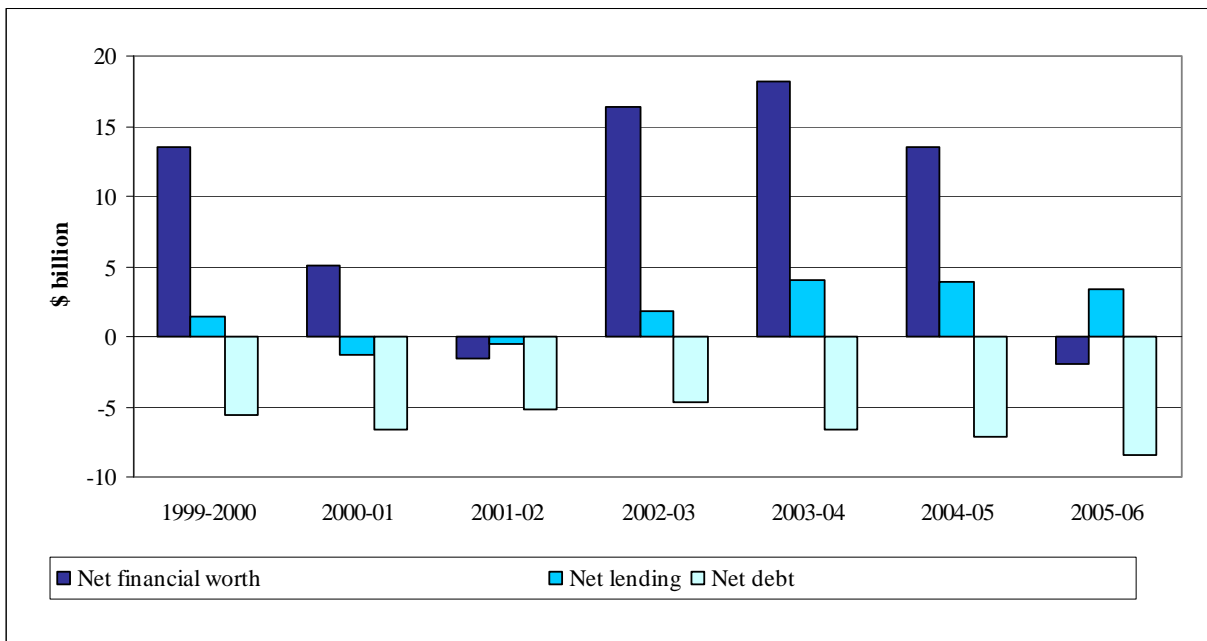
90 The rest of this section illustrates the changes in net lending, net interest payments and dividends.

Net lending/borrowing

91 In the ABS GFS framework, net lending/borrowing is calculated as the net operating balance plus depreciation provisions less the acquisition of all physical assets. This means that it is equal to the net change in financial assets, liabilities and equity arising solely from operating statement transactions.

92 Figure 5-12 below shows the relationship between net lending and changes in net debt and net financial worth. It shows that, generally, as net lending outcomes have become larger, net debt has fallen and net financial worth increased. However, because of other balance sheet choices States can make, this does not occur every year.

Figure 5-12 Relationship between net lending and change in net debt and net financial worth, State general government sector, current prices, 1999-2000 to 2005-06

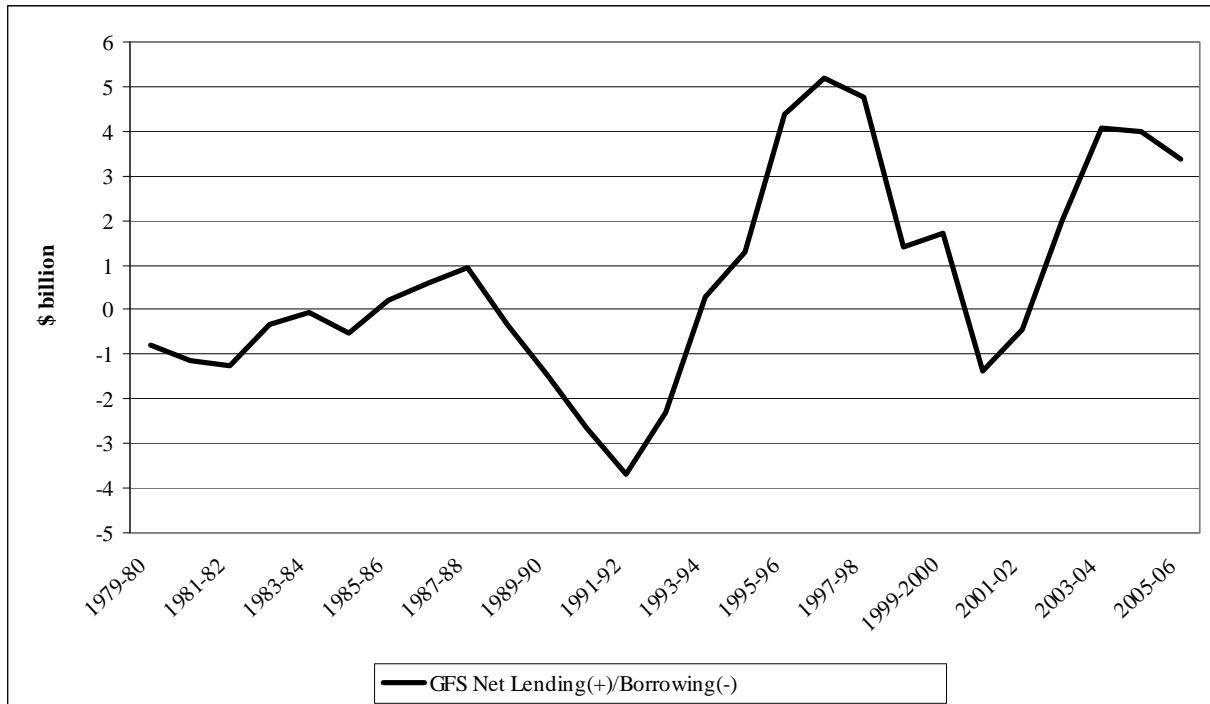


Source: ABS *Government Finance Statistics*, catalogue no 5512, 2005-06. Values are as at end June.

93 Figure 5-13 shows that, since 1979-80, States in total, have experienced similar number of years in net lending (14 years) and net borrowing positions (13 years). However, the accumulated amount of net lending far exceeds the accumulated net borrowing: \$33.0 billion against \$16.6 billion.

94 The major net borrowing period, 1989-90 to 1992-93, corresponded with a general economic slowdown in Australia. The net borrowing position of 2000-01 was due to a combination of strong growth in expenses and large capital grants to public trading enterprises (PTE).

Figure 5-13 Annual net lending/borrowing positions, State general government sector, current prices, 1979-80 to 2005-06



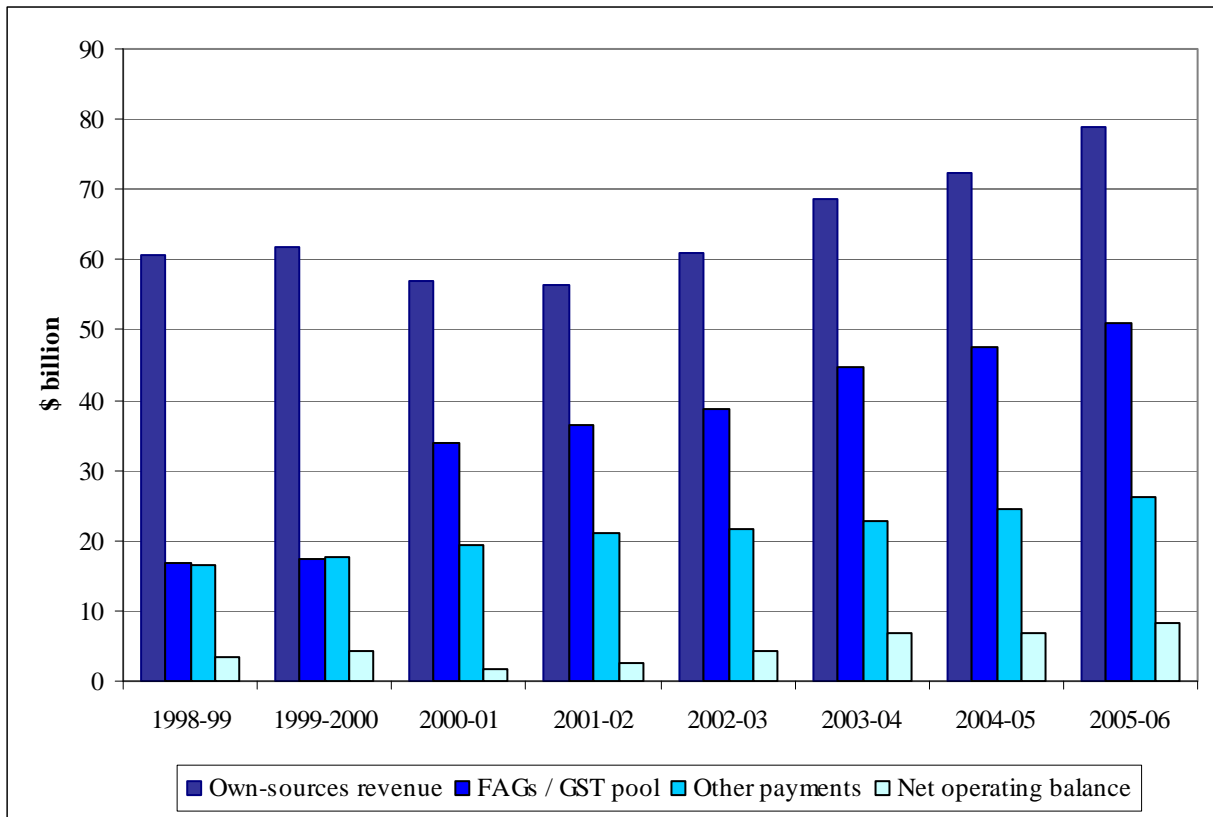
Source: ABS *Government Finance Statistics*, catalogue no 5512, 2005-06.

95 States have become net lenders because:

- their revenues have increased faster than expenses leading to large net operating surpluses; and
- non-replacement capital expenditure is less than the net operating surpluses.

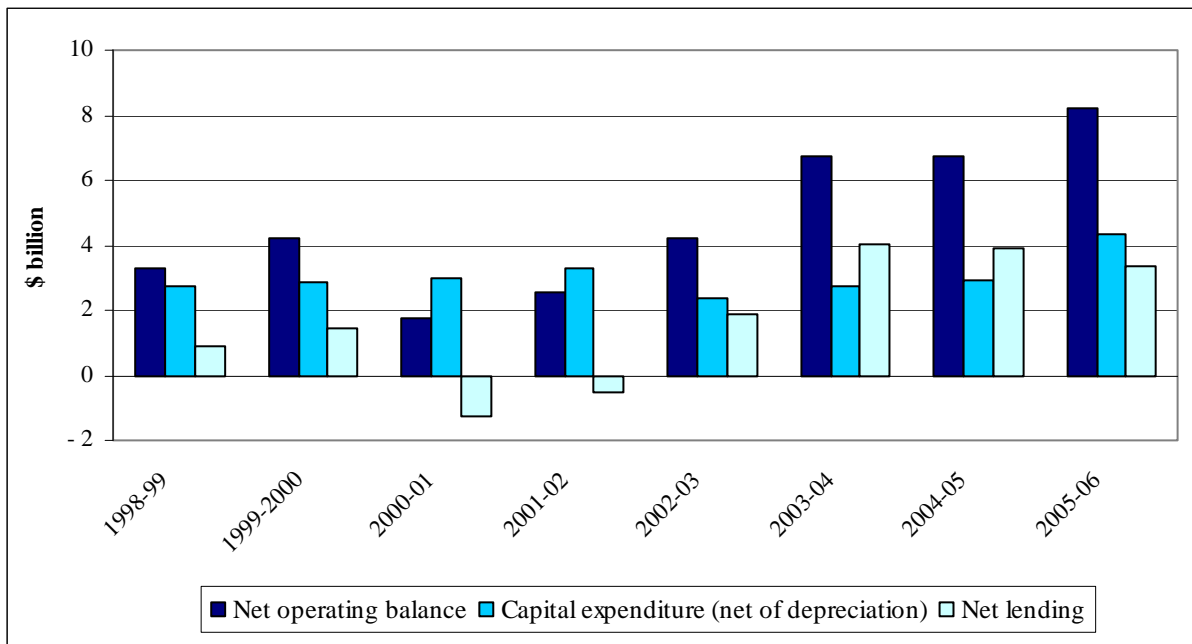
96 Figure 5-14 and Figure 5-15 illustrate these relationships.

Figure 5-14 Relationship between own-source revenue, GST, other Australian Government payments to the States and operating surpluses, State general government sector, current prices, 1998-99 to 2005-06



Source: Commonwealth Budget Papers No. 3 1999-00 to 2006-07 and ABS GFS.

Figure 5-15 Relationship between net operating balance, capital expenditure and net lending, State general government sector, current prices, 1998-99 to 2005-06

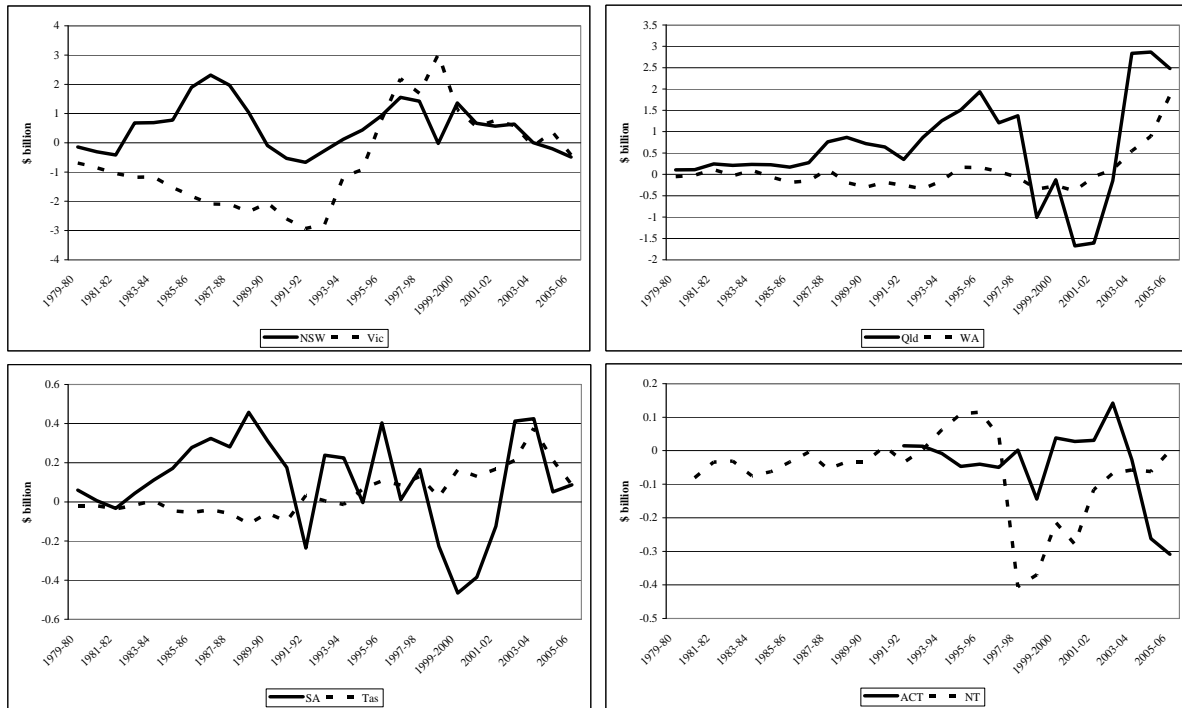


Source: ABS *Government Finance Statistics*, catalogue no 5512, 2005-06.

97 Figure 5-16 shows a wide variety of patterns in States' net lending/borrowings positions between 1979-80 and 2005-06.

- New South Wales generally recorded strong net lending results in the last 10 years.
- Victoria recorded net borrowings results until 1996-97 but, since then, has been net lender. It spent 18 of the last 27 financial years as a borrower.
- Queensland has been a net lender except for a brief period in the early 2000s.
- Western Australia neither lent nor borrowed much until the early 2000s. Since then it has become a strong net lender.
- South Australia's outcomes have been fluctuating. It was mostly a net lender until 1998-99, then borrowed for a period of three years, becoming a net lender after that.
- Tasmania has been a net lender since 1991-92.
- The ACT has been a large borrower in the last two financial years.
- The Northern Territory has spent 21 of its 28 financial years of existence as a borrower. It has recorded large borrowings in recent years.

Figure 5-16 Annual net lending/borrowing positions, State general government sectors, by State, current prices, 1979-80 to 2005-06



Source: ABS *Government Finance Statistics*, catalogue no 5512, 2005-06.

State net interest payments

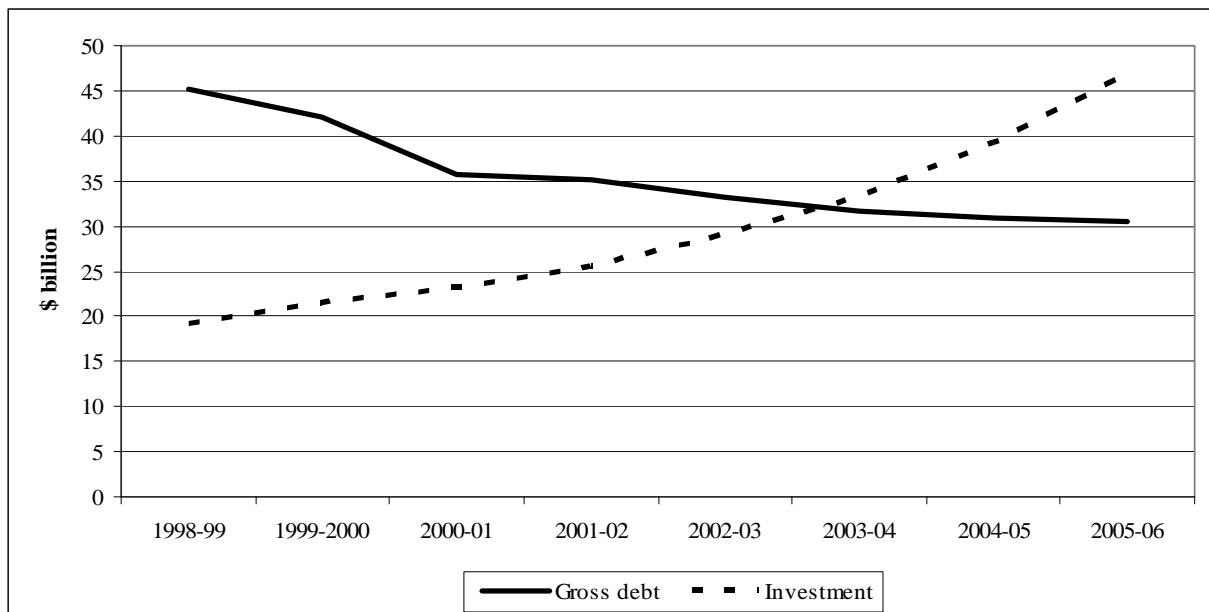
98 Table 5-13 shows that State net interest payments have fallen from \$3.8 billion in 1998-99 to become net receipts of \$284 million in 2005-06. This is a consequence of decreasing gross debts and increases in investments which have reduced debt charges and increased interest earnings. This is illustrated in Figure 5-17 and Figure 5-18.

Table 5-13 Net interest payments, State general government sector, current prices, 1998-99 to 2005-06

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Aust
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
1998-99	1 641	1 046	-574	393	777	255	70	156	3 764
1999-2000	1 346	1 129	-1 343	414	659	217	66	180	2 668
2000-01	983	1 074	-47	402	432	194	33	192	3 262
2001-02	1 150	1 028	1313	370	385	174	35	214	4 669
2002-03	1 108	1 119	979	365	450	155	9	208	4 394
2003-04	795	1 078	-1 762	320	435	146	52	210	1 275
2004-05	691	906	-2 013	307	438	120	73	203	725
2005-06	849	556	-2 715	192	420	132	92	192	-284
	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc
1998-99	257.4	224.3	-165.2	213.9	520.2	540.5	225.2	815.4	200.0
1999-2000	208.7	239.4	-380.3	222.2	438.7	460.2	210.3	927.1	140.1
2000-01	150.5	225.0	-13.1	212.9	286.4	411.4	104.1	977.1	169.2
2001-02	174.0	212.7	357.9	193.3	254.1	368.5	109.2	1 080.0	239.1
2002-03	166.4	229.1	260.5	188.5	295.6	326.5	27.9	1 049.2	222.4
2003-04	118.6	218.3	-458.2	162.9	284.4	304.1	160.7	1 055.7	63.8
2004-05	102.4	181.4	-512.0	153.9	284.9	247.9	224.8	1 007.5	35.9
2005-06	124.8	109.9	-676.1	94.5	271.3	270.7	281.0	936.0	-13.9

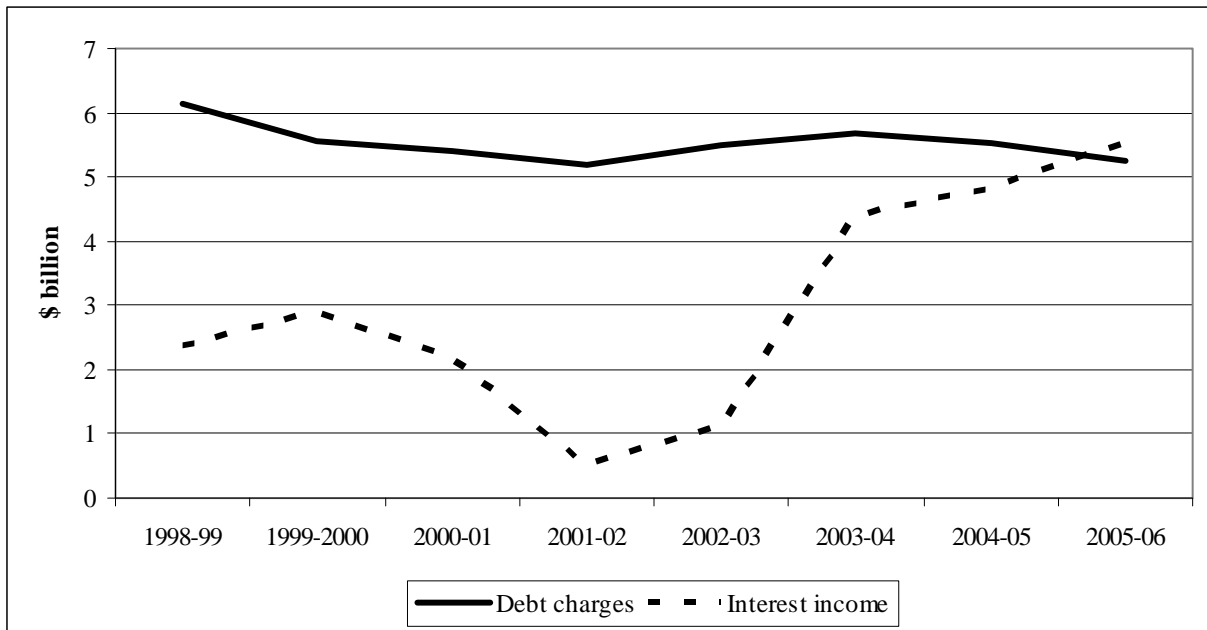
Source: ABS *Government Finance Statistics*, catalogue no 5512, 2005-06.

Figure 5-17 Gross debt and investments, State general government sectors, 1998-99 to 2005-06



Source: ABS GFS.

Figure 5-18 Debt charges and interest income^(a), State general government sectors, 1998-99 to 2005-06



(a) GFS data are not consistent with the Commission's adjusted budget data.
Source: ABS GFS.

99 The main reason for the national decrease in net interest payments is the very large earnings from investments by Queensland. In 2005-06, Queensland earned \$2.7 billion in interest or \$676 per capita, mostly as a result of superannuation investments. All other States paid debt charges of between \$100 and \$300 per capita in most years, except the Northern Territory which has had debt charges of between \$800 and \$1000 per capita for the entire period.

Dividends

100 State governments receive returns on their equity in public corporations in the form of dividends and other transfers of income and from dividends from shares held as investments in private and public corporations. Table 5-14 shows that there has also been a small increase in dividends from the start to the end of the period. Many government business enterprises have been corporatised. The transfer of assets to these corporations in return for equity has the potential to increase the amounts raised in dividends.

101 The fluctuations in the per capita dividends received by the States over the period suggest the amounts raised are highly policy influenced.

Table 5-14 Dividends, State general government sectors, current prices, 1998-99 to 2005-06

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Aust
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
1998-99	944	1 008	501	350	325	84	51	32	3 295
1999-2000	928	889	756	381	290	84	67	45	3 439
2000-01	711	798	807	400	196	89	67	14	3 082
2001-02	706	503	944	406	195	83	47	18	2 902
2002-03	773	581	802	390	526	98	48	46	3 263
2003-04	1 029	306	690	448	341	81	1	34	2 931
2004-05	1 024	501	684	468	310	87	99	40	3 212
2005-06	1 225	593	643	534	424	92	143	28	3 682
	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc
1998-99	148.0	216.2	144.2	190.7	217.8	177.1	163.9	169.7	175.1
1999-2000	143.9	188.4	214.1	204.7	193.0	177.1	212.1	231.8	180.6
2000-01	108.9	167.2	224.4	211.8	130.1	188.8	211.3	69.7	159.8
2001-02	106.9	104.0	257.2	211.9	128.4	176.8	148.2	93.3	148.6
2002-03	116.1	118.9	213.4	201.4	345.4	206.5	149.1	231.3	165.2
2003-04	153.6	62.0	179.4	228.3	222.7	169.3	2.4	172.9	146.7
2004-05	151.8	100.2	174.0	234.6	201.4	179.6	306.2	196.8	158.9
2005-06	180.1	117.3	160.1	262.8	273.6	189.7	435.8	138.4	179.8

Source: ABS *Government Finance Statistics*, catalogue no 5512, 2005-06.

Conclusion

- 102 Based on the ABS GFS data published in the chapter, States have increased their net financial worth over recent years. They have in total moved from being net borrowers to net lenders, although that is not true for all States. Most States now have no net debt. This has resulted in interest earnings overtaking debt charges.
- 103 This turnaround is the combination of several factors:
- State revenue — from their own sources, from the Australian government and through the GST has exceeded their expenses, creating net operating surpluses; and
 - over recent years those surpluses and provisioning for depreciation have exceeded what States have spent on acquiring physical assets.
- 104 In summary, what States have done is use the funds available to them to meet current expenses, acquire physical assets and acquire net financial assets.

ATTACHMENT 5-A

CAPITAL ASSESSMENTS IN THE 2004 REVIEW

- 1 In the 2004 Review, the operating impact of capital was assessed in two parts.
 - The costs of using capital (depreciation). This was assessed in a separate category with disabilities constructed as a modified weighted average of use and cost disabilities in expense categories where capital is used, plus an assessment of the impact of the physical environment on asset lives.
 - The costs of borrowing for non-replacement capital (debt charges). This recognised the differential costs of raising finance and the amount of borrowing a State needed to undertake to fund the physical assets needed in service provision at the Australian average rate, and accumulated average budget deficits.
- 2 The assessments thus related to expenses on depreciation and debt charges (net of interest earnings).

Depreciation

- 3 The depreciation assessment gave States the capacity to fund annual depreciation on an Australian average capital stock used to provide services in the assessment period, adjusted for any use or cost needs outside the control of each State. For example, States need different per capita quantities of capital stock because of their socio-demographic characteristics. Also, stock in different States may cost more to provide or it may deteriorate at different rates.
- 4 Depreciation expenses on all services using stock included in the equalisation budget (except for roads, urban transit and housing) were assessed in three components:
 - fixed costs for administration;
 - depreciation on buildings; and
 - depreciation on equipment.
- 5 For each component, disabilities were assessed to reflect the influences that led to interstate differences in per capita depreciation expenses. For the fixed costs component, the Commission

recognised that less populous States needed larger per capita administrations and that this impacted on the per capita amount of stock (buildings and equipment) required.

- 6 For the depreciation on buildings and equipment components, the Commission recognised that the following disabilities resulted in interstate differences in the quantity, and cost, of depreciable assets and in the length of their useful lives:
 - population composition (socio-demographic composition);
 - population distribution (urban influences, dispersion and service delivery scale); and
 - for buildings only, the impact of natural hazards and the impact of labour costs on construction costs (input costs).
- 7 The Commission recognised that the impact of climate on asset lives in each State and any cost differences in plant hire costs across States were disabilities faced by States but they were not assessed because no reliable method for quantifying their impact could be found.

Debt charges

- 8 The debt charges category comprised interest payments and administrative expenses on loans used to finance capital used in those functions within the scope of the Commission's equalisation budget. It included all general government debt charges, including debt charges incurred by general government on behalf of public trading enterprises (PTEs). For reasons of policy neutrality, interest earnings from investments were offset against expenses.
- 9 In the 2004 Review, the Commission concluded that a State's assessed debt charges would be based on the non-policy influenced quantity of borrowing it needed to undertake, and the non-policy influenced cost of that borrowing.
- 10 The quantity of borrowing required was calculated as the amount needed to be borrowed to fund non-replacement assets used in service provision over time. That was influenced by the accumulated¹⁷ quantity of non-replacement capital required by States because of their demographic and other characteristics (new stock requirements), the time at which this stock was purchased and the funds available to fund these requirements, such as accumulated capital grants¹⁸ and budget results. The accumulated budget results of States were adjusted to recognise that their per capita value increases or decreases with change in populations. The ACT's net assessed borrowing quantity was reduced because it had not been accumulating debt for as long as other States. (This adjustment expired in the 2004-05 assessment year).
- 11 The cost of borrowing factor recognised that the five smaller States, other things being equal, face higher interest rates because of their size.

¹⁷ Accumulation period starts in 1961-62. An estimate of the standard amount of debt held by the States in that year is added to recognise prior debt holdings.

¹⁸ Those received before 1998-99 as capital grants have been treated by inclusion before then.

ATTACHMENT 5-B

RELATIONSHIPS BETWEEN BALANCE SHEET AND OPERATING STATEMENT CONCEPTS

- 1 Physical and financial assets interact and are substitutable. For example, if physical assets are funded by a reduction in financial assets, physical assets would increase and financial assets decrease but net worth would remain the same. If they are funded from borrowing, physical assets would increase and so would a State's liabilities. Again, net worth would remain the same.
- 2 Physical assets interact with measures of expenses.
 - The amount and value of physical assets will determine depreciation provisions.
 - The funding of physical assets will impact on expenses.
 - If an asset is purchased, it has immediate impact on financial assets, and subsequent impacts on depreciation and net interest payments as a result of a decrease in interest earned.
 - If an asset is leased, it has immediate impact on expenses and consequent impact on interest because financial assets have not been used as they would have been in a purchase, but not depreciation.
 - If an asset is acquired through borrowing, it increases net interest payments.
 - If an asset is transferred to a PTE as an equity investment, it will increase a State's dividends.
 - If an asset is sold, it immediately increases financial assets and subsequently reduces depreciation and increases interest earned.
 - Net financial assets generate interest earnings, dividends and debt charges.
- 3 Transactions relating to physical assets, such as the purchase or sale of an asset, also impact on net capital expenditures.
- 4 Therefore, State decisions on their mix of physical and financial assets have an impact on operating Statement outcomes and measures of fiscal capacity. Figure 5-B-1 illustrates the relationships.

Figure 5-B-1 Relationships between State decisions on physical assets and balance sheet and operating statements

State decision	Impact on	
	Balance sheet	Operating statement
Purchase physical assets	↑ physical assets	↑ capital expenditure
	↓ financial assets	↑ depreciation
		↓ interest earnings
Lease physical assets	No change to physical assets	↑ expenses
	No change to financial assets	
Borrow for physical assets	↑ physical assets	↑ capital expenditure
	↑ liabilities	↑ depreciation
	↓ net financial assets	↑ debt charges
		↓ net interest earnings
Sell physical assets	↓ physical assets	↓ capital expenditure
	↑ financial assets	↓ depreciation
		↑ interest earnings
Transfer physical assets to GBE as equity	↓ physical assets	↓ depreciation
	↑ financial assets	↑ dividends
	↓	↓
	Net worth ←	← Net lending / borrowing

ATTACHMENT 5-C

ABS GFS BALANCE SHEET

- 1 Table 5-C-1 shows the ABS GFS balance sheet for total State general government sector.
- 2 Definitions of the main terms used in the chapter follow:

Net debt

Net debt is equal to (deposits held plus proceeds from advances plus borrowing) minus (cash and deposits plus investments plus advances outstanding).

Net financial worth

Net financial worth is equal to financial assets minus liabilities. It is a broader measure than net debt in that it incorporates provisions made (such as superannuation, but excluding depreciation and bad debts) as well as holdings of equity. Net financial worth includes all classes of financial assets and liabilities, only some of which are included in net debt.

Net lending/borrowing

The financing requirement of government, calculated as the GFS net operating balance less the net acquisition of non-financial assets. A positive result reflects a net lending position and a negative result reflects a net borrowing position. This is calculated as GFS revenue minus GFS expenses. It is equivalent to the change in net worth arising from transactions.

Net worth

Assets less liabilities and shares/contributed capital. For the general government sector, net worth is assets less liabilities since shares and contributed capital is zero. It is an economic measure of wealth and reflects the contribution of governments to the wealth of Australia.

Table 5-C-1 Total State general government balance sheet

	30-Jun-99	30-Jun-00	30-Jun-01	30-Jun-02	30-Jun-03	30-Jun-04	30-Jun-05	30-Jun-06
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Financial assets								
Cash and deposits	5 859	6 577	5 671	7 843	7 474	8 253	8 889	10 045
Advances paid	5 705	5 328	4 637	4 790	4 486	4 322	4 081	3 534
Investments, loans and placements	19 146	21 339	23 185	25 435	28 922	33 211	39 258	46 778
Other non-equity assets	11 225	11 751	11 793	11 906	12 525	14 128	15 815	17 754
Equity	111 643	116 598	121 583	123 488	144 741	157 310	166 606	172 275
Total financial assets	153 579	161 593	166 869	173 461	198 148	217 224	234 650	250 386
Non-financial assets								
Land and fixed assets	185 565	188 205	194 198	210 434	228 281	244 703	275 633	298 213
Other non-financial assets	1 988	2 234	2 247	2 324	2 967	3 087	3 775	4 009
Total non-financial assets	187 553	190 439	196 446	212 758	231 248	247 790	279 409	302 221
Total assets	341 132	352 032	363 315	386 219	429 396	465 013	514 058	552 607
Liabilities								
Deposits held	1 474	1 530	1 261	1 374	1 372	1 379	1 265	1 553
Advances received	5 796	5 201	4 494	4 370	4 277	4 027	3 901	3 110
Borrowing	37 907	35 418	30 012	29 344	27 587	26 175	25 720	25 886
Unfunded superannuation liability and other employee entitlements	49 787	47 726	52 642	61 067	68 298	70 504	74 130	88 930
Other provisions	4 615	4 760	5 988	7 416	8 098	8 789	9 299	9 316
Other non-equity liabilities	11 020	10 447	10 940	9 875	12 152	11 862	12 407	15 649
Total liabilities	110 598	105 082	105 338	113 446	121 784	122 737	126 721	144 444
GFS net worth	230 535	246 950	257 977	272 773	307 611	342 276	387 337	408 163
Net debt	14 465	8 905	2 275	-2 980	-7 645	-14 204	-21 342	-29 807
Net financial worth	42 981	56 511	61 532	60 015	76 363	94 487	107 929	105 942

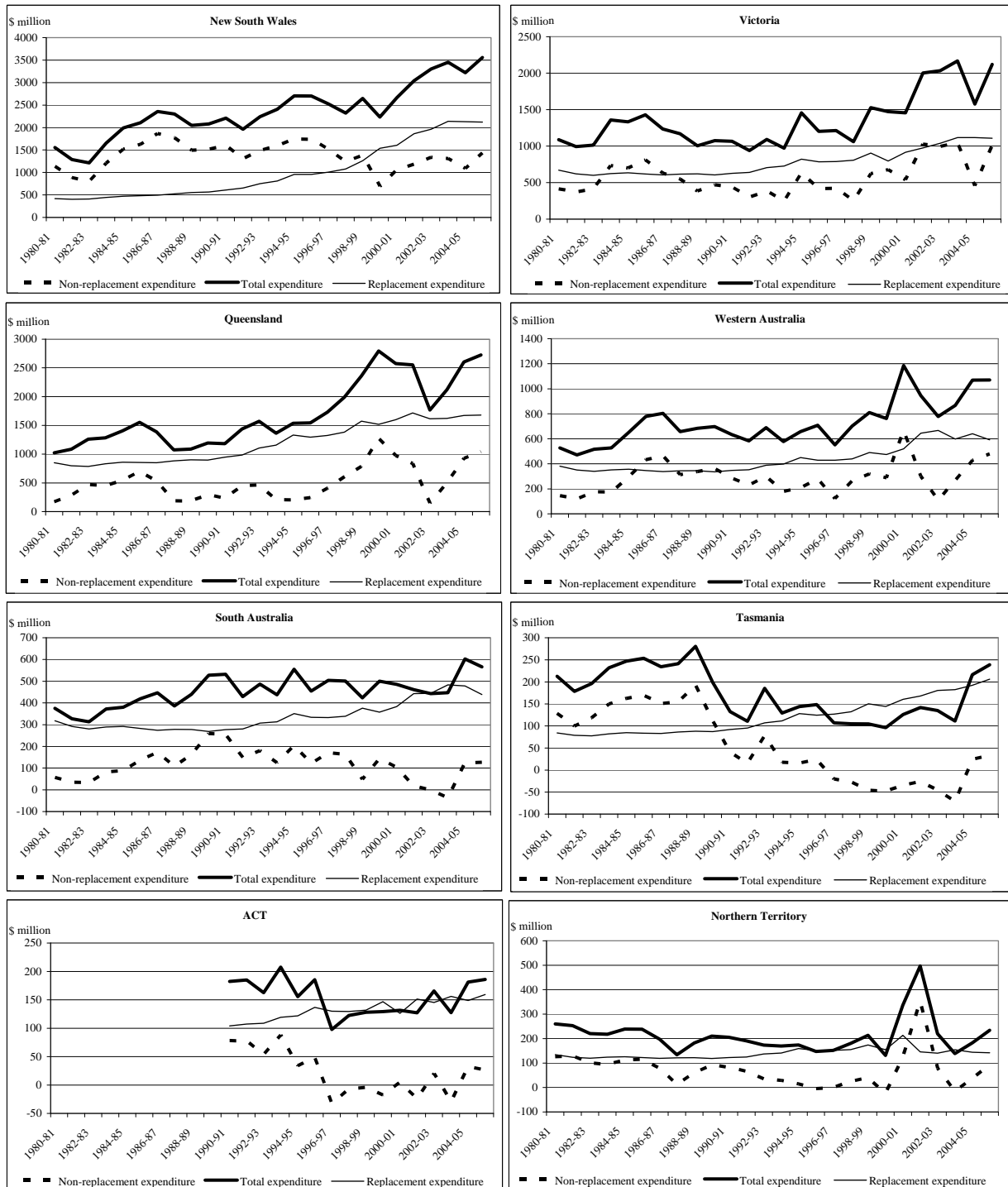
Source: ABS *Government Finance Statistics*, catalogue no 5512, 2005-06, table 23BS.

ATTACHMENT 5-D

CAPITAL EXPENDITURE, STATE GENERAL GOVERNMENT SECTORS

- 1 Figure 5-D-1 shows capital expenditure in constant prices for each State — in total and split between replacement and non-replacement expenditure.

Table 5-D-1 Capital expenditure by State, 2005-06 prices, 1980-81 to 2005-06



Source: ABS Government Finance Statistics, catalogue no 5512, 2005-06.