Australian Government
Commonwealth Grants Commission

2025 Methodology Review

Net borrowing consultation paper

October 2023

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Submissions sought by	1 March 2024 Submissions should be placed in your private state channel in CGC Engagement Teams, with a post notifying Katrina Baldock. Submissions should be in Word format and posted in the relevant state channel of the CGC engagement Team. Submissions more than 10 pages in length should include a summary section.
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Overview of category

1 Net borrowing reflects the extent to which a state or territory (states') total outlays on service delivery and investment in infrastructure exceed their total revenue from all sources including the GST, making them net borrowers. If total revenue exceeds total expenditure, states are net lenders.

2 Interstate differences in population growth rates are the only driver of differences in net borrowing recognised in this assessment. When net financial worth is negative, as is currently the case, the Commission assesses states with above average population growth as having a greater than average capacity to borrow.

Current assessment method – 2020 Review

3 The net borrowing assessment seeks to distribute GST to provide states with the capacity to maintain their per capita share of total net financial assets or liabilities. As the assessment seeks to maintain *per capita* shares of net financial assets or net financial liabilities, relative state population growth is the only driver of different state needs.

4 When states hold net financial assets:

- a state with lower than average population growth will require less GST to have the capacity to end the year with the same net assets per capita
- a state with higher than average population growth will require more GST to have the capacity to end the year with the same net assets per capita.

5 When states hold net financial liabilities:

- a state with lower than average population growth will require more GST to have the capacity to end the year with the same net liabilities per capita
- a state with higher than average population growth will require less GST to have the capacity to end the year with the same net liabilities per capita.

6 The assessment covers financial assets and liabilities held in the general government sector. To the extent that most public non-financial corporations have financial value, their value is included as a financial asset. The exceptions are housing and public transport public non-financial corporations. Their borrowing is treated as government borrowing and their assets are considered in the investment assessment. They are considered to be non-commercial because they are heavily subsidised.

7 The assessment is further explained in volume 2, chapter 25, Report on GST Revenue Sharing Relativities, 2020 Review.

Data used in the assessment

8 Data used in the assessment of net borrowing are:

- net-financial assets/liabilities data, based on state and Australian Bureau of Statistics' (ABS) Government Finance Statistics data
- net lending/borrowing, calculated by the Commission as the difference between state spending and revenue for all other categories (primarily based on state and ABS Government Finance Statistics)
- population data, provided by the ABS.

Category and component expenses

9 Net borrowing is assessed in one component.

10 Total net borrowing has varied from 9% to 25% of total state expenditure between 2018–19 and 2021–22 (Table 1). This partly reflects that state expenditure increased and revenues fell during the COVID-19 pandemic.

Table 1 Total net borrowing

	2018-19	2019-20	2020-21	2021-22
Total expenditure ($m)	-21,466	-56,013	-57,296	-56,671
Proportion of total expenditure (%)	-9.0	-24.6	-22.7	-19.7

Source: Commission calculation, 2023 Update.

GST distribution in the 2023 Update

11 Table 2 shows the GST impact (distribution from equal per capita) of the net borrowing assessment. It distributed $555 million, or $21 per capita, away from an equal per capita distribution in the 2023 Update.

Table 2 GST impact of the net borrowing assessment, 2023 Update

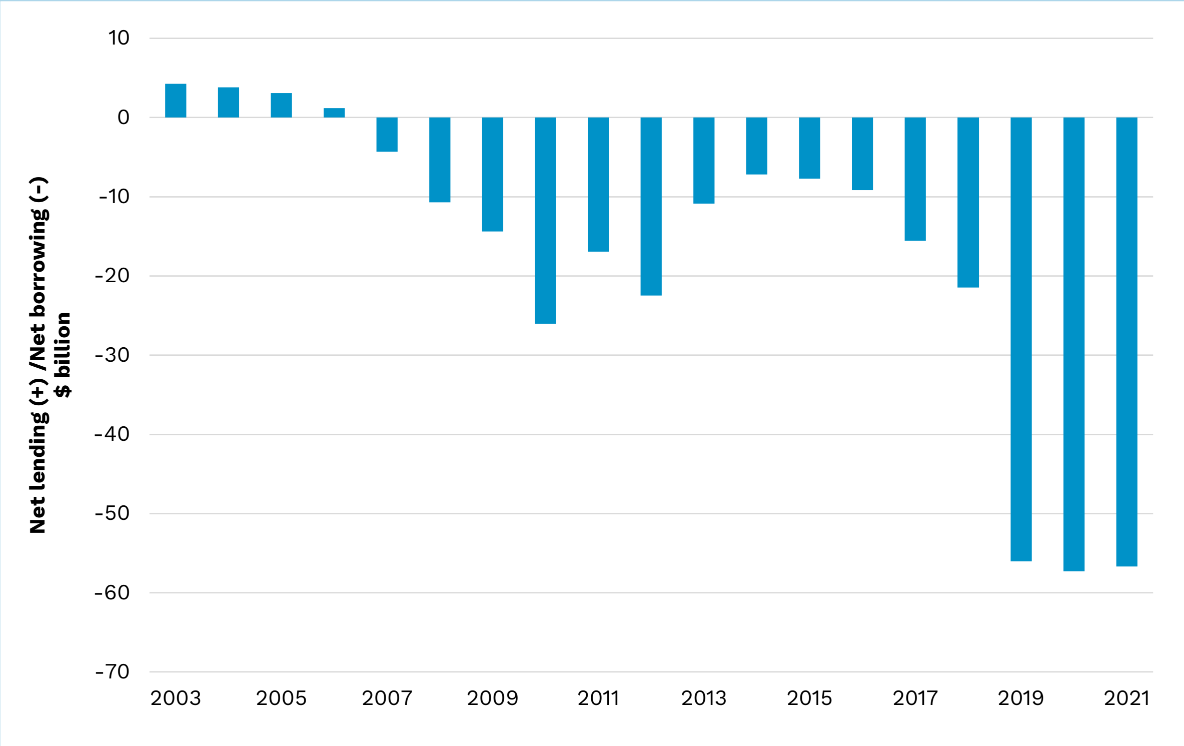
	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Total effect
	$m	$m	$m	$m	$m	$m	$m	$m	$m
Net Borrowing ($m)	304	237	-309	-183	-14	-30	-20	14	555
Net Borrowing ($pc)	**37**	**35**	**-57**	**-64**	**-7**	**-51**	**-43**	**56**	**21**

Source: Commission calculation, 2023 Update.

What has changed since the 2020 Review?

12 Total state borrowing in the years since the COVID-19 pandemic has been significantly larger than pre-pandemic borrowing (Figure 1).

Figure 1 Total net borrowing

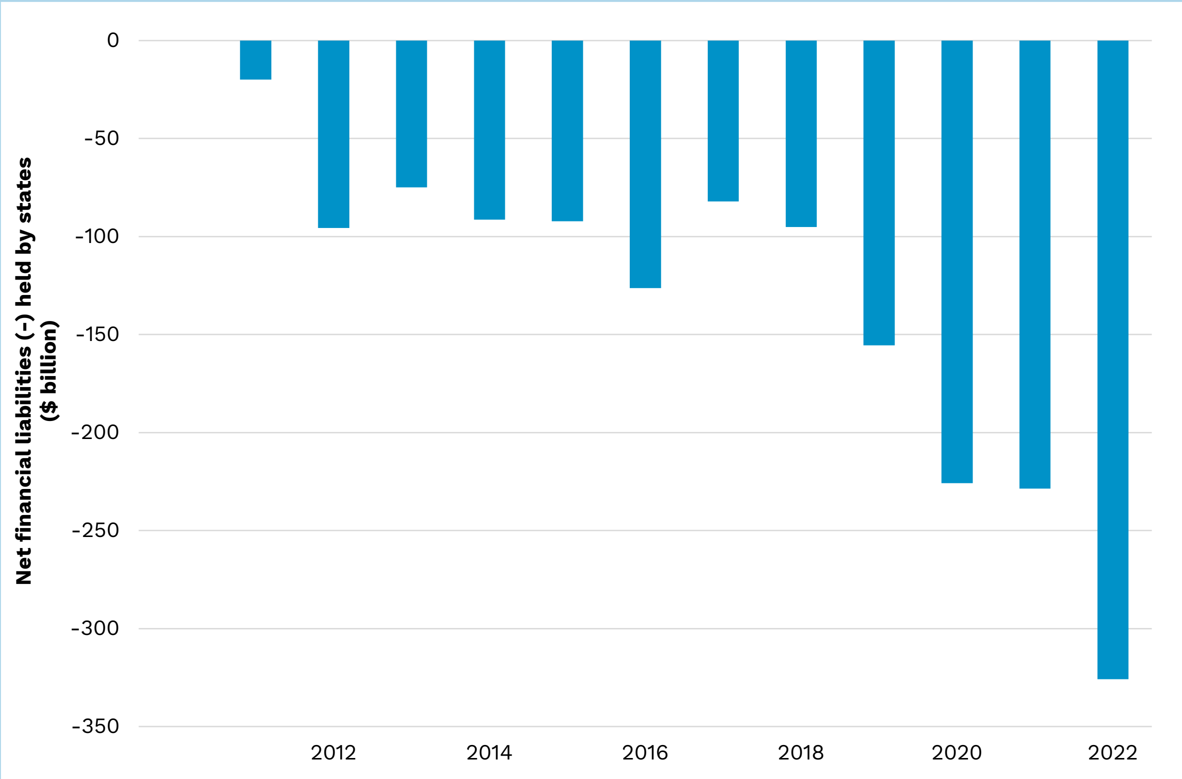


Source: Commission calculation.

13 States' net financial assets have fallen significantly since 2017-18 (net liabilities have increased). At June 2022, states held net financial assets of negative $326 billion.[1] As noted earlier, the net financial assets of states largely determines the magnitude of the GST impact of the net borrowing assessment.

[1] State liabilities were larger than state financial assets. As noted in the investment consultation paper, state stocks of physical assets totalled $825 billion. This means state net worth values are positive, but that states have negative net financial assets.

Figure 2 Total net financial assets



Source: Commission calculation.

Implications for assessment

14 Net borrowing and total state debt are both significantly larger than they have been in the past. This has resulted in the assessment having a larger effect on the distribution of GST. The Commission's preliminary view is that the conceptual framework remains appropriate.

15 The only potential change would be one of consistency with the investment category. If a change is made to smooth population growth in the investment category to reduce volatility, a corresponding change should be made to do the same in the net borrowing category to maintain consistency between the 2 categories.

Consultation questions

Q1. Do states agree that the conceptual basis for the net borrowing assessment remains unchanged?

Q2. Do states support smoothing population growth to reduce volatility in the net borrowing category if a change is made to smooth population growth in the investment assessment?

Proposed assessment

Differences from the 2020 Review approach

16 Subject to state views, the Commission proposes no changes for the assessment of net borrowing expenses.

Proposed assessment structure

17 Table 3 shows the proposed structure of the net borrowing assessment.

Table 3 Proposed assessment structure for the net borrowing assessment

Component	Driver	Influence measured by driver	Change since 2020 Review
Net borrowing	Population growth	Recognises population growth	No

Source: Commission calculation.

New data requirements

18 No new data are required for this assessment.

Consultation

19 The Commission welcomes state views on the consultation questions identified in this paper (outlined below) and the proposed assessment. State submissions should accord with the 2025 Review framework. States are welcome to raise other relevant issues with the Commission.

Q1. Do states agree that the conceptual basis for the net borrowing assessment remains unchanged?

Q2. Do states support smoothing population growth to reduce volatility in the net borrowing category if a change is made to smooth population growth in the investment assessment?