

AUSTRALIAN LOAN COUNCIL ALLOCATION

Under Loan Council arrangements, every year the Commonwealth and each State government nominate a Loan Council Allocation (LCA). A jurisdiction's LCA incorporates:

- the estimated non-financial public sector ABS GFS cash surplus/deficit (made up from the balances of the general government and public non-financial corporations sectors);
- net cash flows from investments in financial assets for policy purposes; and
- memorandum items, which involve transactions that are not formally borrowings but nevertheless have many of the characteristics of borrowings.

LCA nominations are considered by the Loan Council, having regard to each jurisdiction's fiscal position and infrastructure requirements, as well as the macroeconomic implications of the aggregate figure.

As set out in Table 24, the Commonwealth's 2016-17 LCA final budget outcome is a \$48.5 billion deficit. This compares with the 2016-17 Budget estimate of a \$62.0 billion deficit. The LCA final budget outcome falls outside the two per cent tolerance limit set at the 2016-17 Budget, due to lower than expected net cash flows from investments in financial assets for policy purposes, higher than expected receipts and lower payments.

Table 24: Commonwealth's Loan Council Allocation

| \$million | 2016-17 Budget Estimate | 2016-17 Outcome |
|--|----------------------------|--------------------|
| GGs cash surplus(-)/deficit(+) | 33,760 | 29,449 |
| PNFC sector cash surplus(-)/deficit(+) | 9,930 | 7,138 |
| NFPS cash surplus(-)/deficit(+)(a) | 43,690 | 36,587 |
| <i>equals</i> ABS GFS cash surplus(-)/deficit(+) | 43,690 | 36,587 |
| <i>minus</i> Net cash flows from investments in financial assets for policy purposes(b) | -19,678 | -13,501 |
| <i>plus</i> Memorandum items(c) | -1,348 | -1,591 |
| Loan Council Allocation | 62,020 | 48,497 |
| 2016-17 tolerance limit(d) | 8,386 | na |

(a) May not directly equate to the sum of the GGS and the PNFC sectors due to intersectoral transfers which are netted out.

(b) Net cash flows from investments in financial assets for policy purposes are displayed with the same sign as they are reported in cash flow statements. Such transactions involve the transfer or exchange of a financial asset and are not included within the cash surplus/deficit. However, the cash flow from investments in financial assets for policy purposes has implications for a government's call on financial markets.

(c) For the Commonwealth's LCA outcome, memorandum items include the change in net present value (NPV) of operating leases (with NPV greater than \$5 million); the net funding of superannuation; the net financing requirement of the Australian National University; and NFPS acquisitions under finance leases and similar arrangements.

(d) A tolerance limit of two per cent of NFPS cash receipts from operating activities applies to the movement between the LCA Budget estimate and final outcome. Tolerance limits recognise that LCAs may change through the year as a result of policy and parameter changes.