

Attachment B

AUSTRALIAN LOAN COUNCIL ALLOCATION

Under the 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 and total non-financial public 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 B15, the Commonwealth's revised estimate for the 2017-18 LCA is a \$49.8 billion deficit, which is an improvement of \$11.0 billion from the estimated deficit of \$60.8 billion at the 2017-18 Budget. The revised LCA estimate falls outside the tolerance limit set at Budget, largely due to the improvement in the underlying cash balance.

Table B15: 2017-18 Commonwealth Loan Council Allocation

	2017-18 Budget estimate \$m	2017-18 MYEFO estimate \$m
	26,191	20,531
	11,627	11,245
	37,818	31,776
<i>equals</i>	37,818	31,776
<i>minus</i>		
	-22,221	-19,042
<i>plus</i>	757	-1,066
	60,796	49,752
	8,848	na

(a) May not directly equate to the sum of the GGS and the PNFC sector 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 equal to two per cent of NFPS cash receipts from operating activities, as at budget, applies to the movement between the Budget and MYEFO estimates. Tolerance limits recognise that LCAs may change through the year as a result of policy and parameter changes.