Budget pressures on Australian governments 2014

John Daley and Cassie McGannon

Supporting analysis
This Supporting analysis publication accompanies a report, *Budget pressures on Australian governments*, which can be downloaded from Grattan Institute's website.

This report was written by John Daley, Chief Executive Officer, Grattan Institute. Cassie McGannon and Amélie Hunter provided extensive research assistance and made substantial contributions to the report. Joshua Tomlinson also made a significant contribution. This edition builds on the 2013 report ‘Budget pressures on Australian governments’, to which Jim Savage and Hans Zhu made significant contributions.

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The opinions in this report are those of the authors and do not necessarily represent the views of Grattan Institute’s founding members, affiliates, individual board members or reference group members. Any remaining errors or omissions are the responsibility of the authors.

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This supporting analysis presents revenue and expenditure data by jurisdiction. Jurisdictions present budget data differently in their budget papers. It is not always possible to match expenditure or revenue categories between jurisdictions or years, so some anomalies may still be present in this data. This particularly applies to small spending categories. See pages 35-43 for further details.

Unless otherwise noted, reference to States also includes Territories.

Part B: Budget analysis approach                  Pages 35-46
Commonwealth recurrent expenditure by policy area, 2013-14

- **Defence**: 6%
  - Military capability
  - Military operations
  - Intelligence & nat. security

- **Infrastructure**: 2%
  - Infrastructure, transport and planning
  - Other

- **Education & research**: 13%
  - Higher ed
  - Skills
  - Early childhood
  - Research

- **Welfare**: 29%
  - Seniors
  - Family support
  - Workforce

- **Health**: 16%
  - Hospitals
  - Pharmaceuticals
  - Private health insurance
  - Primary care & med services

- **Untied transfers to states**: 13%
  - Other

- **Everything else**: 24%
  - Debt management
  - Ageing & aged care
  - Government operations
  - Foreign affairs
  - Economy & finance
  - Community services
  - Immigration & customs
  - Other

Note: Includes funds transferred to States. NFS=not further specified. ‘Other’ comprises all expenditure not elsewhere included, including employment, housing, disability services, communications, superannuation, legal, criminal justice, arts and sport, water, and emergency services. See p35-40 of this volume for further notes.

Source: Grattan analysis of Commonwealth Budget Papers 2013-14 and PBO unpublished data.
State recurrent expenditure by policy area, 2013-14

Note: Based on analysis of NSW, Victoria, Queensland and Western Australian budgets. NFS=not further specified. ‘Other’ comprises all expenditure not elsewhere included, including legal, emergency services, arts and sport, ageing and aged care, employment and water. See p35-40 of this volume for further notes.

Source: Grattan analysis of State Budget Papers 2013-14.
Change in recurrent expenditure by category, 2002-03 to 2013-14

Change in Commonwealth recurrent expenditure
Real change in expenditure, 2003 to 2014, $2013 bn

Change in State recurrent expenditure
Real change in expenditure, 2003 to 2014, $2013 bn

Note: Includes funds transferred to States. ‘Other’ comprises all expenditure not elsewhere included. ‘Social services’ comprises ageing and aged care services, disability services, and community services. ‘Govt & econ’ comprises government operations and economy and finance. See p35-40 of this volume for further notes.


Note: Based on NSW, Vic, Qld and WA data. ‘Other’ comprises all expenditure not elsewhere included. ‘Social services’ comprises ageing and aged care services, disability services, and community services. ‘Govt & econ’ comprises government operations and economy and finance. See p35-40 of this volume for further notes.

Change in total recurrent expenditure, 2002-03 to 2013-14

Real change in combined Commonwealth and State recurrent expenditure, 2003 to 2014, $2013 bn

Note: Based on analysis of Commonwealth, NSW, Vic, Qld and WA data. NFS=not further specified. Categories that changed by less than $1 billion not shown. See p35-40 of this volume for further notes.

Change in Commonwealth recurrent expenditure, 2002-03 to 2013-14

Real change in Commonwealth expenditure, 2003 to 2014, $2013 bn

Note: Includes funds transferred to states. NFS=not further specified. Categories that changed by less than $1 billion not shown. See p35-40 of this volume for further notes.

Change in State recurrent expenditure, 2002-03 to 2013-14

Real change in combined State and Territory expenditure, 2003 to 2014, $2013 bn

Note: Based on analysis of NSW, Vic, Qld and WA data. NFS=not further specified. Categories that changed by less than $0.5 billion not shown. See p35-40 of this volume for further notes.

## Total recurrent expenditure, 2013-14 (1/3)

<table>
<thead>
<tr>
<th>Expenditure category</th>
<th>Total Australian government expenditure</th>
<th>Commonwealth expenditure (excluding transfers to states)</th>
<th>State expenditure</th>
<th>Commonwealth expenditure (including transfers to states)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$bn % of exp.</td>
<td>$bn % of exp.</td>
<td>$bn % of exp.</td>
<td>$bn % of exp.</td>
</tr>
<tr>
<td>Ageing and aged care services</td>
<td>13.54 2.6%</td>
<td>11.51 3.8%</td>
<td>2.03 0.9%</td>
<td>12.74 3.2%</td>
</tr>
<tr>
<td>Arts and sport</td>
<td>3.57 0.7%</td>
<td>1.52 0.5%</td>
<td>2.05 1.0%</td>
<td>0.99 0.2%</td>
</tr>
<tr>
<td>Climate change and environment</td>
<td>9.43 1.8%</td>
<td>5.36 1.8%</td>
<td>4.08 1.9%</td>
<td>5.57 1.4%</td>
</tr>
<tr>
<td>Communications</td>
<td>0.92 0.2%</td>
<td>0.92 0.3%</td>
<td>- -</td>
<td>2.32 0.6%</td>
</tr>
<tr>
<td>Community Services</td>
<td>11.58 2.2%</td>
<td>5.24 1.7%</td>
<td>6.34 3.0%</td>
<td>5.49 1.4%</td>
</tr>
<tr>
<td>Criminal justice</td>
<td>15.63 3.0%</td>
<td>1.01 0.3%</td>
<td>14.62 6.8%</td>
<td>1.05 0.3%</td>
</tr>
<tr>
<td>Debt management</td>
<td>16.16 3.1%</td>
<td>11.94 3.9%</td>
<td>4.22 2.0%</td>
<td>12.35 3.1%</td>
</tr>
<tr>
<td>Defence - military capability</td>
<td>26.69 5.2%</td>
<td>26.69 8.8%</td>
<td>- -</td>
<td>27.60 6.9%</td>
</tr>
<tr>
<td>Defence - military operations</td>
<td>0.86 0.2%</td>
<td>0.86 0.3%</td>
<td>- -</td>
<td>0.89 0.2%</td>
</tr>
<tr>
<td>Defence - intelligence &amp; national security</td>
<td>1.63 0.3%</td>
<td>1.63 0.5%</td>
<td>- -</td>
<td>1.69 0.4%</td>
</tr>
<tr>
<td>Defence - other</td>
<td>0.14 &lt;0.1%</td>
<td>0.14 &lt;0.1%</td>
<td>- -</td>
<td>0.20 &lt;0.1%</td>
</tr>
<tr>
<td>Disability services</td>
<td>7.86 1.5%</td>
<td>1.02 0.3%</td>
<td>6.84 3.2%</td>
<td>2.55 0.6%</td>
</tr>
<tr>
<td>Economy and finance</td>
<td>15.36 3.0%</td>
<td>5.25 1.7%</td>
<td>10.10 4.7%</td>
<td>5.87 1.5%</td>
</tr>
<tr>
<td>Education - early childhood</td>
<td>1.22 0.2%</td>
<td>- -</td>
<td>1.22 0.6%</td>
<td>0.10 &lt;0.1%</td>
</tr>
<tr>
<td>Education - higher education</td>
<td>9.55 1.8%</td>
<td>8.98 3.0%</td>
<td>0.57 0.3%</td>
<td>9.28 2.3%</td>
</tr>
<tr>
<td>Education - schools</td>
<td>45.56 8.8%</td>
<td>11.28 3.7%</td>
<td>34.28 16.0%</td>
<td>14.78 3.7%</td>
</tr>
<tr>
<td>Education - skills</td>
<td>8.70 1.7%</td>
<td>1.55 0.5%</td>
<td>7.14 3.3%</td>
<td>3.29 0.8%</td>
</tr>
<tr>
<td>Education - NFS</td>
<td>0.27 0.1%</td>
<td>0.11 &lt;0.1%</td>
<td>0.16 0.1%</td>
<td>0.12 &lt;0.1%</td>
</tr>
</tbody>
</table>

Note: State figures based on analysis of NSW, Victoria, Queensland and Western Australian budgets. NFS=not further specified. See p35-40 of this volume for further notes. Source: Grattan analysis of Commonwealth and State Budget Papers 2013-14.
## Total recurrent expenditure, 2013-14 (2/3)

<table>
<thead>
<tr>
<th>Expenditure category</th>
<th>Total Australian government expenditure</th>
<th>Commonwealth expenditure (excluding transfers to states)</th>
<th>State expenditure</th>
<th>Commonwealth expenditure (including transfers to states)</th>
</tr>
</thead>
<tbody>
<tr>
<td>$bn</td>
<td>% of exp.</td>
<td>$bn</td>
<td>% of exp.</td>
<td>$bn</td>
</tr>
<tr>
<td>Emergency services</td>
<td>3.17</td>
<td>0.6%</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Employment</td>
<td>4.51</td>
<td>0.9%</td>
<td>3.47</td>
<td>1.1%</td>
</tr>
<tr>
<td>Foreign affairs</td>
<td>6.48</td>
<td>1.3%</td>
<td>6.48</td>
<td>2.1%</td>
</tr>
<tr>
<td>Government operations</td>
<td>18.05</td>
<td>3.5%</td>
<td>9.02</td>
<td>3.0%</td>
</tr>
<tr>
<td>Health - hospitals</td>
<td>38.93</td>
<td>7.5%</td>
<td>2.23</td>
<td>0.7%</td>
</tr>
<tr>
<td>Health - other</td>
<td>15.00</td>
<td>2.9%</td>
<td>5.18</td>
<td>1.7%</td>
</tr>
<tr>
<td>Health - pharmaceuticals</td>
<td>10.83</td>
<td>2.1%</td>
<td>10.83</td>
<td>3.6%</td>
</tr>
<tr>
<td>Health - primary care &amp; medical services</td>
<td>28.35</td>
<td>5.5%</td>
<td>21.58</td>
<td>7.1%</td>
</tr>
<tr>
<td>Health - NFS</td>
<td>0.52</td>
<td>0.1%</td>
<td>-</td>
<td>0.0%</td>
</tr>
<tr>
<td>Health - private health</td>
<td>6.26</td>
<td>1.2%</td>
<td>6.26</td>
<td>2.1%</td>
</tr>
<tr>
<td>Housing</td>
<td>6.02</td>
<td>1.2%</td>
<td>1.39</td>
<td>0.5%</td>
</tr>
<tr>
<td>Immigration and customs</td>
<td>5.16</td>
<td>1.0%</td>
<td>5.16</td>
<td>1.7%</td>
</tr>
<tr>
<td>Industry</td>
<td>19.46</td>
<td>3.8%</td>
<td>13.17</td>
<td>4.3%</td>
</tr>
<tr>
<td>Infrastructure, transport and planning</td>
<td>36.74</td>
<td>7.1%</td>
<td>2.32</td>
<td>0.8%</td>
</tr>
<tr>
<td>Legal</td>
<td>4.56</td>
<td>0.9%</td>
<td>1.05</td>
<td>0.3%</td>
</tr>
<tr>
<td>Research</td>
<td>4.55</td>
<td>0.9%</td>
<td>4.47</td>
<td>1.5%</td>
</tr>
<tr>
<td>Superannuation</td>
<td>6.08</td>
<td>1.2%</td>
<td>1.95</td>
<td>0.6%</td>
</tr>
<tr>
<td>Untied transfers to states</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>

Note: State figures based on analysis of NSW, Victoria, Queensland and Western Australian budgets. NFS=not further specified. See p35-40 of this volume for further notes.
### Total recurrent expenditure, 2013-14 (3/3)

<table>
<thead>
<tr>
<th>Expenditure category</th>
<th>Total Australian government expenditure</th>
<th>Commonwealth expenditure (excluding transfers to states)</th>
<th>State expenditure</th>
<th>Commonwealth expenditure (including transfers to states)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$bn</td>
<td>% of exp.</td>
<td>$bn</td>
<td>% of exp.</td>
</tr>
<tr>
<td>Water</td>
<td>1.40</td>
<td>0.3%</td>
<td>0.51</td>
<td>0.2%</td>
</tr>
<tr>
<td>Welfare payments - disability</td>
<td>16.20</td>
<td>3.1%</td>
<td>16.20</td>
<td>5.3%</td>
</tr>
<tr>
<td>Welfare payments - family support</td>
<td>26.53</td>
<td>5.1%</td>
<td>26.53</td>
<td>8.8%</td>
</tr>
<tr>
<td>Welfare payments - seniors</td>
<td>38.46</td>
<td>7.4%</td>
<td>38.46</td>
<td>12.7%</td>
</tr>
<tr>
<td>Welfare payments - carers</td>
<td>6.59</td>
<td>1.3%</td>
<td>6.59</td>
<td>2.2%</td>
</tr>
<tr>
<td>Welfare payments - other</td>
<td>1.86</td>
<td>0.4%</td>
<td>1.86</td>
<td>0.6%</td>
</tr>
<tr>
<td>Welfare payments - NFS</td>
<td>6.67</td>
<td>1.3%</td>
<td>6.67</td>
<td>2.2%</td>
</tr>
<tr>
<td>Welfare payments - workforce</td>
<td>16.59</td>
<td>3.2%</td>
<td>16.59</td>
<td>5.5%</td>
</tr>
<tr>
<td>Total</td>
<td>517.66</td>
<td>100.0%</td>
<td>303.00</td>
<td>100.0%</td>
</tr>
</tbody>
</table>

Note: State figures based on analysis of NSW, Victoria, Queensland and Western Australian budgets. NFS=not further specified. See p35-40 of this volume for further notes.

New South Wales recurrent expenditure

NSW recurrent expenditure by category, 2013-14
Total expenditure = $64.5bn

- Health 25%
- Infrastructure 16%
- Education & research 21%
- Everything else 38%

Note: ‘Other’ comprises all expenditure not elsewhere included. ‘Social services’ comprises ageing and aged care services, disability services, and community services. ‘Govt & econ’ comprises government operations and economy and finance. See p35-40 of this volume for further notes.

Victorian recurrent expenditure

Victorian recurrent expenditure by category, 2013-14
Total expenditure = $47.1bn

- **Health**: 26%
- **Education & research**: 23%
- **Infrastructure**: 13%
- **Everything else**: 38%

Change in Victorian recurrent expenditure, 2002-03 to 2013-14
Real change in expenditure, 2003 to 2014, $2013 bn

- **Real growth**
- **Growth if revenue a constant % of GDP**

Note: ‘Other’ comprises all expenditure not elsewhere included. ‘Social services’ comprises ageing and aged care services, disability services, and community services. ‘Govt & econ’ comprises government operations and economy and finance. See p35-40 of this volume for further notes.

Queensland recurrent expenditure

Queensland recurrent expenditure by category, 2013-14
Total expenditure = $46.3bn

- **Health**: 24%
- **Infrastructure**: 18%
- **Education & research**: 18%
- **Everything else**: 38%

<table>
<thead>
<tr>
<th>Category</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hospitals</td>
<td>6</td>
</tr>
<tr>
<td>Primary care &amp; med. services</td>
<td>4</td>
</tr>
<tr>
<td>Other</td>
<td>3</td>
</tr>
<tr>
<td>Industry</td>
<td>2</td>
</tr>
<tr>
<td>Debt mgt</td>
<td>1</td>
</tr>
<tr>
<td>Criminal justice</td>
<td>1</td>
</tr>
<tr>
<td>Social services</td>
<td>1</td>
</tr>
<tr>
<td>Govt &amp; econ</td>
<td>1</td>
</tr>
<tr>
<td>Infra. transport &amp; planning</td>
<td>1</td>
</tr>
<tr>
<td>Research</td>
<td>1</td>
</tr>
<tr>
<td>Early childhood</td>
<td>1</td>
</tr>
</tbody>
</table>

Change in Queensland recurrent expenditure, 2002-03 to 2013-14
Real change in expenditure, 2003 to 2014, $2013 bn

- **Health**: Real growth 6, Growth if revenue a constant % of GDP 2
- **Infra. transport & planning**: Real growth 4, Growth if revenue a constant % of GDP 1
- **Other**: Real growth 2, Growth if revenue a constant % of GDP 1
- **Edu & research**: Real growth 2, Growth if revenue a constant % of GDP 1
- **Debt mgt**: Real growth 1, Growth if revenue a constant % of GDP 1
- **Social services**: Real growth 1, Growth if revenue a constant % of GDP 1
- **Crim. justice**: Real growth 1, Growth if revenue a constant % of GDP 1
- **Industry**: Real growth 1, Growth if revenue a constant % of GDP 1
- **Govt & econ**: Real growth 1, Growth if revenue a constant % of GDP 1

Note: ‘Other’ comprises all expenditure not elsewhere included. ‘Social services’ comprises ageing and aged care services, disability services, and community services. ‘Govt & econ’ comprises government operations and economy and finance. See p35-40 of this volume for further notes.

Western Australian recurrent expenditure

Western Australian recurrent expenditure by category, 2013-14
Total expenditure = $26.4bn

- **Health**: Health 26%
- **Infrastructure**: Infrastructure 14%
- **Education & research**: Education & research 19%
- **Everything else**: Everything else 41%

Note: ‘Other’ comprises all expenditure not elsewhere included. ‘Social services’ comprises ageing and aged care services, disability services, and community services. ‘Govt & econ’ comprises government operations and economy and finance. See p35-40 of this volume for further notes.

New South Wales revenue

NSW revenue by category, 2013-14
Total revenue = $65.6bn

- Sales of goods & services
- Investment income
- Payroll tax
- Stamp duties
- Motor vehicle taxes
- Royalties
- Specific Purpose Payments
- On-passing
- GST revenue
- C‘wth transfers – untied 24%
- C‘wth transfers – tied 20%
- Other untied
- Other

Change in NSW revenues, 2002-03 to 2013-14
Real change in revenue, 2003 to 2014, $2013 bn

Note: ‘Investment income’ includes interest income, dividends, and tax-equivalent payments from State entities. ‘Other own-source’ includes fines, fees, grants from entities other than the Commonwealth, and other revenue not elsewhere included. See ‘A Bluffer’s Guide to Budgets’ on p69 of main report for detail of types of Commonwealth grants. See p35-40 of this volume for further notes.

Victorian revenue by category, 2013-14
Total revenue = $50.3bn

- Sale of goods & services
- Investment income
- Other
- Payroll tax
- Stamp duties
- Motor vehicle taxes
- Land tax
- Gambling taxes
- Royalties
- Insurance duties
- Specific Purpose Payments
- National Partnership Payments
- On-passing
- C'wth transfers – untied 22%
- C'wth transfers – tied 24%
- Own-source tax 32%
- Own-source non tax 22%

Change in Victorian revenues, 2002-03 to 2013-14
Real change in revenue, 2003 to 2014, $2013 bn

Note: 'Investment income' includes interest income, dividends, and tax-equivalent payments from State entities. 'Other own-source' includes fines, fees, grants from entities other than the Commonwealth, and other revenue not elsewhere included. See ‘A Bluffer’s Guide to Budgets’ on p69 of main report for detail of types of Commonwealth grants. See p35-40 of this volume for further notes.

Queensland revenue

Queensland revenue by category, 2013-14
Total revenue = $44.7bn

Change in Queensland revenues, 2002-03 to 2013-14
Real change in revenue, 2003 to 2014, $2013 bn

Queensland revenue

Note: ‘Investment income’ includes interest income, dividends, and tax-equivalent payments from State entities. ‘Other own-source’ includes fines, fees, grants from entities other than the Commonwealth, and other revenue not elsewhere included. See ‘A Bluffer’s Guide to Budgets’ on p69 of main report for detail of types of Commonwealth grants. See p35-40 of this volume for further notes.

Western Australian revenue by category, 2013-14
Total revenue = $28.0bn

- Royalties 21%
- GST revenue
- Stamp duties
- Payroll tax
- Other taxes
- Gambling taxes
- Insurance duties
- Motor vehicle taxes
- Land tax
- Specific Purpose Payments
- Other untied
- Commonwealth transfers – untied 13%
- Commonwealth transfers – tied 18%
- Sale of goods & services
- Investment income
- Other

Own-source tax 33%

C’wth transfers

Change in Western Australian revenues, 2002-03 to 2013-14
Real change in revenue, 2003 to 2014, $2013 bn

- Sale of goods & services
- Investment income
- Other
- Tax
- Royalties
- GST
- Other untied
- Tied

Real growth
Growth if revenue a constant % of GDP

Note: ‘Investment income’ includes interest income, dividends, and tax-equivalent payments from State entities. ‘Other own-source’ includes fines, fees, grants from entities other than the Commonwealth, and other revenue not elsewhere included. ‘Other untied’ is mostly royalty equivalent payments. See ‘A Bluffer’s Guide to Budgets’ on p69 of main report for detail of types of Commonwealth grants. See p35-40 of this volume for further notes.

**South Australian revenue**

**South Australian revenue by category, 2013-14**

Total revenue = $15.3bn

**Change in South Australian revenues, 2002-03 to 2013-14**

Real change in revenue, 2003 to 2014, $2013 bn

- Sale of goods & services
- Investment income
- Other
- Payroll tax
- Stamp duties
- Land tax
- Motor vehicle taxes
- Insurance duties
- Gambling taxes
- Other taxes
- Royalties
- GST revenue
- Specific Purpose Payments
- National Partnership Payments
- On-passing
- C’wth transfers – tied 20%
- C’wth transfers – untied 30%
- Royalties 2%
- Own-source non tax 21%
- Own-source tax 28%

**Note:** ‘Investment income’ includes interest income, dividends, and tax-equivalent payments from State entities. ‘Other own-source’ includes fines, fees, grants from entities other than the Commonwealth, and other revenue not elsewhere included. See ‘A Bluffer’s Guide to Budgets’ on p69 of main report for detail of types of Commonwealth grants. See p35-40 of this volume for further notes.

Tasmanian revenue

**Tasmanian revenue by category, 2013-14**
Total revenue = $4.8bn

- **Own-source non tax 22%**
  - National Partnership Payments
  - Sale of goods & services
  - Investment income
  - On-passing
  - Royalties
  - Payroll tax

- **Own-source tax 20%**
  - Gambling taxes
  - Stamp duties
  - Motor vehicle taxes
  - Land tax
  - Insurance duties
  - Other taxes

- **GST revenue**
  - Specific Purpose Payments
  - C’wth transfers – untied 38%
  - C’wth transfers – tied 20%

**Change in Tasmanian revenues, 2002-03 to 2013-14**
Real change in revenue, 2003 to 2014, $2013 bn

**Note:** 'Investment income' includes interest income, dividends, and tax-equivalent payments from State entities. 'Other own-source' includes fines, fees, grants from entities other than the Commonwealth, and other revenue not elsewhere included. See ‘A Bluffer’s Guide to Budgets’ on p69 of main report for detail of types of Commonwealth grants. See p35-40 of this volume for further notes.

Northern Territory revenue

Northern Territory revenue by category, 2013-14
Total revenue = $4.8bn

C’wth transfers – untied 65%
C’wth transfers – tied 14%
Other untied
Specific Purpose Payments
National Partnership Payments
Royalties 1%
GST revenue

Own-source non tax 22%
Own-source tax 10%
Sale of goods & services
Investment income
Other
Payroll tax
Stamp duties
Motor vehicle taxes
Insurance duties
Gambling taxes
Royalties

Change in Northern Territory revenues, 2002-03 to 2013-14
Real change in revenue, 2003 to 2014, $2013 bn

Real growth
Growth if revenue a constant % of GDP

Sale of goods & services
Investment income
Other
Tax
Royalties
GST
Other untied grants
Tied grants
Own-source
C’wth transfers

Note: ‘Investment income’ includes interest income, dividends, and tax-equivalent payments from State entities. ‘Other own-source’ includes fines, fees, grants from entities other than the Commonwealth, and other revenue not elsewhere included. ‘Other untied’ is mostly royalty equivalent payments. See ‘A Bluffer’s Guide to Budgets’ on p69 of main report for detail of types of Commonwealth grants. See p35-40 of this volume for further notes.
ACT revenue

ACT revenue by category, 2013-14
Total revenue = $4.2bn

- Own-source tax 31%
- Other taxes
- Motor vehicle taxes
- Land tax
- Gambling taxes
- Insurance duties
- Other untied
- GST revenue
- Payroll tax
- Stamp duties
- Investment income
- On-passing
- National Partnership Payments
- Sale of goods & services
- Other tied
- C’wth transfers – untied 26%
- C’wth transfers – tied 17%
- Own-source non tax 27%

Change in ACT revenues, 2002-03 to 2013-14
Real change in revenue, 2003 to 2014, $2013 bn

- Real growth
- Growth if revenue a constant % of GDP

Note: ‘Investment income’ includes interest income, dividends, and tax-equivalent payments from State entities. ‘Other own-source’ includes fines, fees, grants from entities other than the Commonwealth, and other revenue not elsewhere included. ‘Other untied’ is payments for ACT municipal services used by the Commonwealth, and local government equivalent grant payments. ACT does not earn royalties. See ‘A Bluffer’s Guide to Budgets’ on p69 of main report for detail of types of Commonwealth grants. See p35-40 of this volume for further notes.

State depreciation and interest expenditure

Total depreciation and interest expense as a percentage of revenue
% of operating revenue

Source: ABS (2013) cat 5512, State and Territory budget papers (2013-14)

Total depreciation and interest expense as a percentage of revenue
% of operating revenue

Source: ABS (2013) cat 5512, State and Territory budget papers (2013-14)

Note: GSP forecast based on 10 year compound annual growth rate
Source: ABS (2013) cat 5512, State and Territory budget papers (2013-14)
Total state capital expenditure, depreciation, interest and debt

**Capital expenditure has increased significantly over time**
Net acquisition of non-financial assets, $ billions ($2012-13)

**Depreciation and interest expense as a percentage of revenue**
% of revenue

**Net debt and net operating balance**
$ billions, ($2012-13)

**Depreciation, interest and capital expenditure as a percentage of GSP**
% of GSP

Note: Total net investment in fixed assets (excludes PPP payments)

Note: Net operating balances for 2013 onwards are estimates and forecasts

Note: GSP forecast based on 2013-14 state budget assumptions for economic forecasts
New South Wales capital expenditure

Current capital expenditure is double that of 10 years ago
Net acquisition of non-financial assets, $ billions ($2012-13)

Net debt and net operating balance
$ billions, ($2012-13)

Depreciation and interest expense as a percentage of revenue
% of revenue

Cth stimulus package
Forecast

Net debt and net operating balance
Net debt
Net operating balance
Forecast

Note: Total net investment in fixed assets (excludes PPP payments). Includes payments to PNFCs classified as recurrent expenditure

Net debt and net operating balance
Net debt
Net operating balance
Forecast

Depreciation and interest expense as a percentage of revenue
Interest
Depreciation
Forecast

Note: GSP forecast based on 2013-14 state budget assumptions for economic forecasts
Victorian capital expenditure

Capital expenditure has increased significantly over time
Net acquisition of non-financial assets, $ billions ($2012-13)

Net debt and net operating balance
$ billions, ($2012-13)

Depreciation and interest expense as a percentage of revenue
% of revenue


Net debt and net operating balance
$ billions, ($2012-13)

Depreciation and interest expense as a percentage of GSP
% of GSP

Queensland capital expenditure

Capital expenditure in 2014 is four times that of 10 years ago
Net acquisition of non-financial assets, $ billions ($2012-13)


Net debt and operating balance
$ billions, ($2012-13)


Depreciation and interest expense as a percentage of revenue
% of revenue


Note: Total net investment in fixed assets (excludes PPP payments). Significant capital expenditure has been spent on natural disaster recovery.

Net operating balance

Note: Net operating balances for 2013 are estimates and subsequent years are forecasts

Depreciation and interest expense as a percentage of GSP
% of GSP

Note: GSP forecast based on 2013-14 state budget assumptions for economic forecasts
Western Australian capital expenditure

Current capital expenditure is four times that of 10 years ago

Net acquisition of non-financial assets, $ billions ($2012-13)

Depreciation and interest expense as a percentage of revenue

% of revenue

Net debt and operating balance

$ billions, ($2012-13)

Depreciation, interest and capital expenditure as a percentage of GSP

% of GSP

Note: Total net investment in fixed assets (excludes PPP payments)
South Australian capital expenditure

Current capital expenditure is double that of 10 years ago
Net acquisition of non-financial assets, $ billions ($2012-13)

Depreciation and interest expense as a percentage of revenue
% of revenue

Net debt and net operating balance
$ billions, ($2012-13)

Depreciation, interest and capital expenditure as a percentage of GSP
% of GSP

Note: Net operating balances for 2013 are estimates and subsequent years are forecasts

Note: GSP forecast based on 2013-14 state budget assumptions for economic forecasts
**Tasmanian capital expenditure**

**Capital expenditure peaked with Commonwealth stimulus packages**
Net acquisition of non-financial assets, $ billions ($2012-13)

**Interest expense is limited and depreciation costs steady**
% of revenue

**Net debt and net operating balance**
$ billions, ($2012-13)

**Depreciation, interest and capital expenditure as a percentage of GSP**
% of GSP


Note: Net operating balances for 2013 are estimates and subsequent years are forecasts

Note: GSP forecast based on 2013-14 state budget assumptions for economic forecasts
Northern Territory capital expenditure

Current capital expenditure is significantly higher than 10 years ago
Net acquisition of non-financial assets, $ billions ($2012-13)

Depreciation and interest expense as a percentage of revenue
% of revenue

Net debt and net operating balance
$ billions, ($2012-13)

Depreciation, interest and capital expenditure as a percentage of GSP
% of GSP

Note: Net operating balances for 2013 are estimates and subsequent years are forecasts

Note: GSP forecast based on 2013-14 territory budget assumptions for economic forecasts
**ACT capital expenditure**

Current capital expenditure has grown steadily
Net acquisition of non-financial assets, $ billions ($2012-13)

Net debt and net operating balance
$ billions, ($2012-13)

Depreciation and interest expense as a percentage of revenue
% of revenue

Depreciation, interest and capital expenditure as a percentage of GSP
% of GSP

Note: Net operating balances for 2013 are estimates and subsequent years are forecasts

Note: GSP forecast based on 2013-14 territory budget assumptions for economic forecasts
Part B: Budget analysis approach

This note applies to the data presented in Figures 3, 7-10, 12-13, 19-21, 23-25, 29-34 and the accompanying text in the main volume of this report, and the data presented in Part A of this Supporting Analysis.

B.1 Recurrent expenditure analysis methodology

The data in this paper represents our best efforts to date in breaking down budget expenditure by policy area. Our approach has been to categorise all general government expenditure listed in the Portfolio Budget Statements (for the Commonwealth), and equivalent budget documents for the States, using budgeted figures for 2002-03 and 2013-14. For Commonwealth expenditure for 2013-14, we have also made use of expenditure data collated by the Parliamentary Budget Office. In some cases, we contacted the relevant Treasury department for clarification of issues.

Our expenditure categories differ from those used in the ABS Government Finance Statistics (GFS), which are used to develop the ‘expenses by function’ data published in the Commonwealth budget, and equivalent State government papers in their Uniform Presentation Frameworks, and the Parliamentary Budget Office’s expenditure analysis. See Section B.2 below for a further explanation of our categorization approach.

Assumptions and caveats are as follows:

1. The expenditure analysis is based on Commonwealth, NSW, Victorian, Queensland and Western Australian budget data. Other State and Territory expenditures for each category are assumed to be proportionate to the included States as a percentage of each State or Territory’s total expenditure. We believe this is a reasonable approximation. In 2012-13, NSW, Victoria, Western Australia and Queensland together comprise 86 per cent of State and Territory expenditure. With the addition of Commonwealth expenditure, the analysis includes 94 per cent of Australian government expenditure.

2. Determining total government expenditure in Australia is complicated by federal financial relations, which involves transfers of funds from the Commonwealth to the States. We have removed the double-counting of expenditure that would result from simple addition of jurisdiction totals. For all charts showing combined Commonwealth and State expenditure:

- Commonwealth transfers to States (approx. $95bn in 2013-14) have been included as State expenditures only.

- Some funding (approx. $11bn in 2013-14) is also paid by the Commonwealth ‘through’ the States to other entities (mostly non-government schools and local governments). This is sometimes known as ‘on-passings’. As States have no discretion over this funding, it is classified as Commonwealth expenditure in this paper, and is also removed from the total expenditure from each State where

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1 PBO (n.d.-a)
2 Refer to Budget Paper 1, Statement 6: Expenses and Net Capital Investment.
3 PBO (2013)
the published total includes on-passings.

In both cases, we have used Commonwealth figures for transfer amounts for consistency.

- The analysis includes all non-capital (recurrent) expenditure listed in the budget papers. Capital expenditure is analysed separately; the methodology is described below in Section B.5.

- For each jurisdiction, our expenditure data sums to a figure greater than the published expenditure total. This is because our data includes some transfers between agencies in the same jurisdiction that cannot be identified from publicly available information. The majority of the difference between our data and the published budget totals is accounted for by these transfers. Most jurisdictions list the total amount of these transfers; once these are subtracted from our totals where possible, and on-passings are accounted for, the difference between the published totals and our totals as a proportion of the published expenditure total are:
  - Commonwealth  2002-03 – 3.9%  2013-14 – 4.4%
  - NSW  2002-03 – 1.5%  2013-14 – 1.6%
  - Victoria  2002-03 – 9.0%  2013-14 – 9.3%
  - Queensland  2002-03 – 15.5%  2013-14 – 12.0%
  - Western Australia  2002-03 – 9.3%  2013-14 – 6.0%

In each case, the unidentified transfers have been spread across all categories, in proportion to the size of the categories. In other words, the share of expenditure for each category derived from the decomposed data has been applied to the published budget total for that jurisdiction.

B.2 Expenditure categorisation

While the vast majority of expenditure is straightforward to categorise, there will always be a few items that could legitimately be included in more than one place. A good example is spending on police forces, which could be placed either in ‘emergency services’ or ‘criminal justice’ – we have chosen the latter, and applied it consistently to all jurisdictions across time.

We have not used Government Finance Statistics (GFS) expenditure categories. GFS categories do not provide sufficient detail in some areas, and classification of expenditure is not always transparent, or consistent over time and between jurisdictions. For example, in 2002-03 Youth Allowance payments to students were classified as welfare expenditure; in 2012-13 they are classified as education expenditure. We have consistently applied our policy categorisations across jurisdictions and across years to the greatest extent possible, within the limitations of the way data is presented in the budget papers.

Table B.1 provides descriptions of the types of expenditure included in each category. The list is illustrative rather than comprehensive. The operational costs of departments have been included in the relevant category.
Table B.1: Description of expenditure categories

<table>
<thead>
<tr>
<th>Category</th>
<th>Commonwealth</th>
<th>States and Territories</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ageing and aged care services</td>
<td>Home-based, residential and flexible care for the aged</td>
<td>Home-based, residential and flexible care for the aged</td>
</tr>
<tr>
<td>Arts and sport</td>
<td>Arts and sports programs; expenses for national museums, libraries</td>
<td>Arts and sports programs; expenses for state museums, galleries, libraries and sports facilities</td>
</tr>
<tr>
<td>Climate change and environment</td>
<td>Climate change and environmental protection programs and agencies; natural resource management; Bureau of Meteorology</td>
<td>Climate change and environmental protection programs and agencies; parks and wildlife</td>
</tr>
<tr>
<td>Communications</td>
<td>ABC, SBS, communications regulation and programs</td>
<td>ICT industry programs</td>
</tr>
<tr>
<td>Community services</td>
<td>Community care and support services, including for veterans, children, and indigenous Australians. Excludes services specifically for the aged and people with disability, and housing expenditure</td>
<td>Child protection and out-of-home care; community care and support services; Indigenous support services; support for specific groups including women, youth and veterans. Excludes services specifically for aged and people with disability, and housing expenditure</td>
</tr>
<tr>
<td>Criminal justice</td>
<td>Australian Federal Police (AFP) and other criminal justice agencies</td>
<td>Police forces; crime prevention; corrections and custodial services</td>
</tr>
<tr>
<td>Debt management</td>
<td>Cost of government debt</td>
<td>Cost of government debt</td>
</tr>
<tr>
<td>Defence - military capability</td>
<td>Defence personnel, equipment, and general operational costs</td>
<td>n/a</td>
</tr>
<tr>
<td>Defence - military operations</td>
<td>Specific military operations</td>
<td>n/a</td>
</tr>
<tr>
<td>Defence - intelligence and national security</td>
<td>Department of Defence spending on intelligence capabilities; ASIO; ASIC; some AFP and other security agencies</td>
<td>n/a</td>
</tr>
<tr>
<td>Defence - other</td>
<td>Some veterans’ support services; Australian War memorial</td>
<td>n/a</td>
</tr>
<tr>
<td>Disability services</td>
<td>Community care, services and support for people with disability. Excludes most disability services expenditure, which is transferred to States. Excludes employment services for people with disability.</td>
<td>Supported accommodation and services for people with disability.</td>
</tr>
<tr>
<td>Economy and finance</td>
<td>Australian Tax Office; Australian Securities and Investments Commission, policy and budget advice in the Department of the Treasury and Department of Finance and Deregulation</td>
<td>Economic, financial, regulatory and insurance services and advice to government; revenue collection.</td>
</tr>
<tr>
<td>Category</td>
<td>Commonwealth</td>
<td>States and Territories</td>
</tr>
<tr>
<td>-------------------------------</td>
<td>-----------------------------------------------------------------------------</td>
<td>----------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>Education - early childhood</td>
<td>Access to early childhood education; excludes child care subsidies</td>
<td>Early childhood education and development services, where separately identifiable from schools</td>
</tr>
<tr>
<td>Education - schools</td>
<td>General funding to non-government schools; funding for specific</td>
<td>General funding to government and non-government schools; curriculum and assessment services.</td>
</tr>
<tr>
<td></td>
<td>programs in government and non-government schools. Excludes general</td>
<td></td>
</tr>
<tr>
<td></td>
<td>funding for government schools, which is transferred to States.</td>
<td></td>
</tr>
<tr>
<td>Education - skills</td>
<td>Apprenticeships; funding for specific programs.</td>
<td>Funding to TAFEs; other vocational education expenses.</td>
</tr>
<tr>
<td>Education - higher education</td>
<td>Funding to universities for teaching costs and associated programs; loan</td>
<td>Funding for health-related teaching and research</td>
</tr>
<tr>
<td></td>
<td>programs (HELP).</td>
<td></td>
</tr>
<tr>
<td>Education - not further</td>
<td>Education support for children of veterans</td>
<td>Departmental expenses not elsewhere included</td>
</tr>
<tr>
<td>specified</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Emergency services</td>
<td>Emergency and disaster management</td>
<td>Fire and rescue services; emergency preparedness and management</td>
</tr>
<tr>
<td>Employment</td>
<td>Employment services and programs; workplace safety and insurance; entitlements and redundancy schemes; industrial relations programs and agencies.</td>
<td>Workcover, long service leave and workers’ compensation agencies; industrial relations.</td>
</tr>
<tr>
<td>Foreign affairs</td>
<td>Diplomacy, consular services, development assistance (AusAID)</td>
<td>n/a</td>
</tr>
<tr>
<td>Government operations</td>
<td>Operating costs, salaries and entitlements for Parliament; agencies with</td>
<td></td>
</tr>
<tr>
<td></td>
<td>functions across government, including the ABS, ANAO, DPMC, APSC; payments and services for local governments and Territories.</td>
<td>Operating costs, salaries and entitlements for Parliament; shared services functions; agencies with functions across government, including DPC, audit and ombudsman’s offices; public service commissions.</td>
</tr>
<tr>
<td>Health - hospitals</td>
<td>Hospital services for veterans; blood and organ donation agencies. Excludes general funding for hospitals, which is transferred to States.</td>
<td>Inpatient hospital services and emergency health services</td>
</tr>
<tr>
<td>Health - private health</td>
<td>Private health insurance rebates and associated expenses</td>
<td>n/a</td>
</tr>
<tr>
<td>insurance</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Health - pharmaceuticals</td>
<td>Pharmaceutical Benefits Scheme; veterans’ pharmaceutical services; other pharmaceuticals and aids and appliances programs.</td>
<td>n/a</td>
</tr>
<tr>
<td>Health - primary care and</td>
<td>Medicare benefits, other programs supporting medical services</td>
<td>Primary and community-based services</td>
</tr>
<tr>
<td>medical services</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Category</td>
<td>Commonwealth</td>
<td>States and Territories</td>
</tr>
<tr>
<td>----------------------------------</td>
<td>------------------------------------------------------------------------------</td>
<td>---------------------------------------------------------------------------</td>
</tr>
<tr>
<td>Health - other</td>
<td>Health workforce capacity, medical research, mental, population, community and preventative health</td>
<td>Mental, population, community and preventive health; rehabilitation services</td>
</tr>
<tr>
<td>Health - not further specified</td>
<td>Some health department expenses not elsewhere included; Nation Building Fund – Health and Hospitals special account</td>
<td>Some health department expenses not elsewhere included</td>
</tr>
<tr>
<td>Housing</td>
<td>Affordable housing, Defence home loans, indigenous housing First Home Saver Accounts. Excludes majority of affordable housing funding, which is transferred to States.</td>
<td>Housing assistance; social housing; indigenous housing; First Home Owner Grants; rates rebates.</td>
</tr>
<tr>
<td>Immigration and customs</td>
<td>Visas and migration; asylum seeker management and detention; quarantine and export services, settlement services</td>
<td>n/a</td>
</tr>
<tr>
<td>Industry</td>
<td>Funding and support services to industry, including fuel tax credits and rebates, and R&amp;D tax credits; subsidies to particular industries, including agriculture, coal, renewable energy and automotive.</td>
<td>Funding and support services to industry; subsidies to particular industries; rural and regional economic development; investment facilitation and attraction.</td>
</tr>
<tr>
<td>Infrastructure, transport and planning</td>
<td>Building Australia Fund; roads funding; aviation and maritime programs and agencies; local infrastructure projects</td>
<td>Road transport; public transport; public works; planning and land management. Includes funding for Queensland flood reconstruction.</td>
</tr>
<tr>
<td>Legal</td>
<td>Courts, commissions and tribunals; legal services to government.</td>
<td>Courts, commissions and tribunals; legal services to government; legal aid; related programs and agencies for fair trading, state trustees, liquor and gaming regulation and licensing, and privacy.</td>
</tr>
<tr>
<td>Research</td>
<td>Funding to universities for research expenses; other research agencies e.g. CSIRO, ARC. Excludes medical research via the NHMRC.</td>
<td>Funding to research agencies</td>
</tr>
<tr>
<td>Superannuation</td>
<td>Public sector superannuation payments and administration; low income super contribution; other superannuation programs and agencies</td>
<td>Public sector superannuation payments and administration</td>
</tr>
<tr>
<td>Untied transfers to States</td>
<td>GST; royalty payments to WA and NT.</td>
<td>n/a</td>
</tr>
<tr>
<td>Water</td>
<td>Regional and urban water</td>
<td>Water and sewerage</td>
</tr>
<tr>
<td>Welfare payments - disability</td>
<td>Disability Support Pension; disability payments for veterans; Mobility Allowance; related program support and other expenses</td>
<td>n/a</td>
</tr>
<tr>
<td>Welfare payments - family support</td>
<td>Family Tax Benefit Parts A and B; Child Care Benefit; Child Care Rebate; Paid Parental Leave; Schoolkids Bonus; Baby Bonus; related program support and other expenses</td>
<td>n/a</td>
</tr>
</tbody>
</table>
**B.3 Revenue analysis methodology**

Revenue analysis uses budgeted revenue data from all jurisdictions for 2002-03 and 2013-14. It does not require the adjustments outlined above as we have adopted the revenue categories used by government.

We have removed the double-counting of revenue that would result from simple addition of jurisdiction totals. For all figures showing combined Commonwealth and State revenue, funds collected by the Commonwealth and then transferred to the States have been counted as Commonwealth revenues only unless otherwise noted.

**B.4 GDP growth relative to CPI**

In the expenditure growth charts like Figures 8, 12-13, 19, and 21-24, we use a measure of GDP growth as a point of comparison for spending growth. This GDP measure is deflated by the CPI deflator. The purpose of this conversion is to allow the reader to interpret categories that exceed the line as increasing in share of the economy *in nominal terms*, while still allowing a rough comparison of spending categories across time.

In reality, the prices of various spending categories do not follow the CPI, and so we should only use the CPI-adjusted spending as a guide to real spending changes.
B.5 Capital expenditure accounting

The following paragraphs detail how capital expenditure is accounted for in government budgets. Different processes occur depending on the financing mechanism: government or PPP funded.

Accounting for project grants (revenue)

Where states receive Commonwealth grants for capital investment (including for PPPs), governments must record the grant against revenue in the year it is received, as *recurrent* revenue. It is then allocated to annual expenses (usually capital expenses) as the project is implemented.

Some states account for capital related grant revenue as unallocated capital and use this to offset the state’s net debt until it is spent. The unallocated capital is then built into the forward estimates. However, some states may allocate the grant into general revenue, tempting state governments to allocate it to projects or expenses other than the capital expenditure it is intended for.

Accounting for capital expenditure

Governments account for general government capital expenditure in their operating statement through the:

- Net acquisition of non-financial assets – net funds spent on building or acquiring capital assets
- Interest expense – the cost of financing debt for capital expenditure
- Depreciation expense – the annualised cost or consumption of an asset over its useful life
- Operating expenses – the associated cost of running an asset for example building maintenance costs and electricity to run train lines.

In addition to the operating statement, the overall impact of funding capital expenditure through borrowing is reflected in the budget’s balance sheet in net debt.

The analysis in the text varies from headline figures reported by individual state and territory governments. The analysis in the text is roughly equivalent to the cash spent each year on capital expenditure by core government agencies. The amount recorded in government budgets may differ due to accounting rules, such as those that record the entire capital expenditure on a PPP in the year when the project is completed and the finance lease is formally accepted by the government, rather than being recognised over the years as the capital works are in progress. For example, this explains the very large spike in South Australia’s capital expenditure, as the spending on the Royal Adelaide Hospital is all recognised when the hospital is commissioned, rather than over the several years of its construction, as shown in Figure B.1
Governments may also provide funding to Public Non-Financial Corporations (PNFCs) to build infrastructure and deliver services on behalf of the government. States account for this funding differently. In Queensland, for example, it is recorded as an equity payment to Government Owned Corporations (GOCs).

In New South Wales, the government leases trains and buses from PNFCs RailCorp and the State Transit Authority. As the government is the only user of these assets, it accounts for the capital component of lease payments as general government capital expenditure under the net acquisition of non-financial assets.

In some circumstances, maintenance expenditure normally accounted for as operating expenditure, is capitalised, or recorded against capital accounts.

**Accounting for PPPs**

As PPPs are financed by private investment, state governments account for the capital expenditure differently to when capital expenditure is publicly financed. Governments account for PPPs as finance leases.

When an asset is commissioned, governments record the associated finance lease as borrowings in the state’s net debt. At the same time, governments increase their non-financial assets by the asset’s ‘fair value’. This is reflected in states’ ‘net acquisition of non-financial assets’. However, PPPs are not listed individually; some governments explicitly acknowledge which PPPs are included and their value, while others do not.

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4 Also referred to as Government Owned Corporations (GOCs) in Queensland and Public Trading Entities (PTEs) in New South Wales.

5 For example, see Victorian 2013-14 Budget Paper 5 Note 20 p38

6 For example, Victorian 2013-14 Budget Paper 5 Note 15 includes a category of ‘other movements in non-financial assets’. The forward estimate for 2015-16 reflects the expected commissioning of the Victorian Comprehensive Cancer Centre, although it is not explicitly labeled as such.
The finance lease makes states liable for regular contractual service payments to the private operators. These payments include both interest and capital expenditure component. However, due to the finance arrangement and accounting rules, the capital expenditure component is not reflected in any capital expenditure budget line. Rather, it is recorded against, and reduces, the state’s finance lease liability. The capital expenditure component of PPPs is not readily identifiable unless the government explicitly identifies this component outside of regular accounting standards.\(^7\)

\(^7\) For example, Victorian 2013-14 Budget Paper 4 Table 6
B.6 Future budget pressures

The assumptions underpinning Figure 1 in the main report, and the associated text, are as follows:

Table B.2: Estimates of effects on future government budget balances

<table>
<thead>
<tr>
<th>Component</th>
<th>Size of effect (per cent of GDP)</th>
<th>Basis for estimate</th>
<th>Discussion in report</th>
</tr>
</thead>
<tbody>
<tr>
<td>Forecast surplus 2016-17</td>
<td>-1.0%</td>
<td>Grattan Institute analysis of nominal budget forecasts in Commonwealth and State mid-year budget updates (released December 2013 to February 2014).</td>
<td>Section 3.2</td>
</tr>
<tr>
<td>Long-run commitments</td>
<td>1.0% to 1.5%</td>
<td>Commitments and likely spending pressures with significant increases in spending beyond the forward estimates, including National Disability Insurance Scheme, school funding, defence spending and Overseas Development Aid.</td>
<td>Section 7.3</td>
</tr>
<tr>
<td>Health costs</td>
<td>1.5% to 2.0%</td>
<td>Over the last decade, health costs have increased more quickly than national output — health spending now forms a larger portion of GDP than before. This appears to be a feature of rich countries with ageing populations. Health is a luxury good—one that forms a larger percentage of consumption as incomes rise. As a country becomes richer, its citizens prefer another year of life to another proverbial sports car. On nominal terms, the increase in health spending grew in share of GDP by about 1 per cent. However, the price of minerals increased much faster than the price of health, and so minerals production grew its share of GDP in nominal terms. If economy-wide prices had increased at the same rate as health prices, health share of GDP would have increased by almost 2 per cent. For the coming decade, we do not expect another large terms of trade boom, and so expect economy-wide and health prices to be roughly matched. However, we also expect the trends in real health spending to continue. For this reason, we expect government health spending to increase in share of GDP by about 1.5 to 2 per cent.</td>
<td>Section 7.2.1</td>
</tr>
</tbody>
</table>

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8 Hall and Jones (2007)
<table>
<thead>
<tr>
<th>Component</th>
<th>Size of effect (per cent of GDP)</th>
<th>Basis for estimate</th>
<th>Discussion in report</th>
</tr>
</thead>
<tbody>
<tr>
<td>Higher welfare costs</td>
<td>0.5% to 2.0%</td>
<td>Decreases in inequality per dollar spent on welfare were higher in Australia than in any other OECD country. We assume that this high level of targeting continues, and that the cost of decreasing inequality scales with GDP. This gives us a price of decreasing inequality in terms of welfare budget. Assuming that the counterfactual Gini index grows at the same rate as the last decade, this gives an increase in inequality, which is multiplied by the price in terms of welfare spending to arrive at a number of around 2 per cent of GDP. However, under a progressive taxation system and increasing incomes at the top, some of the decreases in inequality will be had by the tax system. Therefore we project a cost of 0.5% GDP as a sensible baseline. As a check, this is similar in magnitude to the increase in Age Pension expenditure as a share of GDP over the last decade that is not explained by CPI or ageing (Section 4.5.1).</td>
<td></td>
</tr>
<tr>
<td>Potential terms of trade fall</td>
<td>0.5% to 1.5%</td>
<td>We extended the McDonald et. al. model of structural budget position to include more recent data. This suggests there is currently a cyclical surplus or between 0.5 and 1.5 per cent of GDP—depending on the assumption of the level of &quot;structural&quot; terms of trade. A reversal of the cycle (which would almost certainly occur due to a sharp fall in the terms of trade) would decrease government revenue by this cyclical amount.</td>
<td></td>
</tr>
<tr>
<td>General assumption</td>
<td>0</td>
<td>We assume that all other revenues and costs grow proportionately with GDP</td>
<td>n/a</td>
</tr>
<tr>
<td>Total decline in budget position</td>
<td>4.5% to 8.0%</td>
<td>n/a</td>
<td>n/a</td>
</tr>
</tbody>
</table>

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9 OECD (2008); Greenville, et al. (2013)
10 McDonald, et al. (2010)
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