

Chapter 8:
**INTERSTATE PUBLIC SECTOR
COMPARISONS**

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8.1 INTRODUCTION

This chapter considers the relative cost of government in terms of the resources claimed and used by State¹ Governments to finance their spending programs. This should not be confused with the broader question of the overall economic impact of government, which would take into account the effects of government on incentives and other aspects of economic behaviour, and its impact on the efficiency of the economy by influencing resource allocation.

Table 8.1: Overview of General Government Projected Outcomes, 1996-97
Per cent of Gross State Product (GSP)

	Outlays	Revenue	Taxes	Deficit	Net Debt ¹	General Government Sector Employment
	% GSP	% GSP	% GSP	% GSP	% GSP	per 1,000 population
NSW	14.4	14.4	6.7	0.0	11.0	50.1
Vic	12.1	13.6	6.4	(-) 1.6	16.2	46.5
Qld	16.4	16.9	5.4	(-) 0.5	(-) 3.1	54.2
WA	13.4	14.0	5.3	(-) 0.6	12.0	58.8
SA	17.3	17.8	6.1	(-) 0.5	21.9	53.7
Tas	20.2	20.8	6.4	(-) 0.6	31.6	69.1
ACT	11.7	11.3	5.1	0.3	2.0	58.1
NT	31.9	32.4	5.7	(-) 0.6	27.3	89.0
All States (excl NSW)	14.5	15.4	5.9	(-) 0.9	11.6	53.1
All States	14.5	15.1	6.2	(-) 0.6	11.4	52.1

¹ Comparison based on total public sector net debt as at June 1996.

Sources: ABS Government Financial Estimates 5501.0, ABS Public Sector Financial Assets and Liabilities 5513.0, ABS Australian Demographic Statistics 3101.0, ABS Employed Wage and Salary Earners, Australia 6248.0, NSW Treasury GSP Estimates.

Table 8.1 shows that, with the exception of Tasmania and the Northern Territory, the estimated levels of outlays and revenues are similar in most States relative to the size of the economy. While there are currently only small differences in the relative size of the major aggregates, the accumulation of imbalances between outlays and revenues over time has resulted in widely differing relative levels of net debt, from a low of minus 3.1 per cent relative to GSP in the case of Queensland to a high of 31.6 per cent in the case of Tasmania. At the beginning of 1996-97, only Queensland and the Australian Capital Territory have lower levels of debt than New South Wales relative to GSP.

¹ Unless otherwise stated, references to "States" in this chapter should be interpreted as referring to States and Territories.

Gross State Product (GSP), defined as the value of all goods and services produced within the boundaries of a State, is used throughout this chapter as a base for interstate comparisons of specific items such as outlays and deficits. Although population is also used, GSP provides a better indication of the ability of the State to support its fiscal position.

In most cases, comparisons in this chapter relate to the general government sector, as opposed to the total non-financial public sector. A definition of government which excludes both public trading enterprises (PTEs) and public financial enterprises provides the most relevant guide to the non-commercial activity of the government. However, for net debt comparisons, total public sector aggregates are used, as the allocation of debt between the general government and PTE sectors is within the policy control of governments. Use of general government sector debt alone provides a limited picture of the financial position of a government.

Certain "one-off" extraordinary activities impact on the aggregates used. For example, sales of government business assets reduce capital outlays and therefore the deficit for a jurisdiction, which may distort underlying trends in government activity. While the aggregates presented in the tables are not adjusted for such transactions, their impacts are discussed.

Much of the data presented in this section are necessarily based on Budget estimates for 1996-97. Given this, actual outcomes may well be somewhat different to the data presented.

8.2 OUTLAYS

General government outlays can be compared interstate by expressing dollar values as a proportion of GSP. Table 8.2 disaggregates total outlays into current outlays (i.e. ongoing expenditures) and capital outlays (i.e. items such as the construction of public buildings and infrastructure). It should be noted that under Australian Bureau of Statistics (ABS) conventions asset sales reduce the recorded level of capital outlays.

Table 8.2: General Government Outlays, 1996-97 (% of GSP)

	Current Outlays	Capital Outlays	Total Outlays
	%	%	%
NSW	12.6	1.9	14.4
Vic	11.7	0.3	12.1
Qld	13.4	3.0	16.4
WA	12.5	0.8	13.4
SA	16.8	0.5	17.3
Tas	19.5	0.7	20.2
ACT	11.1	0.6	11.7
NT	28.3	3.6	31.9
All States (excl NSW)	13.3	1.2	14.5
All States	13.1	1.4	14.5

Notes: General government outlays include payments made to or on behalf of other governments and public trading enterprises and Local Government.

Sources: ABS Government Financial Estimates 5501.0, NSW Treasury GSP Estimates.

In 1996-97, general government sector current outlays in New South Wales relative to GSP are expected to be lower than the all States average. However, higher than average capital outlays result in total outlays relative to GSP in New South Wales being close to the average for all States. Total outlays relative to GSP are expected to be above the all States average in Queensland, South Australia, Tasmania and the Northern Territory.

**Table 8.3: Growth in General Government Sector
Current Outlays, 1996-97**

	Current Outlays
	%
NSW	6.4
Vic	2.6
Qld	7.6
WA	7.7
SA	(-) 0.1
Tas	3.8
ACT	8.1
NT	5.6
All States (excl NSW)	4.9
All States	5.4

Sources: ABS Government Financial Estimates 5501.0..

As shown in Table 8.3, in 1996-97 current outlays by all State governments are expected to rise by 5.4 per cent. Current outlays in New South Wales are expected to grow by 6.4 per cent. Victoria, South Australia and Tasmania are expected to have less than average growth in current outlays.

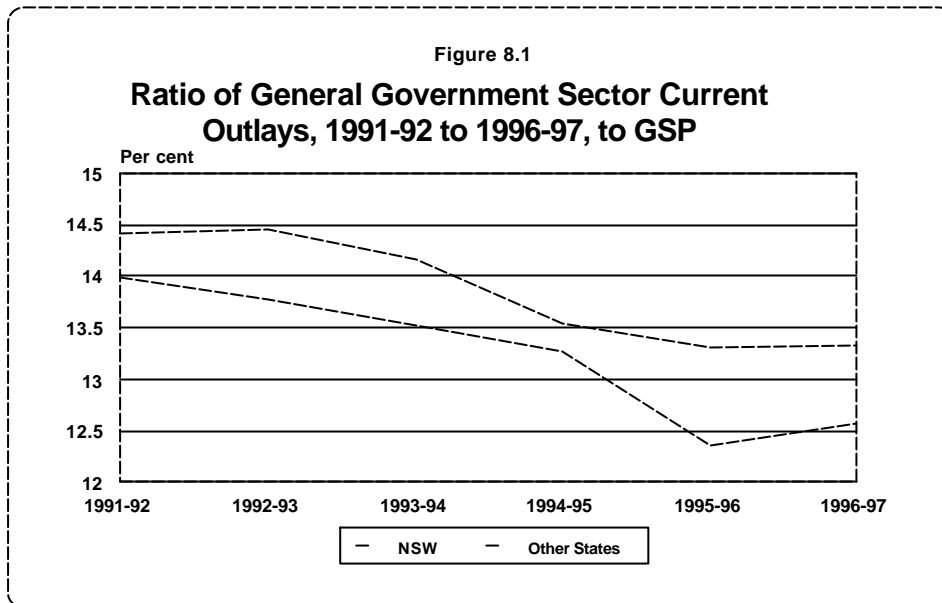
The expected decline in current outlays of 0.1 per cent in South Australia for 1996-97 is consistent with the ongoing need for fiscal consolidation in that State following the impact of the collapse of the State Bank of South Australia.

The significantly higher levels of growth expected in total outlays compared to current outlays in a number of States, including New South Wales, is strongly influenced by the impact of asset sales which reduced net capital outlays in 1995-96 compared to the expected outcomes in 1996-97. Total outlays in New South Wales are expected to grow by 13.6 per cent. Victoria is expected to record the highest increase in total outlays in 1996-97 with an increase of 24 per cent.

Trends in Outlays

In analysing the underlying fiscal position of the States, it is appropriate to focus on current outlays rather than capital outlays. Asset sales constitute a negative outlay in the capital accounts, offsetting expenditure. In recent years variations in asset sales and equity restructurings have resulted in sharp year-on-year changes in the annual growth of total outlays. Therefore, year-on-year changes in growth rates for total outlays tend to mask the trends in fiscal management.

A comparison of the movements in general government current outlays relative to GSP for the period 1991-92 to 1996-97 for New South Wales and the other States is provided in Figure 8.1. It shows that the level of outlays relative to the size of the economy has fallen significantly in recent years in New South Wales and on average in the other States. This fall is mainly a consequence of GSP growth following the recession.



Sources: ABS Government Financial Estimates 5501.0, NSW Treasury GSP Estimates.

Although the trend in current outlays relative to GSP has been generally downward, the situation differs between States. Current outlays in the Northern Territory were consistently more than 28 per cent of GSP for the period while in Tasmania current outlays were stable at around 20 per cent. In South Australia, current outlays have decreased from a high of 19.5 per cent in 1993-94, due to the impact of the Targeted Voluntary Separation package to an expected 16.8 per cent in 1996-97.

Table 8.4: Growth of General Government Sector Outlays from 1991-92 to 1996-97 (Average Annual Growth Rates)

	Current Outlays	Total Outlays
	%	%
NSW	3.1	3.4
Vic	2.1	1.1
Qld	7.5	7.9
WA	5.4	3.4
SA	3.7	(-) 3.8
Tas	4.1	3.0
ACT	3.2	2.1
NT	4.4	2.1
All States (excl NSW)	4.2	2.4
All States	3.8	2.8

Sources: ABS Government Financial Estimates 5501.0, NSW Treasury GSP Estimates.

Table 8.4 shows that, although falling relative to GSP, State current outlays are expected to increase by an average of 3.8 per cent annually over 1991-92 to 1996-97, with all States recording an increase.

Over the five-year period Queensland is expected to have the highest average annual growth in total outlays and current outlays, while, relative to GSP, both total and current outlays increased only slightly. This reflects the State's rapidly growing population and economy.

Victoria is expected to have the lowest average annual growth rate for current outlays and the second lowest rate after South Australia for growth in total outlays. This reflects the significant levels of fiscal consolidation achieved in that period in Victoria. The negative growth rate in total outlays of minus 3.8 per cent expected to be achieved in South Australia during the period reflects the very high level of capital outlays in 1991-92 associated with the rescue package for the State Bank of South Australia.

The average annual growth rate for current outlays in New South Wales is expected to be 3.1 per cent, the second lowest of all the States. Growth in total outlays of 3.4 per cent is expected to be higher than average.

Service Levels

The Commonwealth Grants Commission (CGC) calculates standardised expenditure, which is defined as the amount each State would need to spend in order to provide a national average standard of service. This assessment takes into account differences between States including demographic characteristics, dispersion of population and economies of scale in the provision of public services, and is confined to the recurrent operations of government. The CGC estimates a level of service provision index which relates the actual expenditure per capita of a State to its standardised expenditure.

According to the CGC's latest estimates, shown in Table 8.5, New South Wales provides a level of service about the same as the national average.

Table 8.5: Level of Service Provision Index, 1991-92 and 1995-96

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	All States excl NSW
1995-96	100.0	106.3	88.4	93.5	111.8	104.8	111.4	102.5	100.0
1990-91	97.9	112.5	85.0	94.9	106.2	104.4	115.5	101.0	101.1

Source: Commonwealth Grants Commission, *Report on General Revenue Grant Relativities, 1996 Update*.

In 1995-96, the service provision ratios were higher than average in Victoria, South Australia, Tasmania and the two Territories. Assuming an equal level of efficiency in each State, these figures suggest higher than average standards of services in these jurisdictions. CGC data also shows that the service provision ratios have increased since 1991-92 in New South Wales, Queensland, South Australia, Tasmania and the Northern Territory.

8.3 REVENUE

The main sources of State revenue are taxes², grants received from the Commonwealth, dividends and tax equivalent payments from public trading enterprises (PTEs), and royalty incomes.

Level of Revenue and Tax Receipts

The estimated level of revenue for each State in 1996-97, as a percentage of GSP, is shown in Table 8.6.

Table 8.6: Revenue of General Government Sector, 1996-97 (% of GSP)

	Tax Revenue	Grants Revenue	Total Revenue
	%	%	%
NSW	6.7	6.1	14.4
Vic	6.4	6.0	13.6
Qld	5.4	7.9	16.9
WA	5.3	6.6	14.0
SA	6.1	9.2	17.8
Tas	6.4	11.5	20.8
ACT	5.1	5.1	11.3
NT	5.7	23.5	32.4
All States (excl NSW)	5.9	7.3	15.4
All States	6.2	6.9	15.1

Sources: ABS Government Financial Estimates 5501.0, NSW Treasury GSP Estimates.

Taxation Revenue

New South Wales, Victoria and Tasmania have higher than average tax revenue relative to GSP.

As shown in Table 8.7, the proportions of total revenue raised from taxation for New South Wales, Victoria and the Australian Capital Territory are expected to be higher than the all State average in 1996-97. For New South Wales, this proportion has increased from 44.2 per cent to an expected 46.7 per cent in 1996-97, while in Victoria it has increased from 44.0 per cent to an expected 47.2 per cent.

The proportion of revenue collected via taxation in the Australian Capital Territory has been on an upward trend since 1991-92 when it accounted for 36.1 per cent of revenue compared with an expected 44.8 per cent in 1996-97. The proportion of State revenue from tax is directly linked to the level of Commonwealth grants which is addressed in detail in Chapter 5.

² Unless otherwise stated, references to "taxes" in this chapter refer to taxes, fees and fines.

Grants from the Commonwealth

The Northern Territory, South Australia and Tasmania are more dependent on Commonwealth grants as a source of revenue in 1996-97 than on own-source revenue. Northern Territory remains the most heavily dependent, with over 70 per cent of its total revenue coming from Commonwealth grants for the last five years. While grants as a proportion of total revenue have remained stable in New South Wales (above 40 per cent), most other States have shown a slightly downward trend.

Total Revenue

Total general government sector revenue for all States in 1996-97 is estimated to represent \$4,192 per capita or equivalent to about 15.1 per cent of Gross Domestic Product. New South Wales, Victoria, Western Australia and the Australian Capital Territory have below average revenue relative to GSP.

Between 1991-92 and 1996-97, growth in revenue was the strongest in Queensland (41.5 per cent) reflecting the rapid growth in the size of this economy over the period.

**Table 8.7: Composition of General Government Revenue, 1996-97
(% of Total Revenue)**

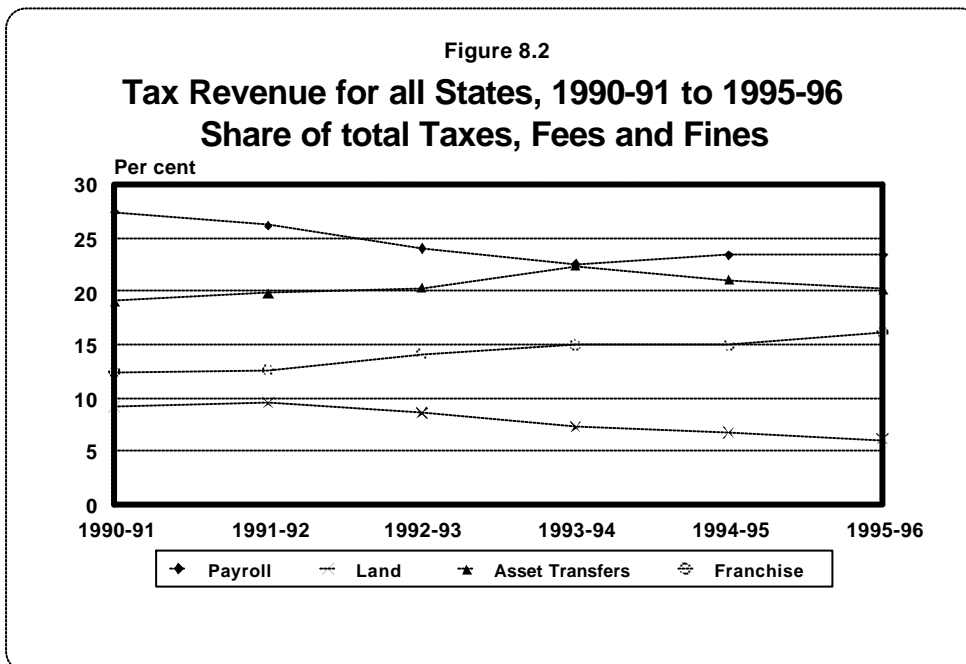
	Tax Revenue (1)	Other Own Source Revenue (2)	Total Own Source Revenue (1+2)	Grants Revenue
	%	%	%	%
NSW	46.7	10.7	57.3	42.7
Vic	47.2	8.9	56.1	43.9
Qld	32.1	21.3	53.3	46.7
WA	37.9	15.1	53.0	47.0
SA	34.5	13.8	48.2	51.8
Tas	30.8	13.8	44.6	55.4
ACT	44.8	10.2	55.0	45.0
NT	17.5	10.1	27.6	72.4
All States (excl NSW)	38.4	14.0	52.4	47.6
All States	41.1	12.9	54.0	46.0

Note: Other includes interest received from PTEs and other enterprises along with other revenue.

Source: ABS Government Financial Estimates 5501.0.

Composition and Trends in Tax Receipts

There have been some significant trends in the composition of taxation revenue in all States during the five-year period from 1991 to 1996, as shown in Figure 8.2.



Source: ABS Tax Revenue Australia 5506.0

After experiencing a trough in 1990-91 with the collapse of the property and share booms, taxes on asset transfers (which includes contract and conveyancing duty and financial taxes) for all States except the ACT trended steadily upward in terms of their proportion of total tax revenue. By 1993-94, these taxes had become almost as large a contributor to State tax revenue as payroll tax. However, revenue from these taxes fell in 1994-95, reflecting the impact of higher interest rates on asset markets. In 1995-96 these taxes were second to payroll tax as a source of State tax revenue, contributing 20.3 per cent of all State tax revenue.

The proportion of all State revenue from payroll tax declined steadily between 1990-91 and 1993-94 from 27.5 per cent to 24.1 per cent of total state tax revenue, reflecting increased tax-free thresholds, relatively low employment growth in the medium to large business sector and the increase in revenue from other taxes. The increase in the proportion of revenue collected from payroll tax in 1994-95 and 1995-96 reflects the strong employment growth in that period.

Franchise fee revenue from tobacco, liquor and petroleum gas increased as a proportion of total tax revenue for the States from 12.4 per cent in 1990-91 to 16.2 per cent in 1995-96. Queensland was a major contributor to this growth where franchise fees increased from 8.8 per cent of tax revenue in 1990-91 to 15.0 per cent in 1995-96. Franchise fees have been a more important revenue source for the Northern Territory and Tasmania relative to the other States for the whole period. In 1995-96, franchise fees represented 31.5 per cent of tax revenue in the Northern Territory and 22.7 per cent of tax revenue in Tasmania.

New South Wales and Victoria increased the franchise fee rate for tobacco from 75 per cent to 100 per cent in 1995 to compensate for the revenue loss caused by Queensland's unilateral move to halve the rate of stamp duty on share transactions. Largely as a result of this move, franchise fees as a percentage of tax revenue in New South Wales grew from 13.6 per cent in 1994-95 to 15.1 per cent in 1995-96 while in Victoria the proportion of tax revenue from franchise fees grew from 13.8 per cent in 1994-95 to 14.6 per cent in 1995-96. Queensland subsequently increased its tobacco franchise fee to 100 per cent.

Severity of Taxes

Table 8.8 presents CGC data comparing actual tax revenue with the revenue a State could raise if it applied the average national tax rate. Although New South Wales applies higher than average tax rates, the severity of NSW taxation has been on a slight downward trend during the five-year period from 1991-92 to 1995-96. However this trend is likely to be reversed in 1996-97.

Table 8.8: Severity of Tax Rates Index, 1991-92 and 1995-96

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	All States excl NSW
1995-96	102.6	111.6	81.0	94.3	99.4	104.6	100.6	106.5	98.5
1991-92	103.8	104.9	80.7	101.2	101.2	110.6	101.4	100.5	97.6

Source: Derived from Commonwealth Grants Commission, *Report on General Revenue Grant Relativities, 1996 Update*.

A detailed comparison of tax rates and charges can be found in the publication *Interstate Comparison of Taxes 1996-97* available from NSW Treasury.

8.4 DEFICITS, DEBT AND DEBT COSTS

Deficits, debt and debt costs are important measures of the financial position of government. They also provide pertinent intergovernmental comparisons when measured in relation to the size of State economies, population and revenue. The allocation of debt between the general government and PTE sectors is within the policy control of governments. For example, in 1995-96 around \$1.5 billion in equity restructuring payments were received by the NSW general government sector from the PTE sector. Therefore discussion on debt is focussed on total public sector aggregates.

Deficits

The deficit of a government is equal to its outlays less revenue and grants received, net of increases in provisions. The deficit provides a measure of the extent to which a government is adding to its total liabilities and consequently increasing or decreasing its demand on total savings.

Table 8.9 shows the general government sector deficits relative to GSP for 1995-96 and those expected for 1996-97.

Table 8.9: General Government Sector Deficits¹ (% of GSP), 1995-96 and 1996-97

	Current Deficit		Capital Deficit		Total Deficit	
	1995-96	1996-97	1995-96	1996-97	1995-96	1996-97
	%	%	%	%	%	%
NSW						
NSW	(-) 1.5	(-) 1.3	0.4	1.3	(-) 1.2	0.0
Vic	(-) 1.8	(-) 1.5	(-) 2.3	(-) 0.1	(-) 4.1	(-) 1.6
Qld	(-) 2.9	(-) 2.9	1.6	2.4	(-) 1.3	(-) 0.5
WA	(-) 1.2	(-) 1.0	(-) 1.1	0.4	(-) 2.3	(-) 0.6
SA	(-) 0.4	(-) 0.7	(-) 2.2	0.2	(-) 2.6	(-) 0.5
Tas	(-) 0.8	(-) 0.6	0.2	0.0	(-) 0.6	(-) 0.6
ACT	(-) 0.2	(-) 0.1	0.5	0.4	0.3	0.3
NT	(-) 2.9	(-) 2.3	1.4	1.7	(-) 1.5	(-) 0.6
All States (excl NSW)	(-) 1.8	(-) 1.6	(-) 0.9	0.7	(-) 2.6	(-) 0.9
All States	(-) 1.7	(-) 1.5	(-) 0.4	0.9	(-) 2.1	(-) 0.6

Sources: ABS Government Financial Estimates 5501.0, NSW Treasury GSP Estimates.

¹ (-) implies a surplus.

The data in Table 8.9 show -

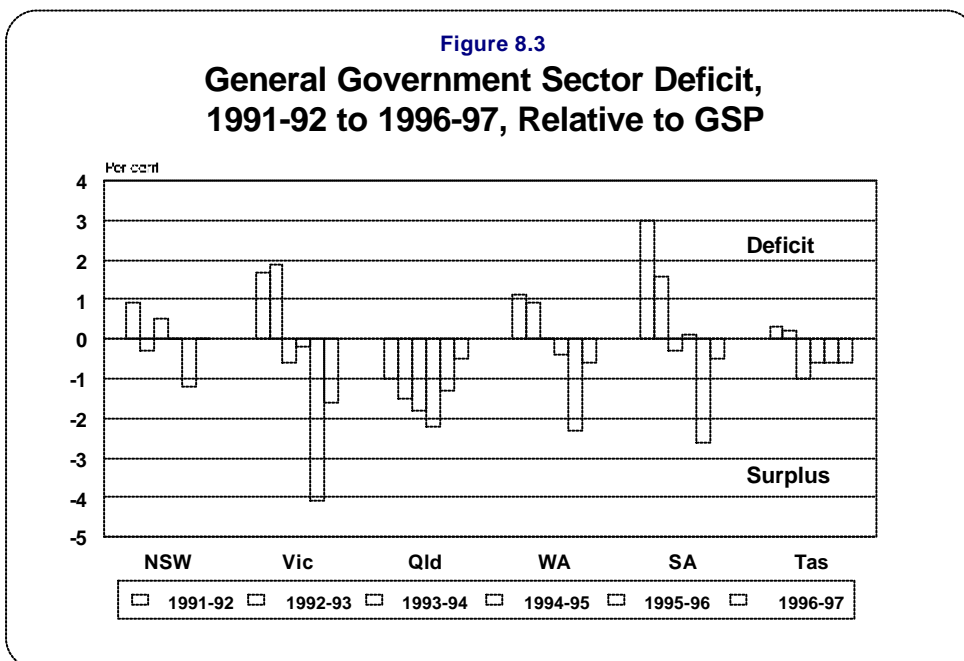
- nearly all States record a current account surplus combined with a capital account deficit; and
- in 1995-96 and 1996-97, current account surpluses are expected to more than offset the deficits on capital transactions for most States.

Trends in Deficits

Most States have implemented medium-term deficit reduction strategies. The common threads contained in these strategies include reducing the level of public sector employment (which causes one-off increases in outlays because of redundancy payments), measures to improve the efficiency of public trading enterprises and obtain appropriate levels of dividends, increased general government sector efficiency, reductions in capital expenditure, and asset sales.

In terms of performance over the past five years, Figure 8.3 indicates that the fiscal position of the five largest States has varied considerably but with a steady trend towards a surplus position.

As Figure 8.3 reveals, the volatility of changes in general government sector deficits for New South Wales has been less than that in most other States over this period, indicating a relatively stable fiscal position. As deficits are closely related to debt, the following section on net debt also addresses movements in deficit positions in recent years.



Sources: ABS Government Financial Estimates 5501.0, NSW Treasury GSP Estimates.

Net Debt

Table 8.10 provides information on the level of total public sector net debt for each State.

Table 8.10: Total Public Sector Net Debt, June 1996

	\$m	% GSP	\$ per capita
NSW ¹	18,582	11.0	3,002
Vic	20,617	16.2	4,540
Qld	(-) 2,456	(-) 3.1	(-) 732
WA	6,323	12.0	3,587
SA	7,753	21.9	5,241
Tas	3,283	31.6	6,935
ACT	147	1.4	478
NT	1,351	27.3	7,603
All States (excl NSW)	37,018	11.6	3,060
All States	55,600	11.4	3,041

Sources: ABS Public Sector Financial Assets and Liabilities 5513.0, ABS Australian Demographic Statistics 3101.0, NSW Treasury GSP Estimates.

1 As the net debt figures for all States were sourced from published ABS data to ensure comparability, the net debt figure for New South Wales differs slightly to that presented in Chapter 7.

Net debt in New South Wales relative to GSP has fallen significantly since 1990-91, assisted by a total public sector surplus in 1994-95.

For Victoria, significant total public sector deficits, including a deficit equivalent to 2.3 per cent of GSP in 1989-90, led to net debt increasing to the equivalent of 30.4 per cent of GSP in 1992. Since then, the upward trend has been arrested, partly through the use of business asset sales to retire debt, with net debt falling to the equivalent of 26.5 per cent of GSP as at June 1995. This downward trend continued and in June 1996 net debt was the equivalent of 16.2 per cent of GSP.

Queensland has a strong net debt position which improved further over the period 1991 to 1996 from the equivalent of 7.0 per cent of GSP in 1991 to minus 3.1 per cent in 1996. This improvement resulted from sustained high total public sector surpluses, assisted by the sale of the Gladstone Power station in 1994. The situation also partly reflects Queensland's accounting policy of offsetting debt with the financial assets of its superannuation schemes which, unlike other States, are operated within its general government sector. The net debt position of Queensland also benefits from the significant level of debt held by its Local Government sector which far exceeds that of other States. Placing New South Wales on a comparable basis with Queensland would reduce the State's net debt to GSP ratio from 11.0 to around 5.7 per cent.

Increasing total public sector deficits in the late 1980s and early 1990s resulted in a deterioration in Western Australia's net debt position. However, this situation has now been reversed in recent years with net debt falling from the equivalent of 20.3 per cent of GSP in 1993 to 12.0 per cent in 1996, reflecting total public sector surpluses in the years 1993-94 and 1994-95.

South Australia's net debt increased significantly over the period 1991 to 1993 from the equivalent of 18.7 per cent of GSP to 28.3 per cent, largely as a result of the support package for the troubled State Bank of South Australia. By 1996, net debt had fallen to the equivalent of 21.9 per cent of GSP following a number of major asset sales.

Tasmania has the largest net debt to GSP ratio of all the States which reached almost 40 per cent in 1991 partly as a result of borrowing for hydro-electric development as well as a decrease in Commonwealth grants in the late 1980s. In response, a five year plan of remedial action was put in place which aimed to reduce the Consolidated Fund net financing requirement to around \$40 million and contain debt costs by 1994-95. This has been achieved through asset sales, including the sale of the Government Insurance Office, and restraint in expenditure. Although falling, net debt was still well above other States at the equivalent of 31.6 per cent of GSP in 1996.

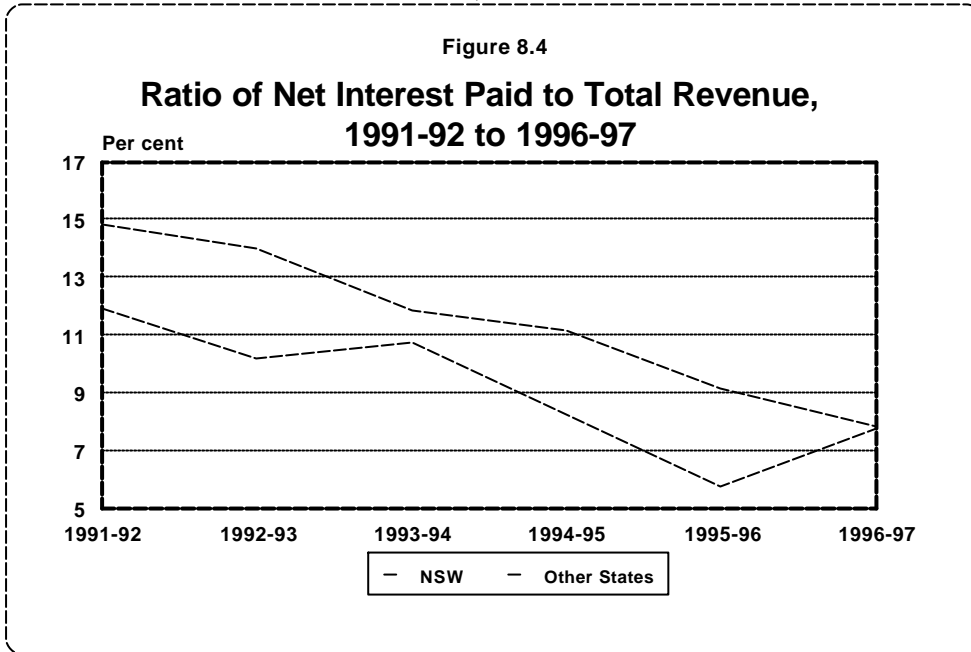
The Australian Capital Territory's low net debt position reflects the fact when self-government commenced in 1989, the Territory was allocated no debt. Since that time, the Territory has had small surpluses or deficits so that its net debt position was equivalent to only 1.4 per cent of GSP in 1996.

The Northern Territory has the highest net debt per capita, but unlike the other States it does not possess substantial revenue-producing assets which can be used to reduce that debt. Consequently any change in the Territory's net debt position is closely linked to changes in the level of Commonwealth grants.

Debt Costs

Debt costs are an indication of the recurrent burden created by past borrowings and the limitation they impose on budgetary flexibility.

Figure 8.4 shows movements in the ratio of net interest paid to total revenue (the debt servicing ratio) for New South Wales and the other States. It is important to note that, for the purpose of these calculations revenue, coverage includes all revenue received, including own-source revenue and grants, but excludes interest income received. Therefore the Northern Territory which receives over 70 per cent of its revenue in the form of grants relies very much on the Commonwealth to maintain a tenable debt servicing ratio.



Up until 1995-96, the New South Wales debt servicing ratio was notably below the average of the other States. It also decreased significantly over this time. Although the debt servicing ratio in New South Wales rose between 1995-96 and 1996-97, it is still expected to be below the level for the other States. The average debt servicing ratio of the other States also fell over the five year period, partly reflecting the fall in the ratio in Victoria from 23.2 per cent in 1991-92 to a projected 12.1 per cent in 1996-97. The overall decrease in the combined debt servicing ratio for the States reflects the impact of smaller deficits, reductions in interest rates and retirement of debt through asset sales. Nevertheless, with the exception of Queensland and the Australian Capital Territory, debt servicing costs represent a significant outlay for the States.

8.5 EMPLOYMENT

Total State public sector employment (excluding employment in public sector financial enterprises) has fallen significantly since 1991. Nationally, the number of State government employees was 1,134,300 in August 1991 and had fallen to 1,063,400 in August 1996 - a reduction of 6.3 per cent. Total public sector employment did not fall in all States, however. It grew in New South Wales (by 0.6 per cent), Queensland (by 9.7 per cent) and the Northern Territory (by 1.3 per cent). The reduction in overall employment levels mainly reflects changes in employment in the PTE sector, resulting from productivity improvements. Over the period, total State general government sector employment fell by only 0.7 per cent to 956,100 while PTE employment fell by 37.6 per cent to 107,400.

By 1996, as all remaining State Government owned financial enterprises were privatised, State public sector employment in this area had ceased.

Western Australia's general government sector employment increased notably over the period (by 7.1 per cent) although this was more than offset by a fall in PTE employment. Total public sector employment in Queensland increased by 9.7 per cent from its 1991 level, with a 4.2 per cent increase in employment in the general government sector.

Table 8.11 compares employment between the States in terms of employees per 1,000 of population.

**Table 8.11: State Public Sector Employment, August 1996
(per 1,000 of Population)**

	General Government Sector	PTE Sector	Total State Public Sector
NSW	50.1	7.6	57.8
Vic	46.5	3.3	49.7
Qld	54.2	7.5	61.7
WA	58.8	5.1	64.0
SA	53.7	5.3	58.9
Tas	69.1	2.7	71.8
ACT	58.1	6.2	64.2
NT	89.0	0.0	89.0
All States (excl NSW)	53.1	5.0	58.1
All States	52.1	5.9	58.0

Note: Excludes financial sector employment.

Sources: ABS Demographic Statistics 3101.0, Employed Wage and Salary Earners, Australia 6248.0.

Expressing the level of State public sector employees relative to State population further emphasises the reduction since 1991 as it shows that a significantly smaller proportion of the population is now providing State government services. Overall, State sector employment fell from 65.4 employees per 1,000 of population in August 1991 to 58.0 in August 1996 with employment in the general government sector falling from 55.5 to 52.1 and PTE employment falling from 9.9 to 5.9 persons per 1,000 of population.

8.6 CREDIT RATINGS

Prior to June 1990, the domestic debt of all mainland States was rated equally at triple A. The movement towards a differential ratings structure commenced with a decision by Moody's Investors Service and Standard & Poor's Ratings Group in June 1990 to lower the credit ratings assigned to the debt of Victoria. Under the current arrangements, both of the major agencies conduct an annual review of all State credit ratings.

The States have consequently become increasingly attuned to the need to maintain high credit ratings as a means of minimising borrowing costs, ensuring continued access to international capital markets and as a method of demonstrating their financial management.

Current Credit Ratings of the States

Table 8.12 outlines the current rating profiles of the States. The most recent change has been an upgrade by Moody's Investors Service for Western Australia for long term debt from Aa1 to Aaa. Standard & Poor's Ratings Group changed the credit outlook for both Victoria and South Australia from negative to stable in November 1993 and June 1994 respectively.

Table 8.12: State Domestic Credit Ratings

	Moody's Investors Service		Standard & Poor's Ratings Group	
	Short-term	Long-term	Short-term	Long-term
NSW	P-1	Aaa	A-1+	AAA
Vic	P-1	Aa1	A-1+	AA+
Qld	P-1	Aaa	A-1+	AAA
WA	P-1	Aaa	A-1+	AA+
SA	P-1	Aa2	A-1+	AA
Tas	P-1	Aa2	A-1+	AA-

New South Wales and Queensland are the highest rated on both indexes and therefore reap the benefit of lower interest costs.

It has been estimated that the impact of a downgrading of New South Wales' credit rating to the next level would add around \$30 million each year to the State's interest cost after five years.