

Chapter 8:
**INTERSTATE PUBLIC SECTOR
COMPARISONS**

8.1 Overview

8.2 Outlays

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8.4 Deficits, Debt and Debt Costs

8.5 Employment

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8.1 OVERVIEW

The emphasis of this chapter is on measuring 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 affecting resource allocation.

**Table 8.1: Overview of General Government Outcomes
Per cent of Gross State Product (GSP) 1995-96**

	Outlays	Revenue	Taxes	Deficit	Net Debt ¹	General Government Sector Employment
	% GSP	% GSP	% GSP	% GSP	% GSP	per 1,000 population
NSW	15.1	15.6	6.8	(-) 0.5	12.7	46.5
Vic	13.6	13.4	6.3	0.3	26.7	43.4
Qld	15.6	16.3	5.2	(-) 0.7	(-) 2.6	54.6
WA	11.9	14.1	5.1	(-) 2.2	15.9	55.9
SA	15.3	17.8	5.7	(-) 2.5	25.3	54.2
Tas	21.6	22.0	6.6	(-) 0.4	35.1	59.6
ACT	12.4	11.9	5.6	0.4	1.3	55.3
NT	31.0	31.4	5.1	(-) 0.4	29.2	89.9
All States (excl NSW)	14.4	15.2	5.7	(-) 0.7	17.0	49.6
All States	14.7	15.3	6.1	(-) 0.6	15.5	51.2

¹ Comparison based on total public sector net debt as at June 1994.

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 the level of outlays and revenue as a proportion of the State economy are similar in most States, with only Tasmania and the Northern Territory differing greatly from other States. While there are few differences in the level of the major aggregates, the accumulation of any imbalances between outlays and revenues over time has resulted in widely differing levels of net debt from a low of minus 2.6 per cent of Gross State Product (GSP) in the case of Queensland to a high of 35.1 per cent in the case of Tasmania.

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

Gross State Product, defined as the value of all goods and services produced within the boundaries of a State, is used throughout this chapter to assist in 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 this chapter compares figures relating to the general government sector as opposed to the total non-financial public sector. A definition of government which excludes both the public trading enterprises (PTEs) and the public financial enterprises provides the most relevant guide to non-commercial activity of the government. However, for net debt, 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 may provide a false impression of the true financial position of the Governments.

Certain "one-off" extraordinary activities impact on the aggregates used. For example, sales of government business assets reduce the deficit, capital outlays and total outlays of a jurisdiction but may not be representative of the underlying trends in government activity. While the aggregates presented in the tables are not adjusted for these transactions, they are discussed in the text.

Much of the data presented in this section is based on Budget estimates for 1995-96. Given this, actual Budget outcomes may well be significantly different to the data presented.

8.2 OUTLAYS

Interstate comparisons of general government outlays can be made by expressing dollar values as a proportion of GSP. Table 8.2 disaggregates this data 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 asset sales are classified by the ABS as negative capital outlays.

Table 8.2: General Government Outlays in 1995-96 (% of GSP)

	Current Outlays	Capital Outlays	Total Outlays
NSW	13.1	2.0	15.1
Vic	12.3	1.3	13.6
Qld	12.8	2.8	15.6
WA	12.0	(-) 0.1	11.9
SA	16.9	(-) 1.6	15.3
Tas	20.7	0.9	21.6
ACT	11.2	1.2	12.4
NT	28.0	3.0	31.0
All States (excl NSW)	13.3	1.1	14.4
All States	13.2	1.4	14.7

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 1995-96, general government sector current outlays in New South Wales as a percentage of GSP are estimated to be slightly lower than the all States average. However, due to significantly higher levels of capital expenditure, total outlays in New South Wales will be above average.

The level of total outlays is strongly influenced by the impact of asset sales. For New South Wales, Queensland, South Australia, Tasmania and the Northern Territory total outlays as a percentage of GSP were above the all State average. This was attributable to either the impact of asset sales, their higher cost of service provision, and lower levels of efficiency or policy decisions involving a higher standard of service relative to other States. The impact of relative levels of State debt and consequent debt servicing costs also needs to be considered when comparing these figures (see Section 8.4). For example, for 1995-96 it is estimated that Victoria's interest payments will comprise 15.3 per cent of current outlays compared to 7.9 per cent in Queensland.

Table 8.3: Outlays Growth of General Government Sector 1995-96

	Current Outlays	Total Outlays
	%	%
NSW	3.6	5.9
Vic	4.7	7.3
Qld	11.0	16.2
WA	4.8	(-) 6.5
SA	(-) 4.6	(-) 15.8
Tas	4.2	6.2
ACT	4.4	1.7
NT	5.5	3.9
All States (excl NSW)	4.8	3.9
All States	4.4	4.6

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

In 1995-96, total outlays by all State governments are estimated to rise by 4.6 per cent while current outlays are expected to rise by 4.4 per cent. Growth in capital outlays is affected by the expected high levels of asset sales in 1995-96 compared with 1994-95. Only New South Wales, South Australia and Tasmania will have less than average growth in current outlays.

Queensland is expected to record the highest increases in both total and current outlays in 1995-96. This is partly due to a catch up since the level of outlays in past years was significantly less than average.

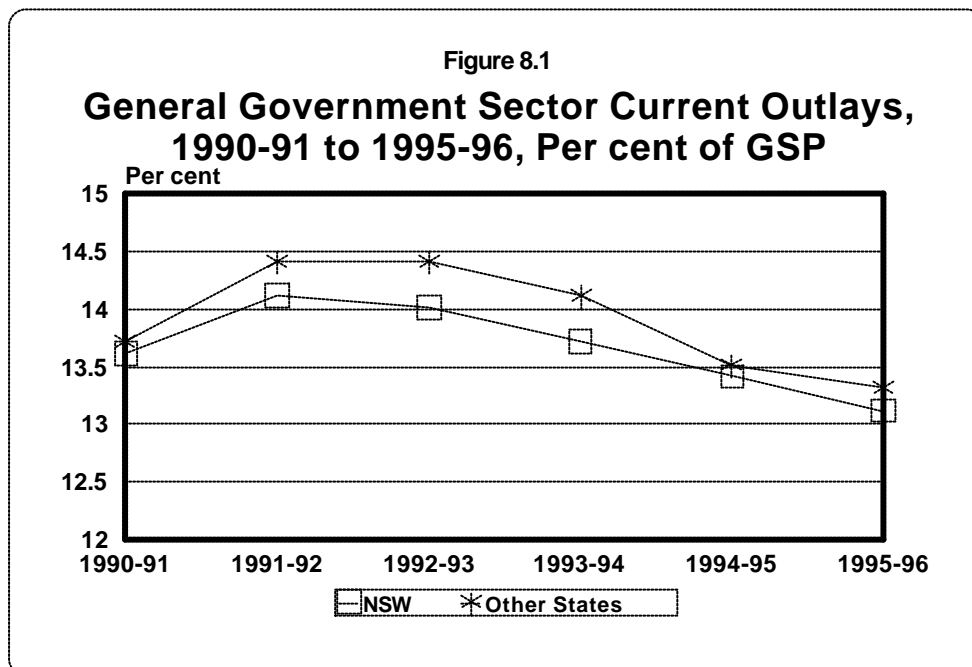
Total outlays in Western Australia are expected to fall in 1995-96 mainly reflecting the impact of asset sales, including Bankwest and the government motor fleet.

The decline in current outlays of 4.6 per cent in South Australia for 1995-96 is consistent with the need for fiscal consolidation in that State following the collapse of the State Bank of South Australia. The fall in total outlays of 15.8 per cent is mainly due to the impact on capital outlays of the sale of the State Bank of South Australia and the State Government Insurance Corporation as well as other asset sales totalling approximately \$950 million. The fall also reflects an abnormal repayment of capital from the Electricity Trust of South Australia of \$55 million.

Trends in Outlays

In analysing the underlying fiscal position of the various States, it is considered 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 asset sales have resulted in sharp year-on-year changes in annual growth rates of total outlays. 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 as a percentage of GSP for the period 1990-91 to 1995-96 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 both in New South Wales and on average in the other States. However this fall is mainly a reflection of GSP growth following the recession.



Sources: ABS Government Financial Estimates 5501.0, ABS Government Financial Statistics 5512.0, NSW Treasury GSP Estimates.

Although the trend in current outlays as a percentage of GSP has been generally downward, the situation has differed in a number of States. For example, current outlays in the Northern Territory were consistently above 27 per cent of GSP for the period while in Tasmania current outlays were stable at around 20 per cent of GSP. In the case of South Australia, current outlays increased from 16 to 19 per cent of GSP in the period up to 1994-95 reflecting the impact of Targeted Voluntary Separation package payments during the period 1992-93 to 1994-95, before falling to 16.9 per cent in 1995-96.

Table 8.4: Real Growth of General Government Sector Outlays from 1990-91 to 1995-96 (Average Annual Real Growth Rates)

	Current Outlays	Total Outlays
	%	%
NSW	2.1	2.2
Vic	1.9	3.2
Qld	5.6	5.8
WA	1.9	(-) 1.6
SA	4.2	(-) 2.1
Tas	1.9	0.9
ACT	0.5	0.3
NT	2.1	1.1
All States (excl NSW)	3.0	2.2
All States	2.7	2.2

Sources: ABS Government Financial Estimates 5501.0, ABS Government Financial Statistics 5512.0, ABS National Accounts 5206.0, NSW Treasury Estimates.

Table 8.4 shows that, although falling as a percentage of GSP, combined States current outlays increased by 2.7 per cent in real terms, with all States recording an increase.

It is noticeable that even though current outlays in the Northern Territory were large relative to the size of its economy (above 27 per cent of GSP), the average annual real growth rates of both current and total outlays were the lower than the all States average. This reflected a greater degree of fiscal consolidation during this period. Tasmania was in a very similar position, ranking second in terms of size of the government relative to the size of the economy, but also having annual average real growth rates below the average of all States for the past five years.

South Australia, by contrast, had both sizeable general government sector current outlays (around 17 per cent of GSP) and the second highest average annual real growth. Real growth in total outlays was the among the highest of the States for the period 1989-90 to 1994-95 but has decreased sharply resulting in a negative growth rate for the period 1990-91 to 1995-96. This reflects the impact on the State's capital outlays of asset sales in 1995-96 as discussed earlier.

Queensland had the highest average annual real growth in total outlays and current outlays, while the percentage share of both total and current outlays of GSP remained stable throughout the five-year period. This reflects the State's rapidly growing population and economy.

Service Levels

The Commonwealth Grants Commission 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.

According to the Commission's latest estimates, shown in Table 8.5, the actual expenditure of New South Wales was 0.3 percent lower in 1994-95 than the amount necessary to provide a national average standard of service and 0.4 percent lower than the average of the other States.

Table 8.5: Relative Expenditure Levels Index, 1990-91 and 1994-95

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	All States excl NSW
1994-95	99.7	108.1	87.5	92.8	107.7	102.4	113.8	111.3	100.1
1990-91	96.1	113.7	83.4	98.6	106.0	104.4	122.4	103.7	102.0

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

In 1994-95, expenditure levels 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 States. Grants Commission data also shows that relative expenditure levels have increased since 1990-91 in New South Wales, Queensland, South Australia and Northern Territory.

8.3 REVENUE

The main sources of State revenue are taxes raised within the jurisdiction, 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 level of revenue for each State, as a percentage of GSP, in 1995-96 is shown in Table 8.6.

Table 8.6: Revenue of General Government Sector, 1995-96 (% of GSP)

	Total Revenue	Tax Revenue	Grants Revenue
NSW	15.6	6.8	6.5
Vic	13.4	6.3	6.2
Qld	16.3	5.2	7.9
WA	14.1	5.1	7.3
SA	17.8	5.7	9.2
Tas	22.0	6.6	11.8
ACT	11.9	5.6	5.5
NT	31.4	5.1	23.6
All States (excl NSW)	15.2	5.7	7.6
All States	15.3	6.1	7.2

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

Total Revenue

Total general government sector revenue for all States in 1995-96 represented \$4,061 per capita or about 15.3 per cent of Gross Domestic Product. Victoria, Western Australia and the Australian Capital Territory had below average revenue shares.

Between 1990-91 and 1995-96, growth in revenue was the strongest in Queensland (42.3 per cent) reflecting the rapid growth in the size of this economy over the period.

Taxation Revenue

New South Wales, Victoria and Tasmania have higher than average tax revenue as a percentage of GSP which indicates a greater revenue raising effort independent of Commonwealth grants compared with the other States.

As seen in Table 8.7, the proportion of total revenue raised from taxation for New South Wales, Victoria and the Australian Capital Territory is higher than the all State average in 1995-96. This proportion has remained fairly stable for New South Wales at above 40 per cent for the last five years while in the case of Victoria it has increased from 42.9 per cent to 47.1 per cent reflecting the fiscal consolidation task in that State. 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 32.2 per cent of revenue compared with 47.4 per cent in 1995-96. The Australian Capital Territory now has the highest proportion of total revenue raised from taxation.

Table 8.7: General Government Tax Revenue, Other Own Source Revenue and Commonwealth Grants, 1995-96
(% of Total Revenue)

	Tax Revenue	Other Own Source Revenue	Total Own Source Revenue	Grants Revenue
NSW	43.3	15.0	58.4	41.6
Vic	47.1	6.6	53.7	46.3
Qld	31.8	19.6	51.4	48.6
WA	36.5	11.6	48.0	52.0
SA	32.2	15.9	48.1	51.9
Tas	29.9	16.6	46.5	53.5
ACT	47.4	6.6	54.0	46.0
NT	16.3	8.6	24.9	75.1
All States (excl NSW)	37.8	12.2	50.0	50.0
All States	39.8	13.2	52.9	47.1

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

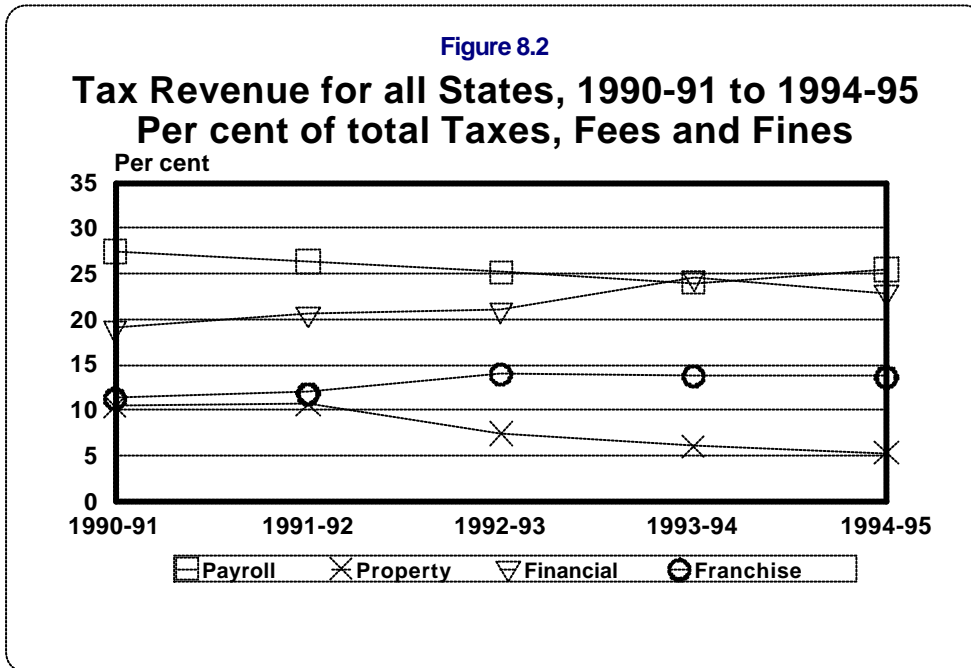
Sources: ABS Government Financial Estimates 5501.0.

Grants from the Commonwealth

Northern Territory, South Australia, Tasmania and Western Australia were more dependent on Commonwealth grants as a source of revenue in 1995-96 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 New South Wales grants as a proportion of total revenue have remained stable (above 40 per cent), most other States have shown a slightly downward trend.

Composition and Trends in Tax Receipts

There has been some significant trends in the composition of taxation revenue in all the States during the five-year period from 1990 to 1995, 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 financial and capital transactions¹ for all States except the ACT trended steadily upward in terms of their proportion of total tax revenue, so that by 1993-94, they had become the largest contributor to State tax revenue. However, revenue from these taxes fell in 1994-1995 reflecting the impact of higher interest rates on asset markets.

The proportion of State revenue from pay-roll tax declined steadily between 1990-91 and 1993-94 reflecting increased tax-free thresholds, relatively high employment growth in the small business sector and the increasing reliance by States on other revenue sources. The increase in the proportion of revenue collected from payroll tax in 1994-95 reflected the strong employment growth in that year.

¹ Taxes on financial and capital transactions is defined by the ABS to include stamp duties on land transfers, marketable securities and other properties, as well as financial institutional duties and debits tax.

Franchise fee revenue from tobacco, liquor and petroleum gas increased as a proportion of total tax revenue for the States from 11.2 per cent in 1990-91 to 13.6 per cent in 1994-95. A major contributor to this growth was Queensland where franchise fees increased from 8.8 per cent of tax revenue in 1990-91 to 13.2 per cent in 1994-95. Franchise fees have been a more important revenue source for Northern Territory and Tasmania relative to the other States for the whole period. In 1994-95 franchise fees represented 30 per cent of tax revenue in the Northern Territory and 21.9 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 forced upon the States by Queensland's move to unilaterally halve the rate of stamp duty on share transactions. Queensland, which imposes a tobacco franchise fee at a rate of 75 per cent, is the only State with a rate less than 100 per cent.

Severity of Taxes

Table 8.8 presents Grants Commission 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 taxation has been on a slight downward trend during the five-year period from 1990-91 to 1994-95.

Table 8.8: Severity of Tax Rates Index, 1990-91 and 1994-95

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	All States excl NSW
1994-95	103.9	110.6	81.1	93.1	96.2	105.2	101.1	100.2	97.7
1990-91	104.5	102.2	82.8	103.0	98.9	110.7	97.5	100.8	97.2

Source: Derived from Commonwealth Grants Commission, *Report on General Revenue Grant Relativities, 1995 Update*.

A detailed comparison of tax rates and charges can be found in the publication: *Interstate Comparison of Taxes 1995-96*, available from the Treasury.

8.4 DEFICITS, DEBT AND DEBT COSTS

Deficits, debt and debt costs are important measures of the financial position of government. They can also provide pertinent intergovernmental comparisons when measured in relation to the size of State economies, population and State revenue. Since the allocation of debt between the general government and PTE sectors is within the policy control of governments, 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 as a percentage of GSP for 1994-95 and 1995-96.

Table 8.9: General Government Sector Deficits (% of GSP), 1994-95 and 1995-96

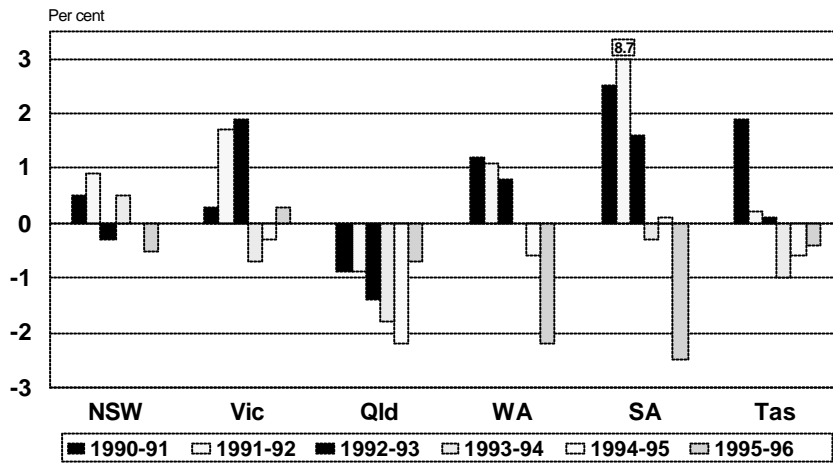
	Current Deficit		Capital Deficit		Total Deficit	
	1994-95	1995-96	1994-95	1995-96	1994-95	1995-96
NSW	(-) 1.1	(-) 1.9	1.1	1.4	0.0	(-) 0.5
Vic	(-) 0.7	(-) 0.5	0.4	0.8	(-) 0.3	0.3
Qld	(-) 3.5	(-) 2.8	1.2	2.1	(-) 2.2	(-) 0.7
WA	(-) 1.4	(-) 1.3	0.8	(-) 1.0	(-) 0.6	(-) 2.2
SA	0.6	(-) 0.3	(-) 0.5	(-) 2.2	0.1	(-) 2.5
Tas	(-) 0.4	(-) 0.5	(-) 0.2	0.1	(-) 0.6	(-) 0.4
ACT	(-) 0.9	(-) 0.4	1.2	0.9	0.3	0.4
NT	(-) 2.3	(-) 1.7	1.9	1.3	(-) 0.5	(-) 0.4
All States (excl NSW)	(-) 1.4	(-) 1.2	0.6	0.5	(-) 0.8	(-) 0.7
All States	(-) 1.3	(-) 1.4	0.8	0.8	(-) 0.5	(-) 0.6

Sources: ABS Government Financial Estimates 5501.0, ABS Government Financial Statistics 5512.0, NSW Treasury GSP Estimates.

The major points from Table 8.9 include -

- nearly all States record a current account surplus combined with a capital account deficit; and
- in 1994-95 and 1995-96, current account surpluses more than offset the deficits on capital transactions.

Figure 8.3
General Government Sector Deficit,
1990-91 to 1995-96, Per cent of GSP



Sources: ABS Government Financial Estimates 5501.0, ABS Government Financial Statistics 5512.0, NSW Treasury GSP Estimates.

Trends in Deficits

Most States have implemented medium-term deficit reduction strategies which, in principle, will result in a convergence of their fiscal positions. The common threads contained in these strategies has been reducing the level of public sector employment (which has caused one-off increases in outlays because of redundancy payments), measures to improve the efficiency of public trading enterprises and obtaining appropriate levels of dividends to the general government sector, 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 over this time but with a steady trend towards a surplus position.

As Figure 8.3 reveals, the changes in general government deficits for New South Wales were generally less volatile than those experienced by the other States over this period indicating a more stable fiscal position. As deficits are closely related to debt, the following section on net debt will also address movements in deficit positions in recent years.

Net Debt

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

Table 8.10: Total Public Sector Net Debt, June 1995

	\$m	% GSP	\$ per capita
NSW ¹	19,665	12.7	3,203
Vic	31,858	26.7	7,070
Qld	(-) 1,944	(-) 2.6	(-) 568
WA	7,605	15.9	4,361
SA	8,536	25.3	5,778
Tas	3,359	35.1	7,098
ACT	119	1.3	388
NT	1,409	29.2	8,102
All States (excl NSW)	50,944	17.0	3,849
All States	70,609	15.5	4,248

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, the net debt for New South Wales differs slightly to that presented in Chapter 7.

Net debt, as a proportion of GSP in New South Wales 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 of 2.3 per cent of GSP in 1989-90, led to net debt increasing to around 31 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 26.7 per cent of GSP as at June 1995. This downward trend is likely to continue due to an expected total public sector surplus in 1995-96.

Queensland has a strong net debt position which improved further over the period 1990 to 1995 from 8.1 per cent of GSP in 1990 to minus 2.6 per cent in 1995. 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 policy of offsetting its 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 12.7 to around 7.5 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 19.9 per cent of GSP in 1992 to 15.9 per cent in 1995 reflecting total public sector surpluses in the years 1993-94 and 1994-95.

South Australia's net debt increased significantly over the period 1990 to 1992 from 15.9 per cent of GSP to 28.5 per cent, largely as a result of the support package for the troubled State Bank. By 1995, net debt had fallen to 25.3 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 real 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 35.1 per cent of GSP in 1995.

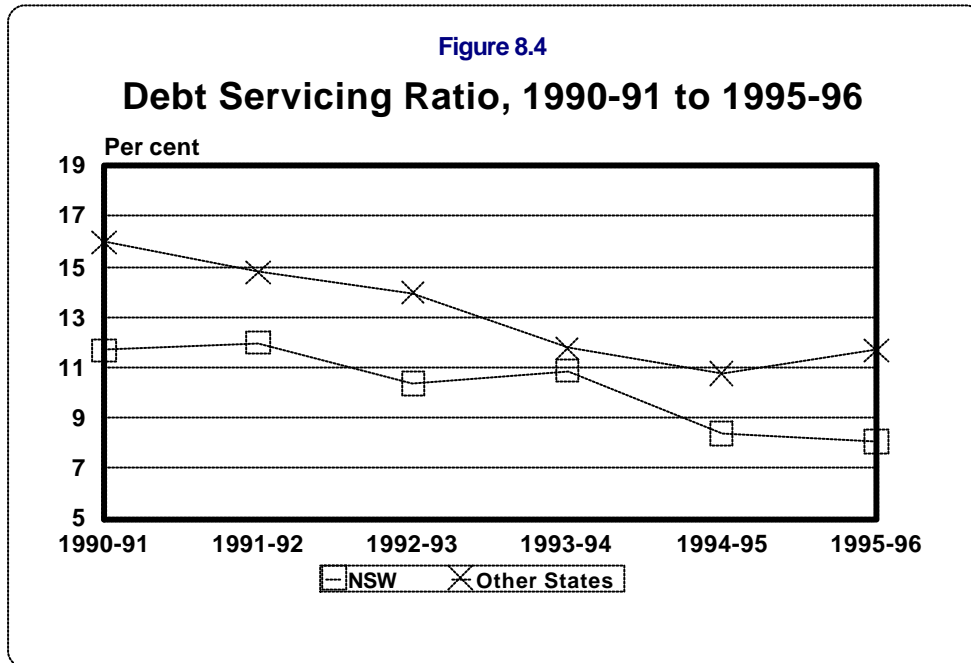
The Australian Capital Territory's low net debt position reflects the fact that at the time of self-government in 1989, the Territory was established with no debt. Since that time, the Territory has had small surpluses or deficits so that its net debt position was only 1.3 per cent of GSP in 1995.

The Northern Territory has the highest net debt per capita, but unlike the other States does not possess substantial revenue-producing assets which can be used to reduce that debt. Consequently changes in the Territory's net debt position is closely linked to 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 excluding interest received. For example, 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.



Definition: Debt Servicing Ratio is defined as total public sector net interest payments (interest paid less interest received) divided by total public sector total revenue (excluding interest received).

Source: ABS Government Financial Estimates 5501.0.

The New South Wales debt servicing ratio has been below the average of the other States for the last five years. It has also decreased significantly over this time from 11.6 per cent to 8.0 per cent. The average debt servicing ratio of the other States also fell, partly reflecting the fall in ratio in Victoria from 22.9 per cent in 1990-91 to 16.5 per cent in 1994-95 (although it increased to 18.7 per cent in 1995-96). The overall decrease in the combined debt servicing ratio for the States reflect both the impact of smaller deficits and reductions in interest rates. 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 1990. Nationally, the number of State government employees was 1,108,500 in February 1990 and has fallen to 1,014,500 in February 1995 - a reduction of 8.5 per cent. All States except Queensland and the Australian Capital Territory recorded falls in total public sector employment. The reduction mainly reflected changes in employment in the PTE sector, resulting from productivity improvements. Over the period, general government sector employment fell by 2.5 per cent to 893,500 while PTE employment fell by 36.9 per cent to 120,900.

Queensland's general government sector employment increased notably (by 10 per cent) over the period although this was partly offset by a fall in PTE employment. Employment in the Australian Capital Territory increased by 3.2 per cent from its 1990 level, with a 5.7 per cent increase in employment in the general government sector partly offset by a decrease in the PTE sector of 11.5 per cent.

Table 8.11 compares employment between the States based on employees per 1,000 of population.

**Table 8.11: State Public Sector Employment, February 1995
(per 1,000 of Population)**

	General Government Sector	PTE Sector	Total State Public Sector
NSW	46.5	7.3	53.8
Vic	43.4	6.9	50.4
Qld	54.6	3.4	58.0
WA	55.9	11.4	67.2
SA	54.2	6.6	60.8
Tas	59.6	5.3	64.9
ACT	55.3	7.6	62.8
NT	89.9	0.0	89.9
All States (excl NSW)	51.2	6.4	57.7
All States	49.6	6.7	56.4

Note: Excludes financial sector employment.

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

Expressing the level of State public sector employees per 1,000 of population further emphasises the reduction since 1990 as it shows that a significantly smaller proportion of the population is now providing State government services. Overall, State sector employment fell from 67.2 employees per 1,000 of population in February 1990 to 56.4 in February 1995 with employment in the general government sector falling from 53.8 to 49.6. On this basis, all States, apart from the Australian Capital Territory, recorded significant reductions in the PTE sector partly due to productivity gains.

There were also significant declines in employment in the general government sector for a number of States in terms of number of public sector employees per 1,000 of population over the period. Victoria's general government employment level fell by 16.3 per cent, South Australia by 13.7 per cent, Tasmania by 11.4 per cent and the Australian Capital Territory by 7.8 per cent.

These results contrast with the relatively small contraction in general government employment per 1,000 of population of 4.8 per cent in Western Australia and 4.0 per cent in New South Wales over the same period. Queensland's general government sector employment increased notably compared to the other States but, on a per 1,000 of population basis, general government sector employment decreased by 2.3 per cent.

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 following the publication of State Budget Papers.

The States have consequently become increasingly attuned to the need to maintain the highest possible credit rating 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 Victoria for long term debt from Aa3 to Aa2. 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	Aa2	A-1+	AA
Qld	P-1	Aaa	A-1+	AAA
WA	P-1	Aa1	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. This places constraints on Government fiscal policy and reinforces the need for the Government's debt reduction strategy.