

Net borrowing

Overview

- 1 On 12 October 2023, the Commission issued a [consultation paper](#) on the draft net borrowing assessment. The Commission considered changes since the 2020 Review and their implications for the assessment method.
- 2 The Commission proposed to retain the 2020 Review assessment.
- 3 A summary of state responses to each consultation question is included below, as well as the Commission’s draft position and the draft 2025 Review assessment method.
- 4 State submissions can be viewed [here](#).

Consultation questions

Q1. Do states agree that the conceptual basis for the net borrowing assessment remains unchanged?

State views

- 5 All states, except for Queensland, agreed that the conceptual case for the net borrowing assessment remains unchanged.
- 6 Queensland did not agree with the conceptual case for the net borrowing assessment. It said that “Net borrowing represents the amount by which the total outlays of the general government sector exceed its total revenue”, arguing that the Commission’s other assessments (expenses, revenue, and investment) implicitly equalise the residual that is net borrowing need. For this reason, Queensland argued to discontinue the assessment, or failing that, to apply a 50% discount.
- 7 Queensland also said that there has been a fundamental shift in the level of borrowing undertaken by states, largely driven by the increased spending throughout the COVID-19 pandemic. It said that COVID-19 related spending, and subsequent increases in state debt, were policy contaminated.
- 8 Queensland said that population growth as a measure of need does not sufficiently capture state circumstances. It said that states with different socio-demographic characteristics have different capacities to service debt and therefore should be considered in the assessment.
- 9 Queensland also said that states with higher population growth rates need to borrow more to fund increased infrastructure needs.

Commission response

- 10 The net borrowing assessment has 2 conceptual parts:
 - equalising per capita net borrowing in the assessment year (assessed equal per capita)
 - equalising states' net debt per capita (allowing for different states having different rates of population growth).
- 11 As Queensland pointed out, equalising expense, revenue, and investment needs implicitly equalises the year-on-year change of residual net borrowing needs. This is why the change in net financial position is assessed equal per capita.
- 12 If the Commission did not allow for the effect of differential population growth on the stock of net debt, then faster growing states would have lower debt per capita than slower growing states. Lower debt per capita would lead to lower interest payments. The impact of changes in state populations on average net financial positions is not implicitly equalised by the other assessments.
- 13 The Commission has considered Queensland's argument that increases in state net borrowing and net debt have fundamentally changed the basis of the assessment. While these changes have made net borrowing a more significant driver of GST distribution, they have not changed the conceptual basis of the assessment. Different states have different levels of net borrowing and net debt. In total, states had net borrowing of \$40 billion in 2022–23. Thus, the average of what states collectively did was to borrow \$1,517 per capita in that year.
- 14 The Commission recognises that state borrowing activities have diverged, and on average, grown. Neither of these changes affects the conceptual basis of the assessment method.
- 15 The Commission has considered Queensland's argument that population growth should be replaced by growth of specific sub-populations to assess capacities to service debt. States' different fiscal capacities across revenue, expense and investment assessments are equalised. This means that the requirement to borrow in the assessment year should not be influenced by growth in the specific sub-populations.
- 16 Queensland also argued that growing states need to borrow more to fund increased infrastructure. This need is assessed in the investment assessment. To include this in the net borrowing assessment would represent double counting of this need.

Commission draft position

- 17 The Commission proposes to retain the current net borrowing assessment method.

Q2. Do states support smoothing population growth to reduce volatility in the net borrowing category if a change is made to smooth population growth in the investment assessment?

State views

- 18 All states agreed with the proposal to keep the population growth measure consistent between the investment and net borrowing assessments.
- 19 New South Wales, Victoria, Queensland and Western Australia argued against smoothing population growth in the investment assessment, but accepted that if it were to be introduced in the investment assessment, the net borrowing assessment should smooth population growth as well.

Commission response

- 20 As outlined in the investment chapter, the Commission proposes not to smooth population growth in the investment assessment. Therefore, it proposes not to smooth the population growth in the net borrowing assessment, to retain consistency between the capital assessments.

Commission draft position

- 21 The Commission proposes not to change the net borrowing assessment.

Draft 2025 Review assessment method

- 22 Table 1 shows the proposed structure of the 2025 Review net borrowing assessment.

Table 1 Proposed structure of the net borrowing assessment

Component	Driver	Influence measured by driver	Change since 2020 Review?
Net Borrowing	Population growth	Recognises population growth	No

Indicative distribution impacts

- 23 No method changes are proposed for this assessment.