**LOAN COUNCIL ALLOCATIONS – 2005-06 NOMINATIONS(a) ($m)**

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1. LCA nominations for 2005-06 reflect current best estimates of non-financial public sector deficits/surpluses. Nominations have been provided on the basis of policies announced up to and included in jurisdictions’ mid-year reports. Nominations are based on preliminary estimates of general government finances provided by jurisdictions for purposes of their mid-year reports, and projected bottom lines for each jurisdiction’s public non-financial corporations (PNFC) sector, where actual estimates are unavailable. Each jurisdiction will publish an updated LCA estimate as part of its budget documentation. The 2 per cent (of non-financial public sector cash receipts from operating activities in each jurisdiction) tolerance limits around each jurisdiction’s 2005-06 LCA are designed, inter alia, to accommodate changes to the LCA resulting from changes in policy.
2. The sum of the surpluses of the general government and PNFC sectors may not directly equal the non-financial public sector surplus due to intersectoral transfers.
3. This comprises net lending by governments with the aim of achieving government policy, as well as net equity sales and net lending to other sectors or jurisdictions. Such transactions involve the transfer or exchange of a financial asset and are not included within the cash deficit. However, the cash flow from investments in financial assets for policy purposes has implications for governments’ call on financial markets.
4. Memorandum items are used to adjust the non-financial public sector deficit/surplus to include in LCAs certain transactions ‑ such as operating leases ‑ that have many of the characteristics of public sector borrowings but do not constitute formal borrowings. They are also used, where appropriate, to deduct from the non-financial public sector deficit/surplus certain transactions that Loan Council has agreed should not be included in LCAs ‑ for example, the funding of more than employers’ emerging costs under public sector superannuation schemes, or borrowings by entities such as statutory marketing authorities. Where relevant, memorandum items include an amount for gross new borrowings of government home finance schemes.

NB. Governments’ contingent exposures under infrastructure projects with private sector involvement are identified in the attachment to this report, rather than included as a component of LCAs. These exposures, which are measured as the governments’ contractual liabilities in the event of termination of projects, are unlikely to be realised and are thus materially different from actual borrowings undertaken to finance the public sector deficit. Government outlays under these projects, such as equity contributions and ongoing commercial payments to the private sector, continue to be included in the annual total public sector deficit, and hence the LCA