



Tasmania

**PRELIMINARY
OUTCOMES
REPORT
2003-04**



Department of Treasury and Finance

August 2004

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1. INTRODUCTION

The Preliminary Outcomes Report is prepared in accordance with section 26 of the *Financial Management and Audit Act 1990*, which requires the publication of a financial report for the previous financial year. The Report is to be gazetted by the following 15 August.

This Report is the first full year financial report prepared under the State's new external reporting framework. The reporting framework was given legislative effect in the *Financial Management and Audit Amendment Act 2003*, which received Royal Assent on 4 July 2003. The new reporting framework has been introduced to align with the annual accrual Budget.

Outcomes in this Report are preliminary in nature and are based upon preliminary and unaudited financial data from agencies and other General Government Sector authorities. Agencies and General Government Sector authorities have 45 days from 30 June to prepare financial statements, whereas financial information for this report must be provided within 15 days. As a result, in accordance with the principles of AASB 1029 *Interim Financial Reporting*, estimation methods have been applied, where appropriate, to ensure that interim financial information provided within the short timeframe is relevant and reliable. The final audited Budget Outcome will be released in the Treasurer's Annual Financial Report, to be published by 31 October 2004.

The Preliminary Outcomes Report contains the following information:

- Section 2 provides an update on progress against the Key Fiscal Measures contained within the preliminary Budget outcome.
- Section 3 presents the Operating Statement, Balance Sheet and Cash Flow Statement for the General Government Sector showing preliminary outcomes for the year and original Budget estimates presented in accordance with the accrual Uniform Presentation Framework (section 5 of this Report refers). Where required, commentary is provided on material changes between original Budget estimates and preliminary outcomes. Materiality is based on the criteria set out in Australian Accounting Standard AAS 5 *Materiality*.
- Section 4 summarises details of the receipts to and expenditure from the Consolidated Fund. This information is consistent with that provided in the Quarterly Statement of the Consolidated Fund prior to 2003-04.
- Section 5 provides an overview of the key concepts and definitions used within this Report.

2. KEY FISCAL MEASURES

FISCAL SURPLUS

The preliminary 2003-04 Fiscal Surplus outcome is \$333 million, an increase of \$326 million from the original Budget estimate of \$7 million. The increase in the preliminary Fiscal Surplus outcome comprises a favourable revenue movement of \$205 million, due primarily to an increase in taxation revenue and GST grant revenue as a result of the higher than expected levels of activity within the Tasmanian and the national economies, together with a decrease in expenses of \$69 million and a favourable variation of \$51 million in the net acquisition of non-financial assets. The preliminary Fiscal Surplus outcome is consistent with the Government's Fiscal Strategy target of maintaining the Budget in surplus. A summary of the significant variations to the 2003-04 preliminary outcomes for revenue, expenditure and net acquisition of non-financial assets is provided in Section 3.

NET FINANCIAL LIABILITIES

The preliminary Net Financial Liabilities outcome is \$2 190 million as at 30 June 2004, a decrease of \$305 million or 12.2 per cent from the original Budget estimate of \$2 495 million. The decrease in Net Financial Liabilities reflects the decrease in Net Debt of \$364 million, which is partially offset by an increase of \$58 million in the gross unfunded superannuation liability. The reduction in Net Financial Liabilities is consistent with the Government's Fiscal Strategy target to eliminate Net Financial Liabilities by June 2017. A summary of the significant variations to the 2003-04 preliminary outcome for liabilities is provided in Section 3.

NET DEBT

The preliminary Net Debt outcome is \$97 million as at 30 June 2004, which is \$364 million or 79 per cent less than the original Budget estimate of \$461 million. This favourable movement is consistent with the Government's Fiscal Strategy to fully eliminate Net Debt by June 2008.

CASH SURPLUS

The preliminary 2003-04 Cash Surplus outcome is \$410 million, which is \$327 million or 394 per cent greater than the original 2003-04 Budget estimate of \$83 million. The increase in the Cash Surplus reflects an increase in GST receipts and taxation revenue during 2003-04. The achievement of a Cash Surplus is consistent with the Government's Fiscal Strategy target of eliminating Net Debt by June 2008.

3. GENERAL GOVERNMENT PRELIMINARY OUTCOME

The General Government Preliminary Outcomes are presented in accordance with the Government Finance Statistics (GFS) framework. The GFS reporting framework is a specialised accounting system designed to support economic analysis of the public sector. It allows comprehensive assessments to be made of the economic impact of government and is consistent with international statistical standards (the System of National Accounts 1993 (SNA93) and the International Monetary Fund's (IMF) Government Finance Statistics Manual 2001).

More information on the significant accounting policies that form the basis of how the Preliminary Outcomes have been prepared is provided in Section 5.

OPERATING STATEMENT

The Operating Statement shows a preliminary 2003-04 Fiscal Surplus of \$333 million, an increase of \$326 million on the original 2003-04 Budget estimate of \$7 million. The General Government Sector Operating Statement for 2003-04 is detailed in Table 1. The significant variations to revenue, expenses and net acquisition of non-financial assets are outlined below.

Revenue

The preliminary outcome for Total Revenue is \$3 194 million in 2003-04, \$205 million or 6.9 per cent greater than the original 2003-04 Budget estimate of \$2 989 million. The favourable movement in Revenue reflects increases in:

- Grants and Subsidies revenue of \$129 million, primarily due to above Budget GST Revenue of \$96 million, additional revenue of \$8.3 million for the Australian Health Care Agreement and increases in a number of Specific Purpose Payments. Table 2 details the components of Grants and Subsidies revenue;
- Taxation Revenue of \$102 million, primarily due to additional revenue from Financial Transactions Taxes of \$72 million, Payroll Tax of \$8 million, Land Tax of \$1 million, Guarantee Fees of \$2 million, Casino Taxes of \$7 million and Motor Vehicle Fees and Taxes of \$11 million. Table 3 details the components of Taxation Revenue;
- Interest Income of \$10 million, reflecting the availability of additional cash for investment purposes; and
- Dividend and Tax Equivalent Income of \$12 million, primarily due to additional dividend returns from Aurora Energy and Hydro Tasmania, reflecting improved profitability of these entities, and increased Tax Equivalents from Forestry Tasmania following the full redemption of previous year tax losses, which were not anticipated at Budget time.

The increases in Revenue items noted above is partially offset by a decrease in Other Revenue of \$38 million, which primarily relates to a reclassification of several Commonwealth Specific Purpose Payments paid directly to agencies, from Other Revenue to Grants and Subsidies.

Expenses

The preliminary outcome for Total Expenses is \$2 935 million in 2003-04, \$69 million or 2.3 per cent lower than the original 2003-04 Budget estimate of \$3 004 million. The movement in Expenses reflects increases in:

- Depreciation of \$7 million, primarily as a result of revaluations of road and bridge infrastructure by the Department of Infrastructure, Energy and Resources;
- Employee Expenses of \$19 million; and
- Other Operating Expenses of \$59 million, primarily due to additional costs incurred by agencies in relation to maintenance and property services, and other supplies and consumables.

The above increases in Expense items are offset by a decrease in Grants and Transfers expenses of \$149 million. This partly reflects the reclassification of expenditure, between Budget and preliminary outcome, for grants to agencies from the Economic and Social Infrastructure Fund, the Social Infrastructure Fund and the 2001-02 Infrastructure Fund within the Finance-General Division. Whilst the original Budget reflected Grants and Transfer expenses within Finance-General, the payment of these grants from the Infrastructure Funds and the receipt of the grant by agencies, is eliminated on consolidation, and the preliminary outcome reflects the nature of the actual expenditure of those funds by agencies. The reduction in Grants and Transfer expenses is therefore partly reflected by the increase in other expense items.

Net Acquisition of Non-Financial Assets

The movement in the Net Acquisition of non-financial assets of \$51 million has a favourable impact on the preliminary 2003-04 Fiscal Surplus outcome. The movement in the Net acquisition of non-financial assets is due to the increased depreciation expense noted above, together with lower than budgeted expenditure on a number of capital expenditure projects. The reduction of \$34 million in Purchase of non-financial assets reflects a lower than budgeted level of capitalisation in the Roads Program (\$7.2 million) and changed projections for the timing of capital expenditure, due to delays resulting from increased activity in the building industry. Funding for specific capital expenditure projects which has been carried forward to 2004-05 includes:

- the Department of Justice Prison Infrastructure Redevelopment Program (\$2.0 million);
- Department of Education Capital Investment Program projects (\$2.4 million);
- Department of Health and Human Services Department of Emergency Medicine project (\$5.1 million); and
- Department of Health and Human Services Housing Program projects (\$7.1 million).

The above decreases in Purchase of non-financial assets were partially offset by a \$10 million increase in Sale of non-financial assets, which primarily reflected a \$5.1 million increase in sales by the Housing Division of the Department of Health and Human Services.

Table 1: General Government Operating Statement

	2003-04 Original Budget	2003-04 Preliminary Outcome
	\$m	\$m
Revenue		
Grants and subsidies (Refer Table 2)	1 861	1 990
Taxation revenue (Refer Table 3)	533	635
Sales of goods and services	297	286
Interest income	18	28
Dividend and income tax equivalent income	139	151
Other revenue	142	104
Total Revenue	2 989	3 194
Less		
Expenses		
Depreciation	154	161
Employee expenses	1 293	1 312
Other operating expenses	809	868
Nominal superannuation interest expense	116	112
Other interest expense	69	68
Grants and transfers	563	414
Total Expenses	3 004	2 935
Equals NET OPERATING RESULT	(16)	258
Less		
Net acquisition of non-financial assets		
Purchase of non-financial assets	181	147
less Sale of non-financial assets	50	60
less Depreciation	154	161
Total	(23)	(74)
Equals FISCAL SURPLUS	7	333

Table 2: Grants and Subsidies

	2003-04 Original Budget	2003-04 Preliminary Outcome
	\$m	\$m
Commonwealth Sources		
Recurrent Revenue		
General Purpose Payments		
GST Revenue	1 300	1 396
Budget Balancing Assistance	9
Competition Payments	18	17
Total General Purpose Payments¹	1 327	1 413
Specific Purpose Payments²	363	379
Total Recurrent Revenue	1 690	1 792
Capital Grants Revenue³	27	29
Other Grants and Subsidies⁴	144	169
TOTAL GRANTS AND SUBSIDIES	1 861	1 990

Notes:

1. The original 2003-04 Budget estimates of Commonwealth General Purpose Payments revenue were largely based on estimates provided by the Commonwealth Government as part of its 2002-03 Mid Year Economic and Fiscal Outlook (MYEFO), released in November 2002. The actual 2003-04 Commonwealth recurrent receipts of \$1 413 million represent an increase of \$86 million (6.5 per cent) over the original Budget estimate of \$1 327 million, which is primarily due to receipts of GST revenue that were \$95.9 million (7.4 per cent) higher than anticipated. The increase in GST revenue reflects growth in the total GST revenue pool by 7.1 per cent over the 2002-03 MYEFO estimate, together with an increase in Tasmania's estimated population of around 5 200 (1.1 per cent), based on the final determination of state populations, as at 31 December 2003, by the Commonwealth Statistician. The increase in GST revenue was partially offset by a \$9.3 million reduction in the level of Budget Balancing Assistance actually received, to nil, as well as the imposition of a \$0.9 million (5 per cent) pool suspension penalty in relation to Tasmania's National Competition Policy payments in 2003-04.
2. Budget estimates for Commonwealth Specific Purpose Payment revenues are indicative figures based on best available information at the time the Budget is formulated, and varies on final advice from the Commonwealth during the year. The Australian Health Care Agreement (AHCA) for 2003-08 was under active negotiation in May 2003. Under the Commonwealth "offer", Tasmania's AHCA funding outcome for 2003-04 improved by \$8.3 million, from \$159.7 million to \$168 million. Total Commonwealth recurrent Specific Purpose Payments also included an additional \$3.7 million for Primary and Secondary Education, \$1.0 million for Technical and Further Education and \$1.4 million for the Home and Community Care Program.
3. Commonwealth Specific Purpose Payments capital grants included an additional \$3.2 million for Primary and Secondary Education capital works consisting of revenue applicable for 2002-03 but not received until 2003-04 (\$2.9 million) and cost supplementation of \$311 000. This variation was offset by a reduction of \$555 000 in Commonwealth funding for Technical and Further Education, due to these funds being received in advance in 2002-03.
4. The total increase of \$25.0 million in Other Grants and Subsidies is primarily due to a reclassification of Commonwealth grants paid directly to agencies, in particular grants relating to the Natural Heritage Trust and Natural Resource Management Programs, from Other Revenue to Other Grants and Subsidies.

Table 3: General Government Taxation Revenue

	2003-04 Original Budget	2003-04 Preliminary Outcome
	\$m	\$m
Payroll tax ¹	162	170
<i>Taxes on Property</i>		
Land tax	26	27
Property owners contributions to fire brigade	36	39
Financial transaction taxes ²	96	168
Guarantee fees	5	7
Total taxes on property	163	241
<i>Taxes on the provision of goods and services</i>		
Casino taxes ³	51	58
Other gambling taxes	23	20
Taxes on insurance	33	34
Total taxes on the provision of goods and services	107	112
<i>Taxes on the use of goods and performance of activities</i>		
Motor vehicle fees and taxes ⁴	101	112
Total taxes on the use of goods and performance of activities	101	112
TOTAL TAXATION REVENUE	533	635

Notes:

1. Total Payroll tax revenues were \$8 million more than the original 2003-04 Budget estimate as a result of higher than anticipated growth in employment in the payroll tax paying sector, together with wage increases.
2. The increase in Financial transaction taxes is a result of increased revenue from Duties, predominately reflecting unprecedented levels of residential real estate market activity, strong growth in prices in the property market and strong levels of activity in the commercial sector. The variance of \$72.0 million primarily consists of additional conveyance duty of \$62.8 million and mortgage duty of \$5.2 million.
3. Casino taxes reflected higher than expected growth in video gaming activity.
4. Total Motor vehicle fees and taxes, including light vehicle registration fees and duty, were \$11 million higher than the original 2003-04 Budget estimate, reflecting higher than expected purchases of new motor vehicles in response to the favourable economic conditions experienced in 2003-04. The increase is comprised of an increase in motor vehicle registration duties of \$7.0 million and an increase of \$4.0 million in Motor Tax.

BALANCE SHEET

Table 4 details the preliminary General Government Sector Balance Sheet as at 30 June 2004.

The \$326 million improvement in the preliminary Fiscal Surplus outcome for 2003-04 is reflected in the preliminary Balance Sheet outcome with the following favourable movements:

- an increase in Net Worth of \$523 million;
- an increase in Net Financial Worth of \$376 million;
- a decrease in Net Financial Liabilities of \$305 million; and
- a decrease in Net Debt of \$364 million.

Assets

General Government Assets are estimated to be \$11 182 million at 30 June 2004, an increase of \$582 million on the original 2003-04 Budget estimate of \$10 600 million.

Financial Assets have increased by \$434 million primarily as a result of:

- an increase in Cash and Deposits of \$361 million, which primarily reflects estimated greater than Budgeted revenue for 2003-04 in relation to Taxation and Grants and Subsidies; and
- an increase in Equity Assets of \$148 million, primarily reflecting an estimated increase in the General Government Sector's equity interest in the Public Non-Financial Corporations Sector.

Non-Financial Assets are anticipated to increase by \$148 million. The most significant variations contributing to the preliminary result include:

- an increase in Land and Fixed Assets due to a change in the valuation methodology applied to road infrastructure assets; and
- a decrease in Other Non-Financial Assets of \$41 million following the reclassification of Home Ownership Assistance Program (HOAP) advances to Advances Paid and the reclassification of State Fire Commission assets and other General Government Sector assets to Land and Fixed Assets.

Liabilities

General Government Liabilities are estimated to be \$3 487 million at 30 June 2004, \$60 million higher than the original 2003-04 Budget estimate of \$3 427 million. The anticipated increase in liabilities relates to:

- an increase in Superannuation Liability of \$58 million, due to changes in actuarial valuation assumptions and methodology; and
- an increase in Other Non-Equity Liabilities of \$49 million, which primarily reflects the difference between the estimated and actual 2003-04 opening balances for Finance-General liabilities.

The above increases in liabilities are offset by a decrease in Borrowings of \$52 million, primarily reflecting the differences between the estimated and actual 2003-04 opening balances for borrowings of Finance-General and the Department of Economic Development.

Table 4: General Government Balance Sheet

	30 June 2004 Original Budget	30 June 2004 Preliminary Outcome
	\$m	\$m
Assets		
Financial assets		
Cash and deposits	331	692
Advances paid	112	76
Investments, loans and placements	20	8
Other non-equity assets	335	310
Equity	4 065	4 213
Total	4 864	5 298
Non-financial assets		
Land and fixed assets	5 672	5 860
Other non-financial assets	64	23
Total	5 736	5 884
Total assets	10 600	11 182
Liabilities		
Advances received	273	273
Borrowings	651	599
Superannuation liability	2 034	2 092
Other employee provisions	301	306
Other non-equity liabilities	168	217
Total liabilities	3 427	3 487
NET WORTH¹	7 172	7 695
NET FINANCIAL WORTH²	1 436	1 812
NET FINANCIAL LIABILITIES³	2 495	2 190
NET DEBT⁴	461	97

Notes:

1. Net Worth represents Total Assets less Total Liabilities.
2. Net Financial Worth represents Financial Assets less Total Liabilities.
3. Net Financial Liabilities represents Net Debt plus gross unfunded superannuation liability.
4. Net Debt equals the sum of Advances Received and Borrowings less the sum of Cash and Deposits, Advances Paid and Investments, Loans and Placements.

CASH FLOW STATEMENT

Table 5 details the General Government Sector Cash Flow Statement for 2003-04.

The 2003-04 preliminary Cash Surplus outcome is \$410 million, \$327 million greater than the original 2003-04 Budget estimate of \$83 million.

This is primarily due to additional receipts in relation to Taxes Received, Grants and Subsidies Received and Interest Received and decreased cash payments for operating activities.

Table 5: General Government Sector Cash Flow Statement

	2003-04 Original Budget	2003-04 Preliminary Outcome
	\$m	\$m
Cash receipts from operating activities		
Taxes received	533	633
Receipts from sales of goods and services	297	293
Grants and subsidies received	1 861	1 911
Dividend and income tax equivalent income	139	156
Interest received	18	46
Other receipts	258	261
Total	3 106	3 300
Cash payments for operating activities		
Payments for goods and services	(2 138)	(2 217)
Grants and subsidies paid	(563)	(413)
Interest paid	(76)	(75)
Other payments	(113)	(99)
Total	(2 890)	(2 804)
Net cash flows from operating activities	215	496
Net cash flows from investments in non-financial assets		
Sale of non-financial assets	50	69
Purchases of non-financial assets	(181)	(154)
Total	(131)	(86)
Net cash flows from investments in financial assets for policy purposes	20	59
Net cash flows from investments in financial assets for liquidity purposes	5	(7)
Net cash flows from financing activities		
Advances received (net)	(42)	(42)
Borrowing (net)	(152)	(149)
Other financing (net)	29	(20)
Total	(164)	(211)
Net Increase/(Decrease) in Cash Held	(56)	250
CASH SURPLUS/(DEFICIT)¹	83	410

Note:

1. Cash Surplus/(Deficit) is equal to Net cash flows from operating activities plus Net cash flows from investments in non-financial assets.

4. CONSOLIDATED FUND

The preliminary Consolidated Fund Surplus outcome is \$32.1 million for 2003-04, \$27.4 million greater than the original Budget estimate of \$4.7 million.

The improved preliminary Consolidated Fund Surplus outcome largely reflects increases in grants received, State taxation receipts and higher than anticipated returns from Government businesses.

Table 6: Consolidated Fund Preliminary Outcome, 2003-04

	2003-04 Original Budget	2003-04 Preliminary Outcome
	\$'000	\$'000
Receipts		
Commonwealth Sources		
Recurrent Receipts ¹	1 689 839	1 792 209
Capital Receipts	26 615	28 884
Total Commonwealth Sources	1 716 454	1 821 093
State Sources		
Recurrent Receipts ²	835 153	963 117
Capital Receipts ³	28 920	14 881
Total State Sources	864 073	977 998
Total Receipts	2 580 527	2 799 091
Less Expenditure		
Recurrent Services		
Appropriation Act ⁴	2 253 541	2 383 768
Reserved by Law	172 190	169 242
Total Recurrent Services	2 425 731	2 553 010
Works and Services		
Capital Investment Program	123 707	126 764
Economic and Social Infrastructure Fund ⁵	26 855	87 700
Total Works and Services	150 562	214 464
Total Expenditure	2 576 293	2 767 474
Gross Consolidated Fund Surplus/(Deficit)	4 234	31 617
Add Loan Repayments	436	435
Consolidated Fund Surplus	4 670	32 052

Notes:

1. The original 2003-04 Budget estimates of Commonwealth sourced recurrent revenue were largely based on estimates provided by the Commonwealth Government as part of its 2002-03 Mid Year Economic and Fiscal Outlook (MYEFO), released in November 2002. The actual 2003-04 Commonwealth recurrent General Purpose Payments of \$1 412.8 million represent an increase of \$86.2 million (6.5 per cent) over the original Budget estimate of \$1 326.6 million, which is primarily due to receipts of GST revenue that were \$95.9 million (7.4 per cent) higher than anticipated. The increase in GST revenue reflects growth in the total GST revenue pool by 7.1 per cent over the 2002-03 MYEFO estimate, together with an increase in Tasmania's estimated population of around 5 200 (1.1 per cent), based on the final determination of state populations, as at 31 December 2003, by the Commonwealth Statistician. The increase in GST revenue was partially offset by a \$9.3 million reduction in the level of Budget Balancing Assistance actually received, to nil, as well as the imposition of a \$0.9 million (5 per cent) pool suspension penalty in relation to Tasmania's NCP payments in 2003-04. Total Commonwealth recurrent receipts also included higher than budgeted receipts under the Australian Health Care Agreement (AHCA), which was under active negotiation in May 2003. Under the Commonwealth "offer", Tasmania's AHCA funding outcome for 2003-04 improved from \$159.7 million to \$168 million.

2. Total State sourced recurrent receipts were \$127.9 million above the original 2003-04 Budget estimate due to higher than anticipated State taxation receipts (Table 3 refers), greater than budgeted returns from Government businesses, and increased Departmental fees and recoveries and fines receipts. Returns from Government Businesses of \$162.1 million were \$17.7 million above the original 2003-04 Budget estimate of \$144.4 million. Higher than expected returns arose from:
 - additional dividends from Aurora Energy of \$3.2 million, reflecting improved profitability from a higher than expected level of sales during 2002-03;
 - additional dividends from Hydro Tasmania of \$3.6 million due to improved profitability from lower energy costs because of higher than expected rainfall and dam levels;
 - an increase of \$2.9 million in Tax Equivalents from Forestry Tasmania following the full redemption of previous year tax losses which was not anticipated at Budget time;
 - additional Tax Equivalents from Aurora of \$6.4 million reflecting increased customer generated demand due to colder than anticipated weather conditions; and
 - additional Tax Equivalents from Hydro Tasmania of \$2.9 million due to increased energy sales and improved profitability.

The above increases in returns were partly offset by minor decreases in returns from other Government businesses.

Departmental Fees and Recoveries were \$82.1 million, \$2.8 million above the original 2003-04 Budget estimate of \$79.3 million due to increased receipts of the Department of Primary Industries, Water and Environment reflecting the continued high level of lodgements and dealings in the Lands Titles Office resulting from higher than anticipated activity in the real estate market.

Revenue from the Department of Justice from Fines and Infringement Notices was \$8.4 million, \$2.9 million above the original 2003-04 Budget of \$5.5 million reflecting increased revenue generated through improved fine collection practices.
3. The decrease in State sourced capital receipts of \$14.0 million between the original 2003-04 Budget estimate of \$28.9 million and preliminary outcome of \$14.9 million is primarily related to the proceeds of divestment of Government business assets. The original 2003-04 Budget estimate included proceeds from the divestment of non-core assets from the Hobart Ports Corporation Pty Ltd, however the Government deferred consideration of these asset sales until 2004-05.
4. Total Recurrent expenditure for 2003-04 was \$127.3 million above the original 2003-04 Budget estimate, primarily reflecting a total additional contribution of \$101.5 million to the Economic and Social Infrastructure Fund (ESIF). Of this amount, an additional \$51.5 million was transferred to the ESIF under the *Consolidated Fund (Supplementary Appropriation for 2003-04) Act 2004*, (the total supplementary appropriation, including a capital appropriation of \$77.0 million, was \$128.5 million). At the time of the establishment of the ESIF, it was indicated that the Government intended to make additional contributions to the Fund if permitted by the Budget situation. The additional contributions in 2003-04 are the result of achieving a substantial Fiscal Surplus in 2003-04, a consequence of a number of factors including above Budget receipts resulting from the buoyant Tasmanian economy and above Budget GST receipts. The increase in recurrent services expenditure also included additional recurrent funding appropriated to the Departments of Health and Human Services (\$10.3 million), Education (\$5.8 million), Justice (\$4.3 million), Police and Public Safety (\$2.3 million) and Tourism, Parks, Heritage and the Arts (\$6.8 million). Further information in relation to increased departmental expenditures from the Consolidated Fund is provided in Table 7.
5. An additional Works and Services contribution of \$77.0 million was made to the Economic and Social Infrastructure Fund during 2003-04. This additional contribution primarily relates to funding for the advancement of the Government's *Affordable Housing Strategy*, together with additional funding for other economic and infrastructure development projects, including the roads program and community infrastructure development.

Table 7: Consolidated Fund Expenditure, 2003-04

	2003-04 Original Budget	2003-04 Preliminary Outcome
	\$'000	\$'000
Economic Development		
Recurrent Expenditure	43 302	44 241
Total	43 302	44 241
Education		
Recurrent Expenditure	654 810	660 676
Capital Expenditure ¹	14 470	17 632
Total	669 280	678 308
Finance-General		
Recurrent Expenditure ²	462 933	557 999
Capital Expenditure ³	35 464	96 309
Total	498 397	654 308
Health and Human Services		
Recurrent Expenditure ⁴	757 090	767 444
Capital Expenditure	14 303	13 845
Total	771 393	781 289
House of Assembly		
Recurrent Expenditure	4 871	4 870
Total	4 871	4 870
Infrastructure, Energy and Resources		
Recurrent Expenditure	101 218	101 594
Capital Expenditure	67 145	66 513
Total	168 363	168 107
Justice		
Recurrent Expenditure ⁵	61 696	66 039
Capital Expenditure	14 966	14 966
Total	76 662	81 005
Legislative Council		
Recurrent Expenditure	3 774	3 771
Total	3 774	3 771
Legislature-General		
Recurrent Expenditure	3 762	3 798
Total	3 762	3 798

Table 7: Consolidated Fund Expenditure, 2003-04 (continued)

	2003-04 Original Budget	2003-04 Preliminary Outcome
	\$'000	\$'000
Ministerial and Parliamentary Support		
Recurrent Expenditure	13 819	13 627
Total	13 819	13 627
Office of the Governor		
Recurrent Expenditure	2 052	2 534
Capital Expenditure	8	8
Total	2 060	2 542
Police and Public Safety		
Recurrent Expenditure	125 202	127 520
Capital Expenditure	1 921	1 921
Total	127 123	129 441
Premier and Cabinet		
Recurrent Expenditure	23 859	25 097
Total	23 859	25 097
Primary Industries, Water and Environment		
Recurrent Expenditure	76 120	78 264
Capital Expenditure	154	154
Total	76 274	78 418
Tasmanian Audit Office		
Recurrent Expenditure	254	362
Total	254	362
Tourism, Parks, Heritage and the Arts		
Recurrent Expenditure ⁶	58 858	65 657
Capital Expenditure ⁷	2 131	3 117
Total	60 989	68 774
Treasury and Finance		
Recurrent Expenditure	32 111	29 518
Total	32 111	29 518
TOTAL CONSOLIDATED FUND EXPENDITURE	2 576 293	2 767 474

Notes:

1. Capital expenditure by the Department of Education was \$3.2 million above the original Consolidated Fund Budget due to additional funding of \$500 000 being provided to meet increased costs associated with the Department's Capital Investment Program. An additional \$3.2 million was received from the Commonwealth Government for Primary and Secondary Education capital works consisting of revenue applicable for 2002-03 but not received until 2003-04 (\$2.9 million) and cost supplementation of \$311 000. This variation was offset by a reduction in Commonwealth funding for Technical and Further Education of \$555 000. This reduction was due to these funds being received in advance in 2002-03.
2. Total 2003-04 Recurrent expenditure within the Finance-General Division was \$95.1 million above the original 2003-04 Budget estimate, primarily reflecting the additional recurrent contribution of \$101.5 million to the Economic and Social Infrastructure Fund (ESIF), partially offset by savings in a number of other recurrent expenses.
3. The \$60.8 million increase in capital expenditure within the Finance-General Division reflects the additional \$77.0 million capital contribution to the ESIF, offset by a reduction of \$16.2 million in the capital funding contribution to ESIF relating to the proceeds from divestment of Government business assets.
4. Recurrent expenditure by the Department of Health and Human Services was \$10.4 million above the original Consolidated Fund Budget due to \$4.6 million of additional expenditure on Commonwealth-State programs, which was offset by additional revenue, \$4.8 million for interstate hospital charges and \$3.9 million to fund the 27th instalment of pay-as-you-go tax. Additional funding was partially offset by savings of \$2.3 million in the actual cost of the Aurora Electricity Concession.
5. Recurrent expenditure by the Department of Justice was \$4.3 million above the original Consolidated Fund Budget due to the timing of GST expenditure of \$1.0 million associated with a payment made at the end of 2003-04 and additional expenditure of \$2.0 million within Prison Services. Reserved by Law expenditure was also above Budget by \$1.9 million due to an increase for items such as Criminal Injuries Compensation and Electoral costs.
6. Recurrent expenditure by the Department of Tourism, Parks, Heritage and the Arts was \$6.8 million above the original Consolidated Fund Budget due to supplementation provided for fire suppression and financial support of the National Trust. Other factors contributing to the variation include the provision of additional funding to support the Department's activities.
7. Capital expenditure by the Department of Tourism, Parks, Heritage and the Arts was \$1.0 million above the original Consolidated Fund Budget due to a carry forward into 2004-05 of capital funding for infrastructure projects for the Parks and Wildlife Service.

5. CONCEPTS AND DEFINITIONS

Financial Transactions included in the Accrual Uniform Presentation Framework (UPF)

The General Government Preliminary Outcomes are prepared on an accrual Uniform Presentation Framework (UPF) basis.

The UPF is based on the reporting standards of the Australian Bureau of Statistics (ABS) Government Finance Statistics (GFS) framework. These, in turn, are based on international standards set out in the International Monetary Fund's *A Manual of Government Finance Statistics* and the United Nations' *A System of National Accounts*. The Government Finance Statistics classification adopts a nationally consistent format for presenting the financial transactions of governments.

The UPF was first established by the Australian Loan Council in May 1991. The Council revised the UPF in March 2000 to adopt accrual Government Finance Statistics based reporting. The primary objective of the UPF is to ensure that Commonwealth, State and Territory governments present their budgets on a standard, comparable basis. It was recognised that a more uniform approach to the presentation of budgets, forward estimates and outcomes would facilitate a better understanding of individual government's financial results and projections

Accrual UPF information:

- is presented on a total source of funds basis, meaning that balances and transactions of both the Consolidated Fund and the Special Deposits and Trust Fund are included in the UPF Budget Statements; and
- includes accrual transactions such as depreciation and nominal interest on superannuation.

The accrual UPF gives details of the expenses, revenue, payments, receipts, and assets and liabilities of the Tasmanian General Government Sector.

An important distinction in the UPF framework from the Australian Accounting Standards (AAS) framework, is that of "transaction flows" and "other economic flows". Transactions result directly from a mutually agreed interaction between two parties, for example, the sale of a good or service. The definition of a "transaction flow" also includes depreciation which does not involve interaction between two parties. The treatment of depreciation recognises that in this case the one party is acting in two roles, as owner of the asset and consumer of the services provided by the asset.

An "other economic flow" is a change in the volume or value of an asset or liability that does not result from a transaction. This includes a wide variety of events such as revaluation of assets

(holding gains or losses) arising from a change in market prices, and changes in the volume of assets that result from discoveries, depletion and destruction of assets. The impact of all “other economic flows” is excluded from the UPF Operating Statement. These changes impact directly on equity in the Balance Sheet in the UPF treatment. This means that differences currently exist between the UPF Operating Statement and the Statement of Financial Performance prepared in compliance with the Australian Accounting Standards. (For a more detailed discussion of the differences between reports prepared in compliance with the Australian Accounting Standards and UPF reports see *Harmonisation of Government Finance Statistics and Generally Accepted Accounting Principles: Issues Paper, Department of Treasury and Finance, Tasmania and Department of Finance and Administration, March 2003*, available on the Financial Management Reform section of the Treasury website www.treasury.tas.gov.au).

Details of public sector estimates and outcomes are presented within the accrual UPF in three primary statements: the Operating Statement, Balance Sheet and Cash Flow Statement. These statements form the core of the accrual UPF.

A Budget based on the total Public Account does not alleviate the need for an appropriation from the Consolidated Fund. A Consolidated Fund appropriation is currently required by legislation. However, the focus on the Consolidated Fund is reduced when the focus is on a total resources based Budget. Most Australian jurisdictions removed the presentation of the Consolidated Fund from the Budget Papers when adopting an accrual budgeting framework.

Operating Statement

The Operating Statement presents information on revenue and expenses. This statement is designed to capture the composition of expenses and revenues and the net cost of a government’s activities within a fiscal year. It shows the full cost of resources consumed by the government in achieving its objectives, and how these costs are met from various revenue sources.

The Operating Statement reports two major fiscal measures: the Net Operating Result and the Fiscal Surplus. The Fiscal Surplus is the Government’s headline Budget measure.

Net Operating Result

The GFS Net Operating Result is the excess of revenue over expenses. The Net Operating Result excludes capital expenditure, but includes non-cash costs such as accruing superannuation entitlements and depreciation. By including all accruing costs, including depreciation, the Net Operating Result encompasses the full costs of providing government services. This makes it a good measure of the sustainability of the government’s fiscal position over time and provides an indication of the sustainability of the existing level of government services.

The Net Operating Surplus indicates that there are funds available, on an accrual basis, to increase service delivery, increase assets or to decrease liabilities. A deficit indicates that one off expenditure may have occurred, sourced from cash reserves, to meet one off projects or programs, and/or revenues are not sufficient to meet all expenses for the current year.

Fiscal Surplus

The Fiscal Surplus represents the difference between General Government revenue over expenses. It includes capital expenditure, but excludes depreciation.

The Fiscal Surplus measures a government's investment-saving balance and is a useful indicator of funds available for application to either assets or liabilities. A Fiscal Surplus indicates that the government is saving more than enough to finance all of its investment spending.

In a year in which the Government undertakes major capital works, other things being equal, a Fiscal Surplus will be significantly lower compared with the Net Operating Result.

Balance Sheet

The Balance Sheet records a government's stocks of financial and non-financial assets and liabilities. This statement discloses the resources over which a government maintains control. The Balance Sheet is a financial snap-shot of a government, taken at the end of each financial year. By providing information on the type of assets and liabilities held by a government, the statement gives an indication of the government's financial strength.

The Balance Sheet includes data on the make up of a government's financial assets, on its holdings of fixed assets, and on the extent of liabilities such as borrowings and unfunded superannuation. This allows for intertemporal and interjurisdictional comparisons of asset and liability levels. The major Balance Sheet indicators are Net Worth, Net Financial Worth, Net Financial Liabilities and Net Debt.

Net Worth

Net Worth provides a more comprehensive picture of a government's overall financial position than the net debt measure. It is calculated as total assets (both financial and non-financial) minus total liabilities, minus shares and other contributed capital. Net Worth incorporates a government's non-financial assets such as land and other infrastructure assets, which may be sold and used to repay debt. It also incorporates certain financial assets and liabilities not captured by the Net Debt measure, most notably accrued employee superannuation liabilities, ownership of equities, debtors and creditors.

Net Financial Worth

Net Financial Worth measures a government's net holdings of financial assets. It is calculated from the Balance Sheet as financial assets minus liabilities. Net Financial Worth is a broader measure than Net Debt, in that it incorporates provisions made (such as superannuation, but excludes depreciation and bad debts) as well as ownership of equity. Net Financial Worth includes all classes of financial assets and liabilities, only some of which are included in Net Debt.

Net Financial Liabilities

Net Financial Liabilities is Net Debt plus gross unfunded superannuation liabilities. This additional information is important in gauging the strength of a government's fiscal position. This measure is not included in the UPF. However it is commonly used by international credit ratings agencies as it targets the significant financial assets and liabilities held by most governments.

Net Debt

Net debt is the same under cash and accrual-based financial reporting. Net Debt comprises the stock of specified gross financial liabilities less selected financial assets. The stock of Net Debt is a common measure used to help judge the overall strength of a jurisdiction's fiscal position. High levels of Net Debt impose a call on future revenue flows to service that debt and can therefore limit a government's flexibility to adjust expenditure.

Cash Flow Statement

The Cash Flow Statement records a government's cash receipts and payments. The Cash Flow Statement reveals how a government obtains and expends cash.

This statement requires cash flows to be categorised into operating, investing and financing activities. Operating activities are those which relate to the collection of taxes, the distribution of grants, and the provision of goods and services. Investing activities are those which relate to the acquisition and disposal of financial and non-financial assets. Financing activities are those which relate to changing the size and composition of a government's financial structure.

The signing convention within the Cash Flow Statement is that all inflows carry a positive sign and all outflows carry a negative sign (regardless of whether they are gross or net cash flows). The Cash Flow Statement reports two major fiscal measures: net increase in cash held and cash surplus. Net increase in cash held is the sum of net cash flows from all operating, investing and financing activities. The cash surplus comprises only net cash received from operating activities, and from sales and purchases of non-financial assets, minus distributions paid (in the case of public financial corporations and public non-financial corporations), minus finance leases and similar arrangements.

Cash Surplus

The Cash Surplus measure is comparable with the previous cash GFS surplus measure, allowing for comparisons between the two frameworks.

It should be noted that the ABS concept of a surplus/(deficit) does not include equity contributions to Government Business Enterprises/State-owned companies, major asset sale proceeds and the repayment of advances. These items can have a major impact in any given year. The ABS classifies these transactions as Financing Transactions which have no impact on the calculation of the surplus/(deficit).

Net Increase in Cash Held

Net Increase in Cash Held is the sum of net cash flows from all operating, investing and financing activities. This measure is consistent with the movement in cash and deposits reported in the Balance Sheet.

Consolidation of Transactions

GFS statements present a consolidated view of the financial transactions for all entities within the General Government Sector.

For example, in the case of GFS, the rental payment for a Government owned building from the Department of Justice to the Department of Treasury and Finance will be netted out from the Operating Statement as both agencies are classified as General Government. Alternatively, the Department of Treasury and Finance has on-lent Commonwealth State Housing Agreement funds to the Department of Health and Human Services (DHHS) and since both agencies are within the General Government Sector, the borrowing recorded by DHHS and the advance held by Treasury are eliminated.

Consolidated Fund

The Consolidated Fund is the main source of funding for all on-Budget agencies, is the source of funding for Reserved by Law payments, and may make some contribution to the operations of off-Budget entities. The Fund receives all State taxation revenue, the majority of Commonwealth payments to Tasmania, territorial revenue and certain other classes of revenue.

There are two types of expenditure from the Consolidated Fund:

- Recurrent Services expenditure that meets the cost of the ordinary annual services provided by the Government; and
- Works and Services expenditure which provides for the construction, purchase and maintenance of major capital assets such as roads, public housing, schools and hospitals.

GENERAL GOVERNMENT ENTITIES

Economic Development
Education
Health and Human Services
House of Assembly
Infrastructure, Energy and Resources
Inland Fisheries Service
Justice
Legislative Council
Legislature-General
Marine *and* Safety Tasmania
Office of the Governor
Police and Public Safety
Premier and Cabinet
Primary Industries, Water and Environment
Royal Tasmanian Botanical Gardens
State Fire Commission
TAFE Tasmania
Tasmanian Audit Office
The Nominal Insurer
Tourism, Parks, Heritage and the Arts
Treasury and Finance