

3 BUDGET SUMMARY, 2003-04

Features

- The State Budget is presented for the first time on a full accrual basis. This chapter includes key fiscal measures presented in accordance with the Uniform Presentation Framework.
- In 2003-04, the Fiscal Surplus is estimated to be \$6.9 million.
- Net Worth is estimated to increase by \$355.5 million, or 5.2 per cent in nominal terms, from \$6 816.9 million to \$7 172.4 million between 30 June 2003 and 30 June 2004.
- Net Debt is estimated to decrease by \$250.1 million, or 35.2 per cent in nominal terms, from \$711.6 million to \$461.5 million between 30 June 2003 and 30 June 2004. This reduction is consistent with the Government's Fiscal Strategy to reduce Net Debt to zero by 2007-08.
- In 2003-04, the General Government Cash Surplus is estimated to be \$83.2 million.
- In 2003-04, the Consolidated Fund Surplus is estimated to be \$4.7 million.

INTRODUCTION

The 2003-04 State Budget has been prepared on an accrual Uniform Presentation Framework (UPF) basis and includes all entities within the General Government Sector. The accrual UPF provides details of the expenses, revenues, payments, receipts, and assets and liabilities of the General Government Sector.

The Budget has been developed to meet the objectives of the Government's Fiscal Strategy. Details of General Government Sector estimates and outcomes are presented in three primary statements: the Operating Statement, Balance Sheet and Cash Flow Statement. The primary statements report a number of fiscal measures and assist in the analysis of the financial performance of the General Government Sector.

The Fiscal Surplus is the Government's headline Budget measure. Other key fiscal measures include Net Worth, Net Financial Worth, Net Financial Liabilities, Net Debt and Cash Surplus. This chapter provides information on each of these measures, together with a summary of the three primary statements.

A description of the three primary statements and the key fiscal measures is provided in *The Tasmanian Government Financial System and Budget Guide, 2003-04*.

In addition, this chapter provides information on expenditure from, and receipts to, the Consolidated Fund and the Government's key measure in relation to the Consolidated Fund, the Consolidated Fund Surplus.

OPERATING STATEMENT

The primary measure reported in the Operating Statement is the Fiscal Surplus, which represents the Government's headline Budget measure.

A high level summary of the 2003-04 Operating Statement is provided in Table 3.1.

Table 3.1: Operating Statement, 2003-04

	2002-03	2003-04	
	Budget	Budget	
	Estimate	Estimate	Variation
	\$'000	\$'000	%
Revenue	2 852 361	2 989 967	4.8
Expenses	2 851 824	3 005 777	5.4
Less			
Net acquisition of non-financial assets	(25 508)	(22 728)	(10.9)
FISCAL SURPLUS	26 045	6 918	(73.5)

Total Revenue is estimated to be \$2 990.0 million in 2003-04, an increase of \$137.6 million or 4.8 per cent on 2002-03 budgeted revenue of \$2 852.4 million. The increase in revenue primarily relates to two factors: an increase in State duties revenue due to an anticipated continuation, to at least mid 2003-04, of the high level of activity in the property market during 2002-03 and an increase in payroll tax revenue as a result of anticipated growth in employment in the payroll tax paying sector; and an increase in Commonwealth revenue in 2003-04 due to an increase in the size of the GST Revenue pool and an increase in Tasmania's fiscal equalisation need for Commonwealth financial assistance as assessed by the Commonwealth Grants Commission.

Total Expenses are estimated to be \$3 005.8 million in 2003-04, an increase of \$154.0 million or 5.4 per cent on 2002-03 budgeted expenses of \$2 851.8 million. Three major factors contributing to the increase in Expenses are: wage indexation in accordance with wage agreements; expenditure from the new Economic and Social Infrastructure Fund established as part of the 2003-04 Budget to provide funding for major economic and social initiatives; and initiatives, within agencies, announced as part of the 2003-04 Budget to meet social, environmental and security needs.

Detailed information on General Government Sector revenue and expense estimates for 2003-04 is provided in Chapter 4 of this Budget Paper.

Fiscal Surplus

In 2003-04, the Fiscal Surplus is estimated to be \$6.9 million, a decrease of \$19.1 million on the 2002-03 Budget estimate of \$26.0 million.

The Fiscal Surplus outcome for 2002-03 is estimated to be \$121.0 million, an increase of \$95.0 million on the Budget estimate of \$26.0 million in 2002-03. The estimated increase is largely due to an increase in State taxation revenue and Commonwealth revenue and lower than anticipated capital works in 2002-03. For further information on the 2002-03 Fiscal Surplus outcome, refer to Chapter 8 of this Budget Paper. This surplus has resulted in a once-off build up of funds, which will be paid into the new Economic and Social Infrastructure Fund (ESIF). The reduction in the 2003-04 Fiscal Surplus reflects increased expenditure from the ESIF and from other one-off cash reserves established in 2002-03.

The achievement of a Fiscal Surplus is in line with the Government's Fiscal Strategy and indicates that the Government is saving more than enough to finance all of its operations and capital spending. Whilst maintaining a Fiscal Surplus, the 2003-04 Budget delivers substantial Budget initiatives to support the Government's strategic approach to social and economic development.

BALANCE SHEET

The primary fiscal measures reported in the Balance Sheet, and incorporated as key measurers in the Government's Fiscal Strategy, are as follows:

- Net Worth;
- Net Financial Worth;
- Net Financial Liabilities; and
- Net Debt.

A high level summary of the Balance Sheet as at 30 June 2003 and 30 June 2004 is provided in Table 3.2.

Table 3.2: Summary Balance Sheet, as at 30 June

	2003	2004	
	Budget	Budget	
	Estimate	Estimate	Variation
	\$'000	\$'000	%
Assets			
Financial assets	5 419 461	4 863 608	(10.3)
Non-financial assets	5 615 046	5 736 015	2.1
Total assets	11 034 507	10 599 623	(4.0)
Total liabilities	4 217 575	3 427 225	(18.8)
NET WORTH¹	6 816 932	7 172 398	5.2
NET FINANCIAL WORTH²	1 201 886	1 436 383	19.5
NET FINANCIAL LIABILITIES³	2 612 561	2 495 425	(4.5)
NET DEBT⁴	711 561	461 470	(35.2)

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 liabilities.
4. Net Debt represents gross debt less selected financial assets.

Total Assets are estimated to be \$10 599.6 million in 2003-04, a decrease of \$434.9 million or four per cent on 2002-03 budgeted assets of \$11 034.5 million. The decrease in Total Assets primarily relates to a decrease in cash and deposits of \$639.2 million, which are to be utilised to reduce borrowings at the end of the 2003-04 financial year. Surplus cash held in the Public Account is used to repay maturing debt within a financial year, thus delaying borrowing until the last possible point (30 June) and reducing borrowing costs. For this reason, during the year, both cash and actual gross debt are maintained as low as possible. In past years, at

the end of the financial year, a temporary overnight borrowing was undertaken which had the effect of grossing up the value of both cash and gross debt as at 30 June. With the move to an accrual Budget, the practice of end of year borrowing will be discontinued. The change in end of financial year cash management practices is further explained in Chapter 4 of *The Tasmanian Government Financial System* and Chapter 7 of this Budget Paper.

Total Liabilities are estimated to be \$3 427.2 million in 2003-04, a decrease of \$790.4 million or 18.8 per cent on 2002-03 budgeted liabilities of \$4 217.6 million. The decrease in Total Liabilities primarily relates to a decrease of \$883.4 million in borrowings and reflects the new approach in managing the State's cash reserves and borrowings, as outlined above. The decrease in borrowings is partially offset by an expected increase of \$133.0 million in the gross unfunded superannuation liability. It is estimated that the gross unfunded superannuation liability will continue to increase in nominal terms for a number of years before the impact of the Government's policy of reducing the liability is reflected in the Balance Sheet.

Detailed information on Assets and Liabilities is provided in Chapter 7 of this Budget Paper.

Net Worth

Net Worth is estimated to increase by \$355.5 million or 5.2 per cent in nominal terms, from \$6 816.9 million to \$7 172.4 million between 30 June 2003 and 30 June 2004.

Net Worth is calculated as total assets minus Total Liabilities. Net Worth incorporates 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.

The major factors influencing the improvement in estimated Net Worth are increases of \$102.6 million in equity assets, and \$121.0 million in non-financial assets (including land and fixed assets), offset by an increase in the estimated gross unfunded superannuation liability of \$133.0 million. Also contributing to the improvement in Net Worth is the estimated fall in Net Debt of \$250.1 million between June 2003 and June 2004.

Detailed information on Net Worth and its components is provided in Chapter 7 of this Budget Paper.

Net Financial Worth

Net Financial Worth is estimated to increase by \$234.5 million or 19.5 per cent in nominal terms, from \$1 201.9 million to \$1 436.4 million between 30 June 2003 and 30 June 2004.

Net Financial Worth is a measure of net holdings of financial assets and is calculated as total financial assets minus Total Liabilities. Net Financial Worth is a broader measure than Net Debt, in that it incorporates provisions for superannuation and other employee entitlements 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.

The increase in Net Financial Worth represents the strengthening position of the State's finances as the level of borrowings is reduced by the generation of cash surpluses, which are utilised to build cash reserves, and an increase in equity investments, offset by the increase in unfunded superannuation.

Detailed information on Net Financial Worth and its components is provided in Chapter 7 of this Budget Paper.

Net Financial Liabilities

Net Financial Liabilities are estimated to decrease by \$117.2 million, or 4.5 per cent in nominal terms, from \$2 612.6 million to \$2 495.4 million between 30 June 2003 and 30 June 2004.

Net Financial Liabilities represents Net Debt plus gross unfunded superannuation liabilities. This measure is used to provide a broader picture of the State's liabilities. 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.

The decrease in Net Financial Liabilities relates to a decrease in Net Debt of \$250.1 million, as outlined above, partially offset by an increase of \$133.0 million in the gross unfunded superannuation liability. The reduction in Net Financial Liabilities is consistent with the Government's Fiscal Strategy to eliminate Net Financial Liabilities by June 2017.

Detailed information on Net Financial Liabilities and its components is provided in Chapter 7 of this Budget Paper.

Net Debt

Net Debt is estimated to decrease by \$250.1 million or 35.2 per cent in nominal terms, from \$711.6 million to \$461.5 million between 30 June 2003 and 30 June 2004. This reduction is consistent with the Government's Fiscal Strategy to reduce Net Debt to \$450.0 million by 30 June 2005 and to zero by 2007-08.

Net Debt comprises the stock of specified gross financial liabilities less selected financial assets and is the same under cash and accrual-based financial reporting. Targets for the reduction of General Government Net Debt have been a part of the Government's Fiscal Strategy since 1998-99.

Detailed information on Net Debt and its components is provided in Chapter 7 of this Budget Paper.

CASH FLOW STATEMENT

The primary fiscal measure reported in the Cash Flow Statement is the Cash Surplus.

A summary of the 2003-04 Cash Flow Statement is provided in Table 3.3.

Table 3.3: Summary Cash Flow Statement, 2002-03 and 2003-04

		2002-03	2003-04	
		Budget	Budget	
		Estimate	Estimate	Variation
		\$'000	\$'000	%
Cash receipts from operating activities		2 962 582	3 106 283	4.8
Cash payments for operating activities		(2 734 537)	(2 891 654)	5.7
Net cash flows from operating activities¹	(A)	228 045	214 629	(5.9)
Net cash flows from investments in non-financial assets	(B)	(124 862)	(131 477)	5.2
Net cash flows from investments in financial assets for policy purposes	(C)	(6 659)	19 823
Net cash flows from investments in financial assets for liquidity purposes	(D)	10 146	5 000	(50.8)
Net cash flows from financing activities²	(E)	(17 373)	(164 087)	844.4
Net Increase/(Decrease) in Cash Held³		89 297	(56 112)	(162.9)
CASH SURPLUS⁴		103 183	83 152	(19.5)

Notes:

1. Net cash flows from operating activities primarily reflect transactions in the Operating Statement.
2. The decrease in the net cash flow from financing activities primarily reflects a change in cash management practices, reflecting a discontinuation of end of year borrowings. The 2003-04 net cash flows from financing activities also includes \$28.5 million in relation to the proceeds to be realised from the sale of Civil Construction Corporation, the Tasmanian Grain Elevators Board, the Stanley Cool Stores Board and assets of the Hobart Ports Corporation Pty Ltd. The proceeds are included as a cash flow from financing activities because the sale is classified as a withdrawal of equity. Therefore, the cash flow does not contribute to the Cash Surplus.
3. Net Increase/(Decrease) in Cash Held is equal to A+B+C+D+E.
4. Cash Surplus is equal to A+B.

Cash Surplus

The Cash Surplus is estimated to be \$83.2 million in 2003-04, a decrease of \$20.0 million or 19.5 per cent on 2002-03 budgeted Cash Surplus of \$103.2 million.

The Cash Surplus measure represents the net cash flows from operating activities plus the net cash flows from investments in non-financial assets. The achievement of a Cash Surplus in 2003-04 is in line with the

Government's Fiscal Strategy and is consistent with the Government's target of eliminating Net Debt by June 2008.

The Cash Surplus in 2002-03 is estimated to be \$172.9 million (for further information on the 2002-03 Cash Surplus outcome, refer to Chapter 8 of this Budget Paper). The reduction in the 2003-04 Cash Surplus reflects increased expenditure from the cash reserves accumulated during 2002-03. A substantial component of the cash reserves will be spent as part of the Government's new Economic and Social Infrastructure Fund.

CONSOLIDATED FUND

In previous Budgets, a primary focus of the Government was the achievement of a Consolidated Fund Surplus (CFS). A CFS represents the excess of Consolidated Fund receipts over the expenditure of these funds (net of loan repayments) and is available for the retirement of debt.

Table 3.4 provides details of receipts to, and expenditure from, the Consolidated Fund and the estimated CFS for 2003-04.

Table 3.4: Consolidated Fund Surplus, 2002-03 and 2003-04

	2002-03	2003-04	
	Budget	Budget	Variation
	\$'000	\$'000	%
Receipts			
Commonwealth Sources	1 657 133	1 716 454	3.6
State Sources	779 751	864 073	10.8
Total Receipts	2 436 884	2 580 527	5.9
Less Expenditure			
Recurrent Expenditure	2 290 251	2 425 731	5.9
Capital Expenditure	138 557	150 562	8.7
Total Expenditure	2 428 808	2 576 293	6.1
Gross Consolidated Fund Surplus	8 076	4 234	(47.6)
Add Loan Repayments	444	436	(1.8)
Consolidated Fund Surplus	8 520	4 670	(45.2)

The CFS is estimated to be \$4.7 million in 2003-04, a reduction of \$3.8 million on the 2002-03 Budget estimate. The decrease is mainly due to a decision by the Government to fund a number of initiatives, such as the winter concession on electricity for Health Care Card Holders, by diminishing the level of CFS to be targeted in the 2003-04 Budget. Further information on Consolidated Fund receipts and payments can be found in Chapter 4 and Appendix 2 of this Budget Paper.

Table 3.5 provides a reconciliation of the Consolidated Fund Surplus to the Fiscal Surplus for 2002-03 and 2003-04.

Table 3.5: Reconciliation of Consolidated Fund Surplus to Fiscal Surplus, 2002-03 and 2003-04

	2002-03	2003-04
	Budget	Budget
	\$'000	\$'000
CONSOLIDATED FUND SURPLUS	8 520	4 670
<i>Add Special Deposits and Trust Fund Movements</i>		
Transfers from the Consolidated Fund¹	115 288	183 132
Statutory Authorities Movements	777	1 680
Other Agency Movements²	(21 402)	(106 330)
CASH SURPLUS	103 183	83 152
<i>Less Accrual Items</i>		
Nominal Interest on Superannuation³	111 498	115 935
Superannuation⁴	(20 368)	(30 392)
Other Movements⁵	(13 992)	(9 309)
NET ACCRUAL ADJUSTMENTS	77 138	76 234
FISCAL SURPLUS	26 045	6 918

Notes:

1. Transfers from the Consolidated Fund primarily relate to the contribution to the Superannuation Provision Account and the new Economic and Social Infrastructure Fund.
2. Other Agency Movements consist of payments from the 2001-02 Infrastructure Fund, the Social Infrastructure Fund and the Economic and Social Infrastructure Fund.
3. Nominal Interest on Superannuation represents the notional interest expense on the State's unfunded superannuation liability.
4. The accrual superannuation adjustment reflects the timing difference between the recognition of the superannuation expense and its actual cash payment.
5. Other Movements primarily reflects changes in the level of creditors and debtors, and movements in accrued revenue and expenses and assets and liabilities.