

# 7 ASSETS AND LIABILITIES, 2003-04

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## *Features*

- General Government Sector assets and liabilities in this Chapter are presented in accordance with the accrual Uniform Presentation Framework agreed by the Australian Loan Council in March 2000.
- The estimated Net Worth of the General Government Sector as at 30 June 2004 is \$7 172 million, comprising \$10 600 million in assets and \$3 427 million in liabilities.
- General Government Sector Net Debt has decreased in nominal terms from a peak of \$1 633 million as at 30 June 1994 to an estimated \$461 million as at 30 June 2004.
- General Government Sector Net Financial Liabilities are estimated to decrease by \$117 million, or 4.5 per cent, between 30 June 2003 and 30 June 2004, to an estimated balance of \$2 495 million.
- The net interest cost ratio for the General Government Sector has improved from a peak of 10.8 per cent in 1993-94 to an estimated 1.7 per cent in 2003-04.
- Total State Government Sector Net Debt will decrease by \$170 million, or 9.5 per cent in nominal terms, from \$1 789 million to \$1 614 million between 30 June 2003 and 30 June 2004.
- The Government will make an estimated contribution of \$117.3 million to the Superannuation Provision Account in 2003-04. After payments from the Account through the two years to 2003-04, the net impact is estimated to be an increase in the balance of the Account from \$465.2 million as at 30 June 2002 to \$571.3 million as at 30 June 2003 and \$664.1 million as at 30 June 2004.

# ASSETS AND LIABILITIES

Information on assets and liabilities and net debt is based on accrual Uniform Presentation Framework (UPF) concepts that were agreed by the Australian Loan Council in March 2000. The basis of the information in this Chapter is consistent with that presented in Appendix 1 Uniform Government Reporting. There are some differences between the UPF basis and the Australian Accounting Standard basis of presentation used to present agency budgets.

Public sector entities have been classified according to the General Government, Public Non-Financial Corporations (PNFC) and Public Financial Corporations (PFC) sectors. A detailed dissection of the coverage and classification of Public Sector entities for the UPF is provided in Table A1.14 of Appendix 1 of this Budget Paper.

Estimates of the General Government Sector assets and liabilities as at 30 June 2003 and 30 June 2004 are shown below in Table 7.1.

**Table 7.1: General Government – Balance Sheet as at 30 June**

	<b>2003</b>	<b>2004</b>	
	<b>Budget</b>	<b>Budget</b>	
	<b>Estimate</b>	<b>Estimate</b>	<b>Variation</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>%</b>
<b>Assets</b>			
<b>Financial assets</b>			
Cash and deposits	970 482	331 297	(65.9)
Advances paid	137 479	111 549	(18.9)
Investments, loans and placements	20 240	20 240	....
Other non-equity assets	328 539	335 163	2.0
Equity	3 962 721	4 065 359	2.5
<b>Total</b>	<b>5 419 461</b>	<b>4 863 608</b>	<b>(10.3)</b>
<b>Non-financial assets</b>			
Land and fixed assets	5 561 802	5 672 232	1.9
Other non-financial assets	53 244	63 783	19.7
<b>Total</b>	<b>5 615 046</b>	<b>5 736 015</b>	<b>2.1</b>
<b>Total assets</b>	<b>11 034 507</b>	<b>10 599 623</b>	<b>(4.0)</b>
<b>Liabilities</b>			
Deposits held	....	9 874	....
Advances received	314 877	273 184	(13.3)
Borrowings	1 524 885	641 498	(58.0)
Unfunded superannuation liability	1 901 000	2 033 955	6.9
Other employee provisions	325 242	300 583	(7.6)
Other non-equity liabilities	151 571	168 131	10.9
<b>Total liabilities</b>	<b>4 217 575</b>	<b>3 427 225</b>	<b>(18.8)</b>
<b>NET WORTH<sup>1</sup></b>	<b>6 816 932</b>	<b>7 172 398</b>	<b>5.2</b>
<b>NET FINANCIAL WORTH<sup>2</sup></b>	<b>1 201 886</b>	<b>1 436 383</b>	<b>19.5</b>
<b>NET FINANCIAL LIABILITIES<sup>3</sup></b>	<b>2 612 561</b>	<b>2 495 425</b>	<b>(4.5)</b>
<b>NET DEBT<sup>4</sup></b>	<b>711 561</b>	<b>461 470</b>	<b>(35.2)</b>

Notes:

1. Net Worth equals Total Assets less Total Liabilities.
2. Net Financial Worth equals Total Financial Assets minus Total Liabilities.
3. Net Financial Liabilities equals the sum of deposits held, advances received, borrowings and the unfunded superannuation liability less the sum of cash and deposits, advances paid and investments, loans and placements. It can also be expressed as Net Debt plus the unfunded superannuation liability.
4. Net Debt equals the sum of deposits held, advances received and borrowings less the sum of cash and deposits, advances paid and investments, loans and placements.

# NET WORTH

Net Worth is calculated as total assets minus total liabilities. Net Worth incorporates the 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.

General Government Sector Net Worth is expected to increase by \$355 million, or 5.2 per cent in nominal terms, from \$6 817 million to \$7 172 million between 30 June 2003 and 30 June 2004. 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 unfunded superannuation liability of \$132.9 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.

Each of the items contributing to the movements in Balance Sheet estimates is explained in more detail later in this Chapter.

# 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 measures net holdings of financial assets and is calculated as financial assets minus total liabilities. Net Financial Worth is a broader measure than Net Debt, in that it incorporates unfunded superannuation and other employee entitlement provisions as well as ownership of equity. Net Financial Worth includes all classes of financial assets and liabilities. However, the measure is dominated by the inclusion of the equity investment in the PNFC and PFC Sectors. For this reason, Net Financial Liabilities is considered to be a more useful measure than Net Financial Worth.

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, and an increase in the General Government Sector's holding of equity in the PNFC and PFC Sectors. This is offset by an increase in the unfunded superannuation liability.

# NET FINANCIAL LIABILITIES

The Net Financial Liabilities measure is defined as Net Debt plus gross unfunded superannuation liability. Net Debt information does not include the unfunded superannuation liability, which is a significant liability for most jurisdictions. In order to provide a broader picture of the State's liabilities, the Net Financial Liabilities measure is used. This measure is not included in the UPF. However, it is commonly used by international credit rating agencies as it targets the significant financial assets and liabilities held by most governments.

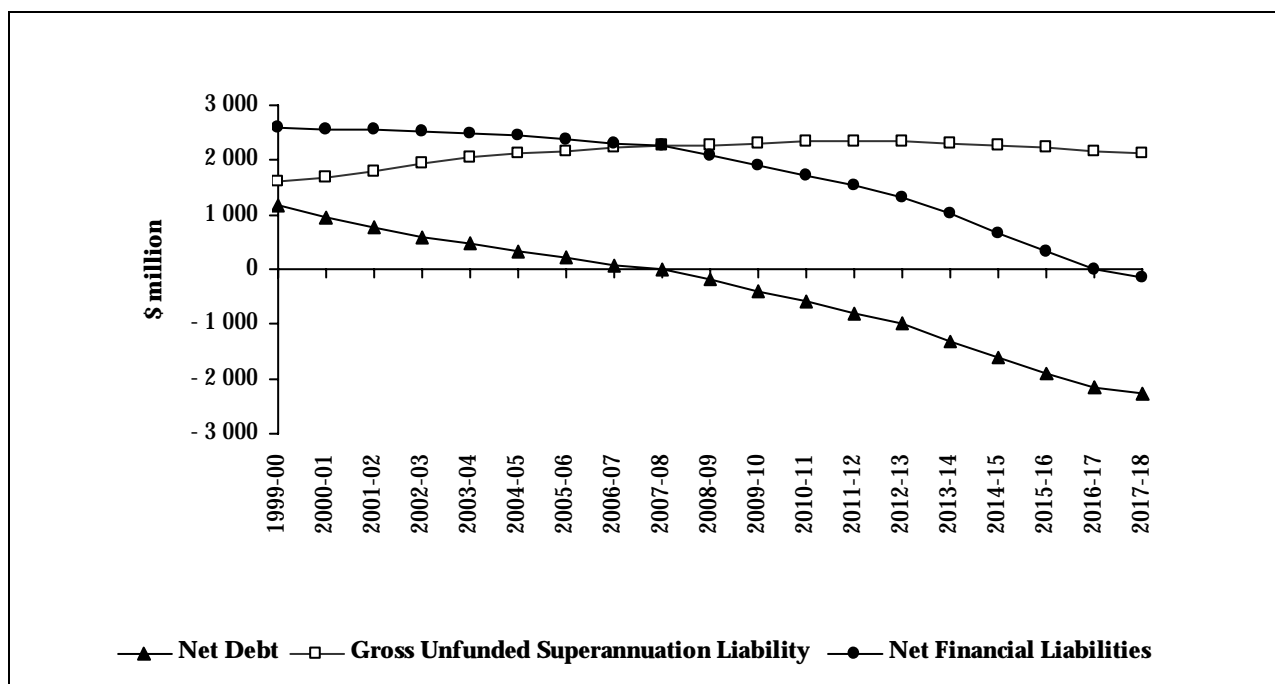
General Government Sector Net Financial Liabilities are estimated to decrease by \$117.2 million, or 4.5 per cent in nominal terms, from \$2 612.6 million to \$2 495.4 million between 30 June 2003 and 30 June 2004. The decrease in Net Financial Liabilities is comprised of a reduction in Net Debt of

\$250.1 million, as outlined above, offset by an increase of \$132.9 million in the unfunded superannuation liability. Further details of superannuation liabilities are provided later in this Chapter.

The Fiscal Strategy introduced with the 2002-03 Budget includes a target for the elimination of Net Financial Liabilities by June 2017. The achievement of this target will mean that the Government will be in a position to fully fund all gross debt and superannuation liabilities within 14 years.

Chart 7.3 shows projected General Government Sector Net Financial Liabilities to 2017-18.

**Chart 7.1: General Government Sector Net Financial Liabilities**



Sources: Australian Bureau of *Government Financial Statistics, Australia 2000-01*; Department of Treasury and Finance.

## 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.

Targets for the reduction of General Government Net Debt have been a part of the Government's Fiscal Strategy since 1998-99. A credible medium-term Fiscal Strategy is an essential component of prudent contemporary public sector financial management practice. Financial strategies pursued by successive Governments from 1990-91 to 1997-98 had the effect of stabilising the emerging debt problem. Fiscal Strategies pursued from 1998-99 have had a dramatic effect on reducing the level of State debt.

The Government introduced the current Fiscal Strategy with the 2002-03 Budget, having achieved the targets established in the previous Fiscal Strategy some two years ahead of schedule. Broadly, the Government's first Fiscal Strategy was concerned with reducing Net Debt and debt servicing cost levels. Its primary objective was to ensure responsible financial management while supporting industry development and job creation. The current Fiscal Strategy will build on the significant achievements of the previous Fiscal Strategy and focuses on continuing the Government's record of strong financial management and achieving specific debt targets.

Tables 7.2 and 7.3 show the components of the General Government Sector Net Debt in nominal and real terms, respectively.

**Table 7.2: General Government Sector Net Debt (Nominal Terms) as at 30 June**

Year	General Government \$m
1995	1 631
1996	1 650
1997	1 659
1998	1 610
1999	1 527
2000	1 162
2001	962
2002	751
2003 (est) <sup>1</sup>	573
2004 (est)	461

Sources: Australian Bureau of Statistics; Department of Treasury and Finance.

Note:

1. The 30 June 2003 amount is the Revised Estimate for Net Debt

**Table 7.3: General Government Sector Net Debt (Real Terms) as at 30 June 2004**

Year	General Government \$m
1995	2 008
1996	1 956
1997	1 938
1998	1 882
1999	1 768
2000	1 320
2001	1 033
2002	791
2003 (est) <sup>1</sup>	586
2004 (est)	461

Sources: Australian Bureau of Statistics; Department of Treasury and Finance; *Consumer Price Index, Australia*, ABS Cat. No. 6401.0.

Note:

1. The 30 June 2003 amount is the Revised Estimate for Net Debt

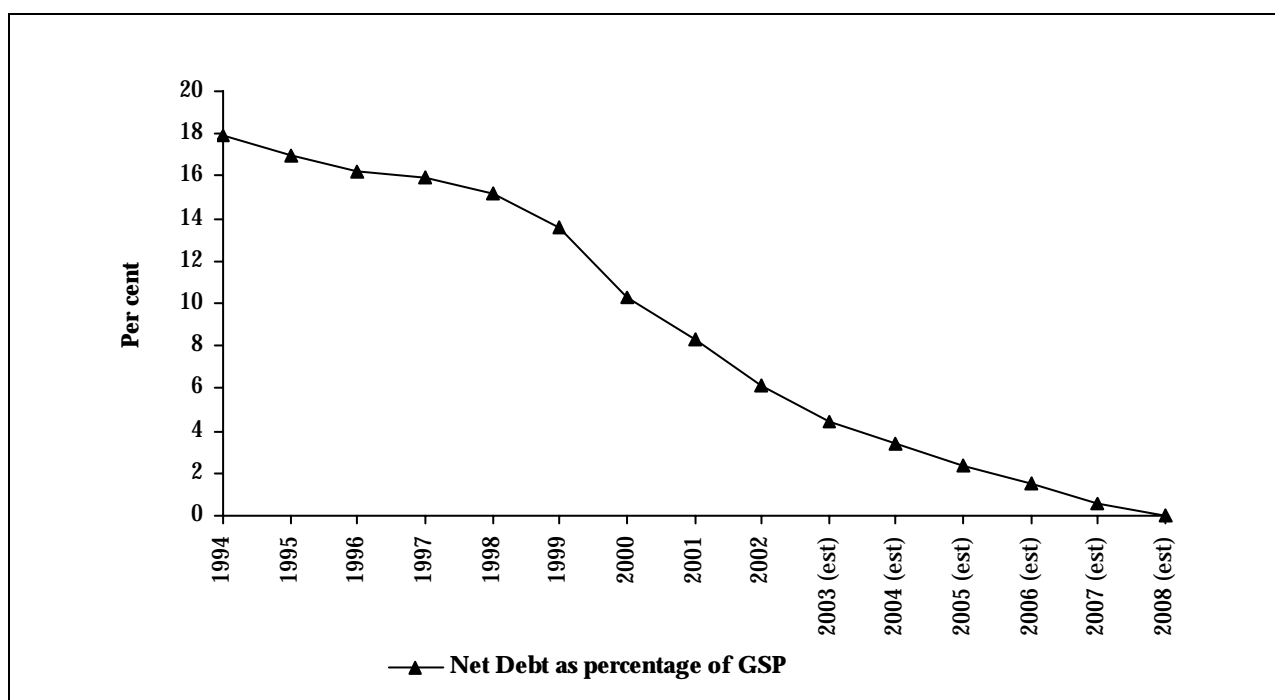
General Government Sector Net Debt is estimated to decrease by \$250.1 million, or 35.2 per cent in nominal terms, from the Budget estimate of \$711.6 million to \$461.5 million between 30 June 2003 and 30 June 2004.

The decrease in estimated Net Debt is a result of both an estimated improvement between the original 2002-03 Budget estimate and the 2002-03 revised estimate, and a further improvement in 2003-04. The 2002-03 revised estimate for Net Debt is \$573 million, an improvement of \$138.4 million from the Budget estimate. Net Debt is expected to fall by a further \$111.5 million in 2003-04, to \$461.5 million in nominal terms. The decrease in Net Debt reflects the repayment of gross debt with surplus cash. The Cash Flow Statement shown in Chapter 3 of this Budget Paper provides details of the Cash Surplus available to reduce Net Debt in 2003-04.

In real terms, General Government Sector Net Debt, on a revised estimate basis, will decrease by 19.5 per cent between 30 June 2003 and 30 June 2004.

As can be seen from Chart 7.1, Net Debt as a percentage of Gross State Product (GSP) has fallen from 4.5 per cent as at 30 June 2003 to 3.5 per cent as at 30 June 2004, and is on track to better the Fiscal Strategy interim target of Net Debt of \$450 million by 30 June 2005, and achieve the target of elimination of Net Debt by 30 June 2008.

**Chart 7.2: Net Debt to Gross State Product (GSP)**



Sources: Australian Bureau of Statistics; Department of Treasury and Finance; *Australian National Accounts: State Accounts, 2000-01*, ABS Cat. No. 5220.0.

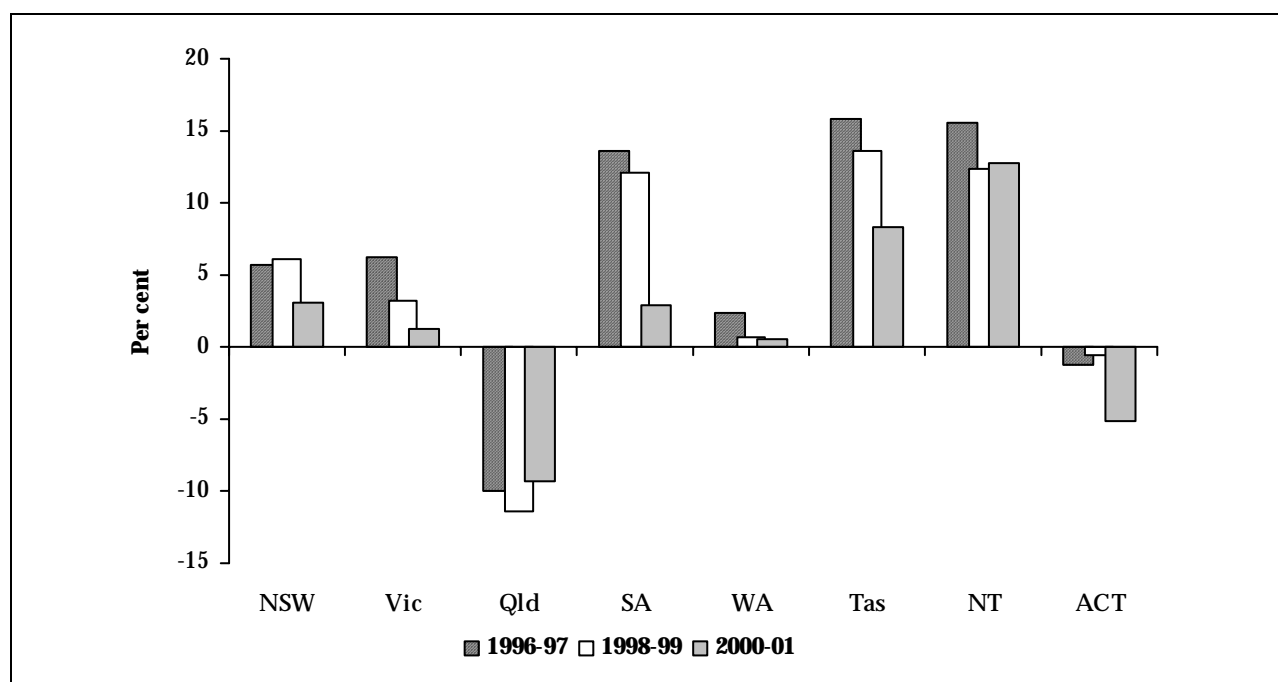
## Interstate Comparison

Chart 7.2 shows interstate comparisons for General Government Sector Net Debt as a proportion of GSP to 2000-01 for the latest year for which comparable data is available.

Tasmania's General Government Sector Net Debt as a proportion of GSP had, until 2000-01, been comparable with South Australia and the Northern Territory, but significantly higher than New South Wales, Victoria, Queensland, Western Australia and the Australian Capital Territory (ACT). The Chart

reflects a significant decrease in Net Debt as a proportion of GSP for South Australia in 2000-01 as a result of the long-term lease of its electricity assets. There has also been a decrease in Net Debt levels as a proportion of GSP over the five years to 2000-01 for the majority of other states and territories, with the exception of Queensland, which shows a decrease in its Net Asset position. The ACT shows an increase in its Net Asset position.

**Chart 7.3: General Government Sector Net Debt as a percentage of GSP**



Sources: *Government Financial Statistics, Australia 2000-01*, ABS Cat No 5512.0; *Australian National Accounts: State Accounts, 2000-01*, ABS Cat No 5220.0, Northern Territory Treasury.

## INTEREST COSTS OF THE GOVERNMENT

Net Interest Cost is an important measure included in the current Fiscal Strategy. Reduced interest costs are a significant benefit of debt reduction, providing expenditure savings which can be applied to reductions in taxation or used to fund other spending priorities. The interest costs of the Government are influenced by both average interest rates and variations in the level of Net Debt.

Table 7.4 details the net interest costs paid by the General Government Sector and the net interest cost ratio (NICR). Net Interest Cost is one of the indicators that has been adopted to measure performance against the Fiscal Strategy targets, and has been updated to reflect the move from cash to accrual estimates. The NICR is a measure that represents the proportion of the revenue base that is required to meet the Government's net interest cost burden. The ratio provides an indication of the Government's flexibility and ability to react to unexpected events.

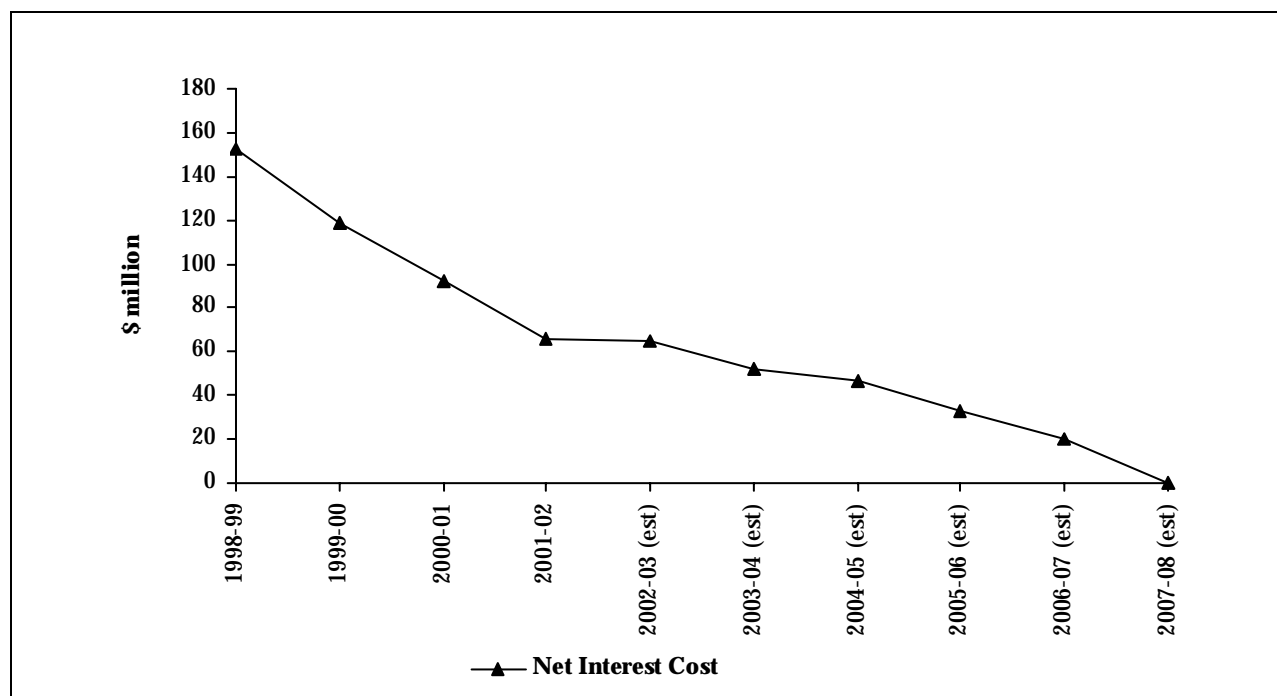
**Table 7.4: Net Interest Cost Ratio**

	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04
	Actual	Actual	Actual	Actual	Revised Budget	Budget Estimate
	\$m	\$m	\$m	\$m	\$m	\$m
<b>Interest expense</b>	<b>189</b>	<b>157</b>	<b>122</b>	<b>89</b>	<b>80</b>	<b>69</b>
<b>less interest income</b>	<b>36</b>	<b>38</b>	<b>30</b>	<b>23</b>	<b>15</b>	<b>18</b>
<b>Net Interest Cost</b>	<b>153</b>	<b>119</b>	<b>92</b>	<b>66</b>	<b>65</b>	<b>51</b>
<b>Total revenue</b>						
<b>less interest income</b>	<b>2 386</b>	<b>2 566</b>	<b>2 656</b>	<b>2 844</b>	<b>2 959</b>	<b>2 972</b>
<b>Net Interest Cost Ratio</b>	<b>6.4</b>	<b>4.6</b>	<b>3.5</b>	<b>2.3</b>	<b>2.2</b>	<b>1.7</b>

Sources: Australian Bureau of Statistics; Department of Treasury and Finance.

Net interest costs as a proportion of General Government revenue have reduced significantly since 1998, reflecting the Fiscal Strategies to reduce the level of debt and reduce the share of revenue required to service that debt. Chart 7.4 shows Net Interest Cost from 1998-99 to 2007-08.

**Chart 7.4: Net Interest Cost**

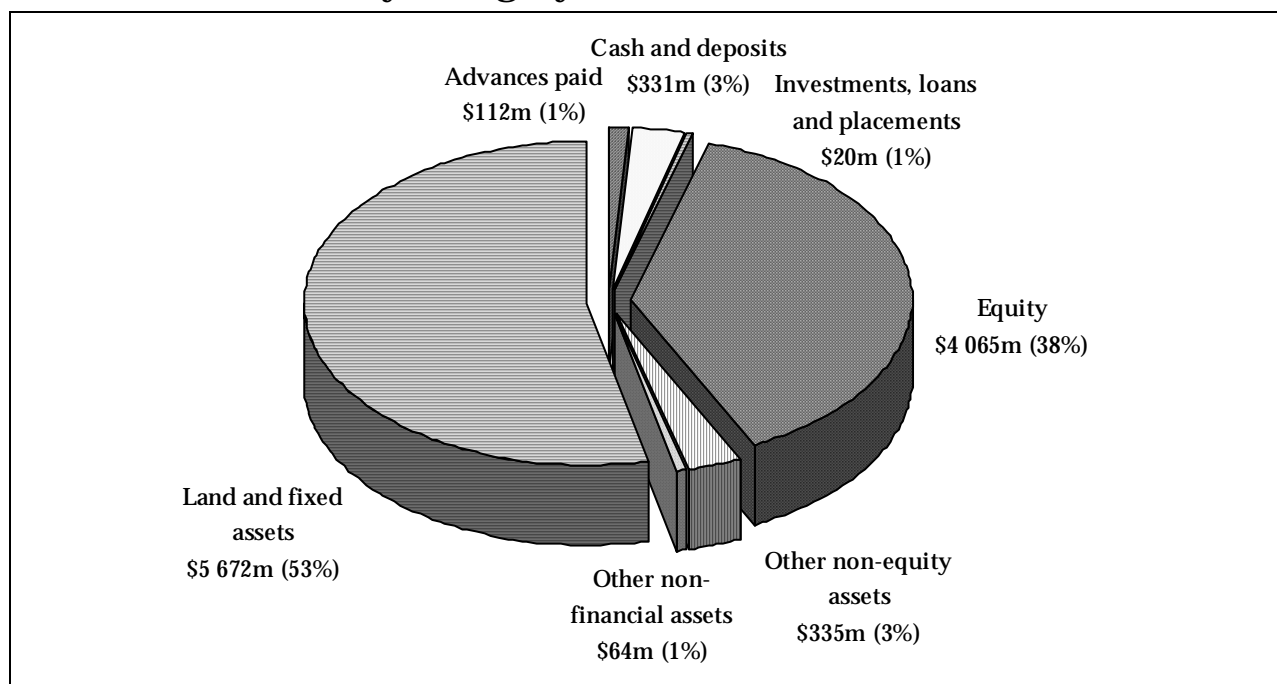


Sources: Australian Bureau of Statistics; Department of Treasury and Finance

# ASSETS

It is estimated that total assets will amount to \$10 599.6 million at 30 June 2004. Total assets by category are shown in Chart 7.5.

Chart 7.5: Assets by Category at 30 June 2004



Source: Department of Treasury and Finance

## Cash Assets

Cash assets include Cash and Deposits, Advances Paid and Investments, Loans and Placements. Advances Paid consist of loans advanced to the private sector and government businesses, such as industry assistance, and Home Ownership Assistance Program loans.

It is estimated that the General Government Sector will hold \$331.3 million in cash and deposits as at 30 June 2004. This represents a decrease of \$639.2 million from the estimate at 30 June 2003 of \$970.5 million, reflecting the application of surplus cash to the reduction of gross debt.

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 balances 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 the end of year borrowing will be discontinued. To achieve this, a new account entitled the 'Temporary Debt Repayment Account' has been created in the Special Deposits and Trust Fund. This account will record transactions associated with the temporary repayment of State Debt from surplus funds in the Special Deposits and Trust Fund. This will result in the account being overdrawn. However, should it ever be necessary, additional borrowing would be undertaken to ensure that the overdraft balance does not exceed the maximum limit. All monies deposited within the Special Deposits and Trust Fund remain available for their designated use at all times. The

creation of the 'Temporary Debt Repayment Account' is in accordance with section 13 of the *Public Account Act 1986*.

### *Other Non-Equity Assets*

Estimated Other Non-Equity Assets at June 2004 of \$335.2 million include accounts receivable of \$127.6 million, income tax equivalents and dividends receivable of \$192.9 million, prepayments of \$3.8 million, accrued revenue of \$3.7 million, GST receivable of \$5.9 million, and other receivables of \$1.3 million. Table 7.5 provides a breakdown of Other Non-Equity Assets.

**Table 7.5 Other Non-Equity Assets as at 30 June**

	2003	2004
	Budget	Budget
	\$'000	\$'000
<b>Accounts Receivable</b>		
Department of Economic Development	518	513
Department of Education	4 782	3 136
Department of Health and Human Services	8 714	10 316
Department of Infrastructure, Energy and Resources	637	584
Department of Justice and Industrial Relations	9 318	9 618
Department of Police and Public Safety	381	381
Department of Premier and Cabinet	3 426	2 918
Department of Primary Industries, Water and Environment	4 036	17 646
Department of Tourism, Parks, Heritage and the Arts	805	805
Department of Treasury and Finance	70	70
Finance-General	46 267	46 267
House of Assembly	14	14
Inland Fisheries Service	100	102
Legislative Council	8	8
Legislature-General	28	28
Marine and Safety Tasmania	50	53
Royal Tasmanian Botanical Gardens	5	5
State Fire Commission	1 272	1 302
TAFE Tasmania	1 615	1 615
Tasmanian Audit Office	260	260
The Nominal Insurer	37 000	32 000
<b>Total accounts receivable</b>	<b>119 306</b>	<b>127 641</b>
<b>Income tax equivalents and dividends receivable</b>	<b>192 959</b>	<b>192 959</b>
<b>Prepayments</b>	<b>5 341</b>	<b>3 796</b>
<b>Accrued revenue</b>	<b>3 428</b>	<b>3 651</b>
<b>GST receivable</b>	<b>6 693</b>	<b>5 882</b>
<b>Other receivables</b>	<b>812</b>	<b>1 234</b>
<b>TOTAL OTHER NON-EQUITY ASSETS</b>	<b>328 539</b>	<b>335 163</b>

Accounts receivable for Finance-General consists mainly of taxation receivables. The increase of \$13.7 million in estimated receivables of the Department of Primary Industries, Water and Environment relates primarily to the inclusion of an amount owing from Australian Bulk Minerals for the remediation of the Savage River Mine site. The estimated receivable of The Nominal Insurer represents the amount outstanding in relation to the levy imposed on insurance companies and self-insuring employers to fund the

liabilities associated with the collapse of HIH. This receivable will reduce as the levy is collected from contributing insurers over future years. Monies collected from the levy will be used to fund principal and interest payments on the borrowings undertaken by the Nominal Insurer.

### *Equity*

This item consists of holdings in equity investments in private sector businesses, and the Government's investment in the net assets of the Public Non-Financial Corporations (PNFC) Sector and Public Financial Corporations (PFC) Sector. Equity assets are estimated to be \$4 065.4 million at June 2004, including the equity investment in the PNFC and PFC Sectors (\$4 054 million), and equity investments in the private sector held by the Department of Economic Development (\$10.5 million). Details of PNFC Sector estimates can be found in Appendix 1 of this Budget Paper.

### *Land and Fixed Assets*

It is estimated that the General Government Sector will hold \$5 672.2 million in land and fixed assets as at 30 June 2004. This category encompasses the value of schools, hospitals, and other buildings held by the Government and the value of Crown land, including National Parks and Conservation areas, together with plant and equipment held by the Government for the production of goods and services, and infrastructure assets, such as roads and bridges.

The estimated balance of land and fixed assets has increased by \$110.4 million from the 2002-03 Budget estimate of \$5 561.8 million. The increase reflects an improvement in the 2002-03 revised estimate balance of \$5 640.8 million and asset purchases during 2002-03 and 2003-04, partially offset by asset sales and depreciation.

### *Other Non-Financial Assets*

This category includes other assets used for the production of goods and services. Other Non-Financial Assets are estimated to be \$63.8 million at 30 June 2004, an increase of \$10.5 million from the 2002-03 Budget estimate of \$53.2 million at 30 June 2003.

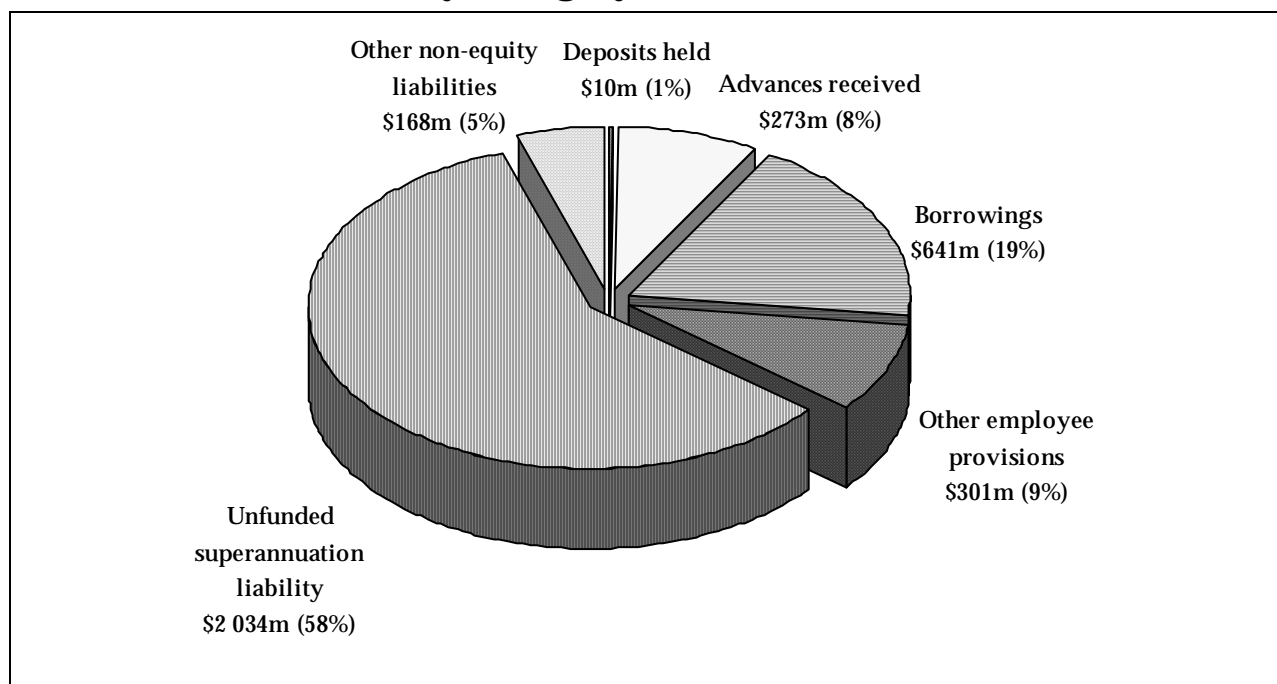
The significant items included in this category are assets of the Tasmanian Fire Service (estimated to be \$24.7 million at 30 June 2004), and Traffic Signal Installation infrastructure held by the Department of Infrastructure, Energy and Resources (estimated to be \$10.7 million at 30 June 2004).

## **LIABILITIES**

Liabilities of the General Government Sector as at 30 June 2004 are estimated to be \$3 427.2 million, a decrease of \$790.4 million from the estimated 30 June 2003 balance of \$4 217.6 million.

The components of these liabilities are detailed below in Chart 7.6.

**Chart 7.6: Liabilities by Category as at 30 June 2004**



Source: Department of Treasury and Finance

### *Gross Debt*

Gross Debt consists of Deposits Held, Advances Received, and Borrowings. Deposits Held represent cash held on behalf of clients, including monies held in trust. Advances Received consist of borrowings from the Commonwealth Government. Borrowings include debt owing to Tascorp.

It is estimated that the Gross Debt for the General Government Sector as at 30 June 2004 will be \$924.6 million, consisting of State Debt which is managed by Tascorp (\$484.8 million), Commonwealth debt (\$273.2 million), deposits held (\$9.9 million), and other borrowings by General Government entities (\$156.7 million).

The fall of \$915.2 million in Gross Debt, from an estimated \$1,839.8 million at June 2003, to \$924.6 million at June 2004, reflects the repayment of State Debt (\$873.8 million) and Commonwealth borrowings (\$41.7 million). The large repayment of State Debt is as a result of the discontinuation of the end-of-year borrowing transaction, as discussed earlier in the Cash Assets section.

Table 7.6 provides a breakdown of General Government Sector Gross Debt by year of maturity.

**Table 7.6: General Government Sector Gross Debt as at 30 June 2004 by Maturity**

	<b>Tascorp Debt</b>	<b>Commonwealth Debt</b>	<b>Other Gross Debt</b>	<b>Total Gross Debt</b>
	<b>\$m</b>	<b>\$m</b>	<b>\$m</b>	<b>\$m</b>
<b>2004-05</b>	<b>145</b>	<b>12</b>	<b>121</b>	<b>278</b>
<b>2005-06</b>	<b>261</b>	<b>12</b>	<b>4</b>	<b>276</b>
<b>2006-07</b>	<b>....</b>	<b>5</b>	<b>4</b>	<b>9</b>
<b>2007-08</b>	<b>45</b>	<b>6</b>	<b>4</b>	<b>54</b>
<b>2008-09</b>	<b>....</b>	<b>6</b>	<b>19</b>	<b>24</b>
<b>2009-10</b>	<b>....</b>	<b>6</b>	<b>4</b>	<b>10</b>
<b>2010-11</b>	<b>....</b>	<b>6</b>	<b>4</b>	<b>10</b>
<b>2011-12</b>	<b>5</b>	<b>7</b>	<b>4</b>	<b>15</b>
<b>2012-13</b>	<b>7</b>	<b>7</b>	<b>4</b>	<b>17</b>
<b>2013-14</b>	<b>....</b>	<b>7</b>	<b>2</b>	<b>9</b>
<b>Beyond 2014<sup>1</sup></b>	<b>22</b>	<b>201</b>	<b>....</b>	<b>223</b>
<b>TOTAL GROSS DEBT</b>	<b>485</b>	<b>274</b>	<b>166</b>	<b>924</b>

Note:

1. The Commonwealth debt maturing beyond 2014 relates to Commonwealth-State Housing Loans that will be repaid over the next 40 years.

### *Unfunded Superannuation Liability*

The Tasmanian Government's gross unfunded superannuation liability is an estimate of the 'indebtedness' of the State with respect to past service liabilities arising from the current and former members of unfunded or partially funded Public Sector superannuation schemes.

The General Government gross unfunded superannuation liability as at 30 June 2004 is estimated to be \$2 033.9 million, an increase of 4 per cent on the revised estimate as at 30 June 2003. The liability is calculated by deducting the net market value of plan assets, excluding the balance of the Superannuation Provision Account (SPA), from the gross accrued benefit (past service) liability for these Public Sector superannuation schemes. Table 7.7 shows the estimated General Government superannuation liability as at 30 June 2003 and 30 June 2004.

**Table 7.7: Gross Unfunded Superannuation Liability – General Government Sector as at 30 June**

	2002	2003	2004
	Actual	Revised Estimate	Budget Estimate
	\$'000	\$'000	\$'000
<b>Retirement Benefits Fund – defined benefit scheme <sup>1</sup></b>	<b>1 764 437</b>	<b>1 920 252</b>	<b>1 997 910</b>
<b>1973 Parliamentary Superannuation scheme <sup>1, 2</sup></b>	<b>12 071</b>	<b>13 001</b>	<b>13 102</b>
<b>1985 Parliamentary Retiring Benefits scheme <sup>1, 2</sup></b>	<b>2 052</b>	<b>1 757</b>	<b>1 670</b>
<b>1968 Judges' scheme</b>	<b>20 741</b>	<b>21 097</b>	<b>21 273</b>
<b>Total</b>	<b>1 799 300</b>	<b>1 956 107</b>	<b>2 033 955</b>

Notes:

1. The 30 June 2002 figures have been revised by the State Actuary since they were originally published in the Treasurer's Financial Statements as at 30 June 2002.
2. With the repeal of the *Parliamentary Superannuation Act 1973* and the *Parliamentary Retiring Benefits Act 1985*, the Parliamentary Superannuation Fund and the Parliamentary Retiring Benefits Fund became sub-funds of the Retirement Benefits Fund with effect from 1 January 2003.

Further detail on Tasmania's superannuation liability is provided later in this Chapter.

### *Other Employee Provisions*

Other Employee Provisions are estimated to be \$300.6 million at June 2004, a decrease of \$24.6 million, or 7.6 per cent, from the estimate at June 2003. Other Employee Provisions include provisions for long service leave, annual leave and sick leave.

The decrease in Other Employee Provisions reflects the strategies the Government has implemented to reduce leave balances in government departments.

### *Other Non-Equity Liabilities*

It is estimated that the General Government Sector will hold \$168.1 million in Other Non-Equity Liabilities as at 30 June 2004, an increase of \$16.5 million, or 10.9 per cent, from the estimated 30 June 2003 balance of \$151.6 million. Table 7.8 provides further details of Other Non-Equity Liabilities.

**Table 7.8 Other Non-Equity Liabilities as at 30 June**

	2003	2004
	Budget	Budget
	\$'000	\$'000
<b>Accounts payable</b>		
Department of Education	8 679	5 539
Department of Health and Human Services	16 308	19 757
Department of Infrastructure, Energy and Resources	2 091	2 929
Department of Justice and Industrial Relations	1 394	1 694
Department of Police and Public Safety	1 400	1 400
Department of Primary Industries, Water and Environment	1 327	1 408
Department of Tourism, Parks, Heritage and the Arts	1 414	1 414
State Fire Commission	3 152	3 022
TAFE Tasmania	1 808	1 808
Other agencies	3 209	3 410
<b>Total Accounts payable</b>	<b>40 782</b>	<b>42 381</b>
<b>Accrued expenses</b>		
Department of Health and Human Services	17 951	35 089
Finance-General	21 592	15 188
Other agencies	557	86
<b>Total Accrued expenses</b>	<b>40 100</b>	<b>50 363</b>
<b>Other liabilities</b>		
Finance-General	53 599	56 341
Other agencies	17 090	19 046
<b>Total Other liabilities</b>	<b>70 689</b>	<b>75 387</b>
<b>TOTAL OTHER NON-EQUITY LIABILITIES</b>	<b>151 571</b>	<b>168 131</b>

Other Non-Equity Liabilities include an estimated \$56.3 million at June 2004 relating to liabilities held by the Tasmanian Risk Management Fund.

## CONTINGENT AND OTHER LIABILITIES

### Borrowings Guaranteed by the Government

Quantifiable contingent liabilities of the Government generally arise through specific guarantees given by the Government or through legislation whereby a guarantee is given to secure borrowings. Estimates for the level of guarantees given as at 30 June 2003 are not yet available. Details on the actual level of guarantees as at 30 June 2003 will be published in the Treasurer's Financial Statements.

There has been a significant decline in the value of specific guarantees given by the Government in recent years, as shown by Table 7.9.

**Table 7.9: Level of State Guarantees as at 30 June**

Year	Contingent Liability \$m
<b>1994</b>	<b>3.64</b>
<b>1995</b>	<b>3.22</b>
<b>1996</b>	<b>2.87</b>
<b>1997</b>	<b>2.33</b>
<b>1998</b>	<b>2.52</b>
<b>1999</b>	<b>2.50</b>
<b>2000</b>	<b>2.33</b>
<b>2001</b>	<b>2.14</b>
<b>2002<sup>1</sup></b>	<b>1.20</b>

Note:

1. The amount for 2002 includes loans that have been advanced under the *State Loans and Guarantees Act 1976* (\$58 000), and the *Tasmanian Development Act 1983* (\$1.14 million).

The Government's contingent liability for guarantees amounted to \$1.20 million as at 30 June 2002. The State also guarantees the payment of principal and interest in respect of loans raised by statutory authorities, in accordance with existing legislation. These are recorded in the accounts of statutory authorities as actual liabilities, whereas these items represent a contingent liability for the State.

## SUPERANNUATION

### Introduction

This section deals with the State's unfunded superannuation liabilities in general and the liabilities of the Retirement Benefits Fund (RBF) defined benefit scheme in particular. This section does not provide details of the RBF Tasmanian Accumulation Scheme (TAS), as that scheme is fully funded and there are no liabilities relating to it.

Information contained in previous years' Budget Papers about the nature and design of the relevant Public Sector superannuation arrangements is now available on the Treasury website, at [www.treasury.tas.gov.au/superannuation](http://www.treasury.tas.gov.au/superannuation).

While this section concentrates on the RBF scheme as a whole, it is only the General Government Sector liabilities that impact upon the UPF Balance Sheet.

The Superannuation Provision Account (SPA) was established to fund the superannuation liabilities of the General Government Sector. Unless otherwise stated, the relevant tables in this section take account of the balance, or estimated balance, of that account. In order to distinguish the superannuation liability discussed

in this section from the gross liability shown in the Balance Sheet, the superannuation liability that takes the SPA into account is referred to as the Net Unfunded Superannuation Liability.

Unlike the liabilities reported earlier in this Chapter, this section includes the assets and liabilities relating to the 23 Government Business Enterprises (GBEs), State-owned Companies (SOCs) and statutory authorities that maintain provisions within their accounts for the RBF liabilities of their current and former employees.

## Retirement Benefits Fund – Defined Benefit Scheme

### *Liabilities*

The State Actuary has undertaken a review of the state and sufficiency of the RBF defined benefit scheme as at 30 June 2002, the results of which are shown in Table 7.10. Table 7.10 also compares the assets and liabilities of the RBF defined benefit scheme as at 30 June 2001. The unfunded past service liability increased in 2001-02 by 1.8 per cent due to factors such as the accrual of an additional year of service by scheme members, salary increases for scheme members, and indexation of pensions and retained benefits being at a rate greater than the economic assumptions used by the State Actuary.

**Table 7.10: Unfunded RBF Past Service Liability, including SPA and Provisions - Total Scheme<sup>1</sup> as at 30 June**

	2001	2002	Variation
	\$'000	\$'000	%
<b>Gross past service liability<sup>2</sup></b>			
<b>Defined benefit members</b>	1 418 492	1 524 866	7.5
<b>Superannuants</b>	1 362 654	1 377 254	1.1
<b>Compulsory preservation accounts<sup>3</sup></b>	165 322	177 844	7.6
<b>Gross past service liability</b>	<b>2 946 468</b>	<b>3 079 965</b>	<b>4.5</b>
<b>less RBF scheme assets<sup>4</sup></b>	<b>936 334</b>	<b>931 018</b>	<b>(0.6)</b>
<b>Unfunded past service liability</b>	<b>2 010 134</b>	<b>2 148 947</b>	<b>6.9</b>
<b>Provisions</b>			
<b>Superannuation Provision Account (T780)</b>	<b>355 485</b>	<b>465 191</b>	<b>30.9</b>
<b>Authority provisions</b>	<b>324 823</b>	<b>332 956</b>	<b>2.5</b>
<b>Credit for ANR pensions</b>	<b>46 461</b>	<b>44 080</b>	<b>(5.1)</b>
<b>Total provisions</b>	<b>726 769</b>	<b>842 227</b>	<b>15.9</b>
<b>Unfunded past service liability less provisions</b>	<b>1 283 365</b>	<b>1 306 719</b>	<b>1.8</b>

Notes:

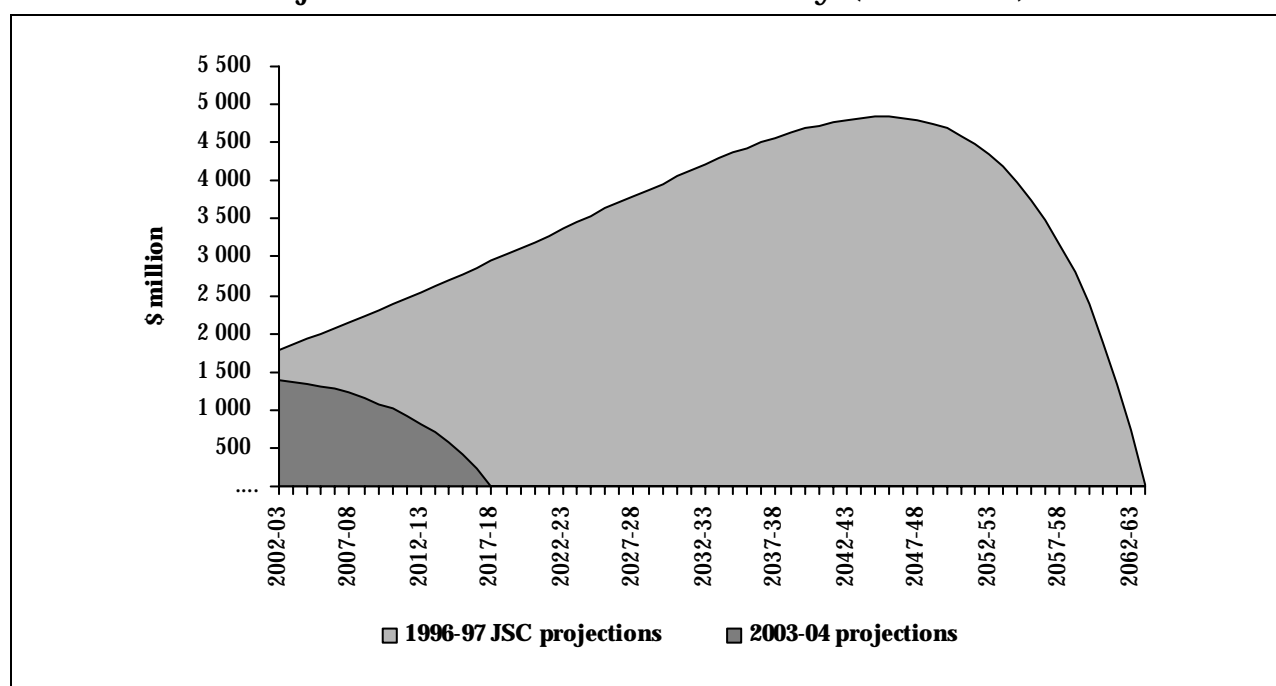
1. These figures do not include the assets and liabilities that relate to the two parliamentary superannuation schemes.
2. In undertaking the triennial review of the RBF scheme as at 30 June 2001, the State Actuary varied a number of assumptions which has led to a revision of the 30 June 2001 figures. The report as at 30 June 2002 was prepared on the basis of the revised assumptions.
3. These figures exclude compulsory preservation accounts held by current members of the defined benefit scheme, which are included as part of the liabilities for defined benefit scheme members.
4. The 30 June 2002 figures have been revised by the State Actuary since they were originally published in the Treasurer's Financial Statements as at 30 June 2002.

The estimated RBF unfunded past service superannuation liability as at 30 June 2002 (\$1 307 million) does not correspond to the reported value of \$1 799 million shown in the earlier section of this Chapter. Table 7.13 reconciles the estimate of the General Government Sector unfunded superannuation liability as at 30 June 2002, as shown in Table 7.7, with the RBF unfunded superannuation liability shown in Table 7.10.

Notwithstanding the minor increase in the unfunded liability of the RBF scheme as at 30 June 2002, in nominal terms, the most recent advice from the State Actuary confirms that the State's net unfunded liability is expected to be eliminated by the Fiscal Strategy target date of 30 June 2018. That is, at that date, the balance in the SPA is forecast to exceed the RBF unfunded liabilities.

The most recent estimates of the State's future net unfunded liability are shown in Chart 7.7. On the most recent economic, financial and demographic assumptions, and on current and planned funding efforts, the State Actuary has estimated that this net unfunded liability will be eliminated within 15 years. Had the Labor Government not taken the decision to close the unfunded RBF defined benefit scheme in mid-1999 and increase provisions to meet the emerging costs of the RBF defined benefit scheme, the State would be facing a crippling superannuation liability over future decades, which would have put increasing and unsustainable pressure on the General Government Sector Budget.

**Chart 7.7: Projected RBF Unfunded Liability (Nominal)**



Source: Department of Treasury and Finance

Actuarial estimates are based on a wide range of economic, financial and demographic assumptions. Over time, actual outcomes in relation to salary growth, investment returns, the number of resignations and retirements, mortality, morbidity, inflation and the preference for lump sum benefits over pensions will vary from those assumed by the State Actuary. To the extent that these variations occur, there will be changes in both the cash flow profile for the Government and the period of time over which the unfunded liability will be eliminated.

For this reason, the State Actuary is requested to annually review both cash flow and unfunded liability estimates. These updates of the overall funding position, together with the revised outlay estimates and the

Fiscal Strategy target of eliminating the State's net unfunded superannuation liability by 30 June 2018, will form the basis on which the Government determines future inflows into the SPA.

### *Employer Funding*

The RBF defined benefit scheme is an unfunded scheme in respect of employer contributions, with benefits being paid on an emerging cost basis. A Superannuation Provision Account (SPA) was established within the Special Deposits and Trust Fund in July 1994 to provide for the superannuation benefits of defined benefit scheme members employed in inner-Budget agencies and by some Statutory Authorities. These agencies and authorities are currently required to pay into the SPA at a rate determined by the Treasurer, on the advice of the State Actuary. For most agencies and authorities, this rate is currently 11 per cent of salary. In addition, inner-Budget agencies are also required to pay into the SPA a 'gap' payment of two per cent of salary in respect of each permanent employee appointed after 15 May 1999, notwithstanding that these employees are not members of the RBF defined benefit scheme.

The employer share of pensions and lump sum benefits payable to retiring RBF defined benefit scheme members in these agencies and authorities are reimbursed to the RBF Board from the SPA. These payments are made notwithstanding that they may relate to periods of employment prior to the establishment of the SPA in 1994.

**Table 7.11: Superannuation Provision Account (SPA) as at 30 June**

	2002	2003	2004	2005	2006	2007
	Actual	Revised Estimate	Budget Estimate	Forward Estimate	Forward Estimate	Forward Estimate
	\$m	\$m	\$m	\$m	\$m	\$m
<b>Opening Balance</b>	<b>355.5</b>	<b>465.2</b>	<b>571.3</b>	<b>664.1</b>	<b>758.3</b>	<b>852.1</b>
<b>Receipts</b>						
Agency contributions	76.3	71.4	68.5	65.8	63.2	60.6
Interest	17.0	24.0	30.9	35.6	40.3	45.0
Finance-General (R069)	121.1	117.3	117.3	124.2	131.3	138.6
<b>Total Receipts</b>	<b>214.4</b>	<b>212.7</b>	<b>216.7</b>	<b>225.6</b>	<b>234.7</b>	<b>244.2</b>
<b>Expenditure</b>						
Pensions	61.5	63.8	64.9	66.5	68.4	70.3
Lump sums	38.8	36.7	48.3	53.0	57.9	63.9
Compulsory Preservation Account	4.3	6.0	10.7	11.9	14.7	14.4
<b>Total Expenditure</b>	<b>104.7</b>	<b>106.6</b>	<b>123.8</b>	<b>131.3</b>	<b>141.0</b>	<b>148.5</b>
<b>Closing Balance</b>	<b>465.2</b>	<b>571.3</b>	<b>664.1</b>	<b>758.3</b>	<b>852.1</b>	<b>947.8</b>

Given the projected increase in the unfunded past service superannuation liability, the Government has made an increased funding effort in order to prevent the net unfunded past service liability increasing in real terms. This effort is reflected in the level of contributions to the SPA from Finance-General, as shown in Table 7.11. In order to ensure that the Government's strategy of eliminating the net unfunded

superannuation liability by June 2018 is met, additional contributions were made to the SPA during 2001-02 and 2002-03.

## Aggregate Unfunded Liability

### *Aggregate unfunded superannuation liability as at 30 June 2002*

To determine the aggregate unfunded superannuation liability in the General Government Sector, the State Actuary also reviewed the two parliamentary schemes and the judges' scheme as at 30 June 2002. The results of these reviews, as well as the State Actuary's estimates for the Forward Estimates period, are shown in Table 7.12.

**Table 7.12: Estimates of Net Unfunded Superannuation Liability – General Government Sector as at 30 June**

All schemes - unfunded past service liabilities (including SPA)	2002	2003	2004	2005	2006	2007
	Actual	Estimate	Estimate	Estimate	Estimate	Estimate
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>RBF – defined benefit scheme</b>	<b>1 306 719</b>	<b>1 348 982</b>	<b>1 333 794</b>	<b>1 310 774</b>	<b>1 281 778</b>	<b>1 245 899</b>
<b>1973 Parliamentary Superannuation scheme</b>	<b>12 071</b>	<b>13 001</b>	<b>13 102</b>	<b>13 179</b>	<b>13 211</b>	<b>13 325</b>
<b>1985 Parliamentary Retiring Benefits scheme</b>	<b>2 052</b>	<b>1 757</b>	<b>1 670</b>	<b>1 582</b>	<b>1 375</b>	<b>1 317</b>
<b>1968 Judges' scheme</b>	<b>20 741</b>	<b>21 097</b>	<b>21 273</b>	<b>21 480</b>	<b>21 671</b>	<b>21 536</b>
<b>Total</b>	<b>1 341 583</b>	<b>1 384 838</b>	<b>1 369 839</b>	<b>1 347 015</b>	<b>1 318 035</b>	<b>1 281 987</b>
<b>Estimated percentage change</b>		<b>3.2</b>	<b>(1.1)</b>	<b>(1.7)</b>	<b>(2.1)</b>	<b>(2.7)</b>

Table 7.12 shows that, taking into account the balance of the SPA as at 30 June 2002, the net unfunded superannuation liability of the General Government Sector as at that date was \$1.342 billion. The RBF unfunded liability comprised 97.4 per cent of the total unfunded liability.

This Table also shows that the net unfunded past service superannuation liability for the General Government Sector, taking into account the SPA balance, is expected to start declining, in nominal terms, in 2003-04.

### *Reconciliation of unfunded superannuation liability figures*

Table 7.13 reconciles the unfunded superannuation liabilities shown in the earlier section of this Chapter.

It shows that the gross past service liability of the RBF scheme as at 30 June 2002 was \$3.1 billion. However, this liability is offset by the funds held by the RBF Board in respect of the defined benefit scheme (\$931 million). This leaves an unfunded past service liability of \$2.149 billion.

This net liability includes the assets and liabilities of those authorities that, under the Uniform Presentation Framework, are not controlled by the Government, and therefore not included in the Total State Government Sector. When these figures are deducted, the RBF unfunded past service liability of the Total State Government Sector is reduced by \$62 million, to \$2.087 billion.

The figures for the State Government Sector include the assets and liabilities of those GBEs, SOCs and statutory authorities which are not part of the General Government Sector. When these figures are deducted, the RBF unfunded past service liability of the General Government Sector is reduced to \$1.764 billion, as reported in the earlier part of this Chapter.

Once the assets and liabilities of the two parliamentary schemes and the judges' scheme are added to this amount, the total unfunded superannuation liability increases to \$1.799 billion, as shown in Table 7.7.

The SPA was established to meet the State's unfunded superannuation liability. It is, therefore, appropriate to deduct the balance of this account to determine the net unfunded superannuation liability estimate. An adjustment is also made to reflect the discrepancies between figures reported by authorities in their financial statements and those reported by the State Actuary. With these adjustments, the total net unfunded superannuation liability of the General Government Sector was \$1.342 billion as at 30 June 2002.

**Table 7.13: Reconciliation of Net Unfunded Superannuation Liability as at 30 June 2002 – All Schemes**

	Accrued Benefits \$'000	Plan Assets \$'000	Unfunded Past Service Liability \$'000
<b>Retirement Benefits Fund – defined benefit scheme</b>			
<b>Total RBF scheme <sup>1</sup></b>	<b>3 079 965</b>	<b>931 018</b>	<b>2 148 947</b>
<b>less total non-State Government Sector authorities <sup>2</sup></b>	<b>82 617</b>	<b>20 579</b>	<b>62 038</b>
<b>RBF – State Government Sector</b>	<b>2 997 348</b>	<b>910 439</b>	<b>2 086 909</b>
<b>less GBEs, SOCs, statutory authorities</b>	<b>436 761</b>	<b>114 289</b>	<b>322 472</b>
<b>RBF – General Government Sector</b>	<b>2 560 586</b>	<b>796 150</b>	<b>1 764 437</b>
<b>1973 Parliamentary Superannuation scheme <sup>1</sup></b>	<b>17 883</b>	<b>5 812</b>	<b>12 071</b>
<b>1985 Parliamentary Retiring Benefits scheme <sup>1</sup></b>	<b>8 018</b>	<b>5 967</b>	<b>2 052</b>
<b>1968 Judges' scheme</b>	<b>20 741</b>	<b>....</b>	<b>20 741</b>
<b>Total - all schemes – General Government Sector</b>	<b>2 607 229</b>	<b>807 929</b>	<b>1 799 300</b>
<b>less Superannuation Provision Account (SPA)</b>			<b>465 191</b>
<b>less authority reporting differences</b>			<b>7 474</b>
<b>Total – all schemes – General Government Sector less SPA</b>			<b>1 341 583</b>

Notes:

1. The 30 June 2002 figures have been revised by the State Actuary since they were originally published in the Treasurer's Financial Statements as at 30 June 2002.
2. The authorities excluded from the State Government Sector in accordance with the classifications under the Uniform Presentation Framework (UPF) are Hobart Water, Esk Water, Cradle Coast Water, the University of Tasmania, Tasrail and the RBF Board.

## *Strategy to reduce unfunded superannuation liabilities*

The unfunded superannuation liability of the schemes outlined above represents a contingent liability of the State. In 1999, the Government acted to reduce this liability by closing the unfunded defined benefit schemes to new employees, parliamentarians and judges and making a substantial funding effort to the SPA (as shown in Table 7.11). During 2001-02 and 2002-03, additional contributions were made to the SPA to take account of the lower investment returns achieved during this period.

In November 2002, Parliament approved legislation that repealed the *Parliamentary Superannuation Act 1973* and the *Parliamentary Retiring Benefits Act 1985* with effect from 31 December 2002. The scheme details have been reproduced as regulations made under the *Retirement Benefits Act 1993*, namely the *Retirement Benefits (Parliamentary Superannuation) Regulations 2002*. The legislation made the Parliamentary Superannuation Fund (PSF) and the Parliamentary Retiring Benefits Fund (PRBF) sub-funds of the RBF. As a consequence, the RBF Board became the trustee of these funds and the Parliamentary Superannuation and Retiring Benefits Trust (PSRBT) ceased to exist.

This decision, which followed a recommendation from the PSRBT to take such action, has not altered the benefits payable to PSF or PRBF members, but will provide administrative efficiencies and reduce costs that would otherwise be met by Tasmanian taxpayers. As administrative costs are taken into account in preparing estimates of the unfunded liability, this reform will help modestly to reduce the State's net unfunded superannuation liability.

### *Effectiveness of strategy*

As noted above, the State Actuary has confirmed that, under the current assumptions and projected funding efforts, the State's unfunded superannuation liability will be eliminated by June 2018.

There is now no difference in the rate of employer superannuation support provided to all categories of new public sector employees, whether permanent or fixed term employees, parliamentarians or judges. That is, employees who commenced on or after 1 July 1999, regardless of their employment status, receive the same level of employer superannuation support (9 per cent of salary). This is the most egalitarian public sector superannuation system of all Australian jurisdictions. The differential level of employer superannuation support inherent in the defined benefit schemes will therefore be progressively eliminated as members of the old scheme retire or resign. Importantly, the employer contribution is transparent, which is not the case in defined benefit schemes.

Another measure of the strategy's effectiveness is the percentage of superannuation arrangements that are fully funded and for which the State is not incurring any additional liabilities. As at 30 June 1998, only 3 per cent of Public Sector superannuation arrangements were fully funded. Following the establishment of the RBF Tasmanian Accumulation Scheme in April 2000, this figure increased to 55 per cent. The percentage of fully funded superannuation arrangements further increased to 63 per cent as at 31 December 2002. As defined benefit scheme members retire or resign, they will be replaced by employees who will become members of the Tasmanian Accumulation Scheme or a complying superannuation scheme of their choice. Not only are these schemes fully funded, but they are also fully portable, unlike the unfunded defined benefit schemes. The percentage of employees in fully funded arrangements will therefore continue to increase over time.

# TASMANIAN RISK MANAGEMENT FUND

## Purpose of the Fund

The purpose of the Tasmanian Risk Management Fund is to provide a whole-of-government approach to the treatment of risks to which agencies are exposed, including ensuring that adequate financial provision is made for the cost of risk to which agencies are exposed.

## Performance of the Fund

Table 7.14 summarises the total contributions paid by agencies to the Fund since its inception on 1 January 1999.

**Table 7.14: Contributions Made by Participating Agencies to the Fund**

	<b>Total Contributions<sup>1</sup></b>
	<b>\$m</b>
<b>1999-00</b>	<b>2.2</b>
<b>2000-01</b>	<b>3.6</b>
<b>2001-02<sup>2</sup></b>	<b>30.6</b>
<b>2002-03</b>	<b>32.1</b>
<b>2003-04 (est)</b>	<b>32.8</b>

Notes:

1. GST applies to contributions made by agencies after 1 July 2000. However, agencies are able to claim an Input Tax Credit on contributions.
2. The Fund was amalgamated with the Tasmanian State Service Workers' Compensation Scheme from 1 July 2001.

The increase in agency contributions from 1999-00 to 2003-04 reflects the fact that the range of risks for which agencies purchased whole-of-government cover through the Fund has progressively increased. The Fund now provides cover for the following types of risks:

- workers' compensation;
- property (including building and contents cover for agency occupied premises; building cover for Housing Tasmania; and business interruption cover);
- liability (including public, products, professional and medical malpractice cover, as well as all other claims by third parties);
- motor vehicles (including the light vehicle fleet, the Police fleet and the miscellaneous vehicle fleet);
- personal accident and travel cover; and
- marine hull cover.

In 2003-04:

- General risk management contributions will total \$12.4 million and the Fund will provide cover for all general risk to which agencies are exposed. This includes cover for the following risks:
  - property, including building and contents cover for agency occupied premises (\$3.410 million) and building cover for Housing Tasmania (\$485 650);
  - liability, including public, products, and professional cover (\$2.112 million) and medical malpractice cover (\$4.645 million). Initially, the Fund only provided cover for claims in respect of incidents occurring after 1 July 2001. However, the Fund now meets the cost of pre-1 July 2001 claims with a contribution in respect of pre-1 July 2001 claims through Finance-General;
  - motor vehicles, including the light vehicle fleet (\$556 600), the Police fleet (\$160 600) and the miscellaneous vehicle fleet (\$153 735); and
- Workers' compensation contributions to the Fund will total \$20.4 million. The estimated 2003-04 workers' compensation contributions include a four per cent levy payable by the Fund to the Nominal Insurer in 2003-04 as a result of the collapse of HIH in March 2001.

### *Workers' Compensation*

Table 7.15 summarises the total workers' compensation contributions paid to the Fund by agencies since 1999-00.

**Table 7.15: Workers' Compensation Contributions Made by Participating Agencies<sup>1</sup>**

	<b>Total Salaries</b>	<b>Total Contributions</b>	<b>Average Rate of Salary</b>
	<b>\$m</b>	<b>\$m</b>	<b>%</b>
<b>2001-02</b>	<b>1 004.2</b>	<b>18.7</b>	<b>1.86</b>
<b>2002-03<sup>2</sup></b>	<b>1 181.9</b>	<b>19.0</b>	<b>1.61</b>
<b>2003-04 (est)</b>	<b>1 203.1</b>	<b>20.4</b>	<b>1.70</b>

Notes:

1. GST applies to contributions made by agencies after 1 July 2000. However, agencies are able to claim an Input Tax Credit on contributions.
2. Contributions from 2002-03 onwards include a component to cover the four per cent levy payable each year by the Fund to the Nominal Insurer as a result of the collapse of HIH in March 2001.

The increase in the average rate of workers' compensation contributions from 1.61 per cent of salaries in 2002-03 to 1.70 per cent of salaries in 2003-04 reflects increases in the rates of two agencies in particular – the Department of Health and Human Services (1.93 per cent in 2002-03 to 2.08 per cent in 2003-04) and TAFE Tasmania (1.04 per cent in 2002-03 to 1.11 per cent in 2003-04). These increases in contribution rates reflect the fact that payments made by the Fund on behalf of these agencies are showing an upward trend.

Two variables determine the total cost of claims made during a particular year, namely the number of claims and the average cost of each claim. Table 7.16 shows the number and average cost of claims for each year since 2001-02.

**Table 7.16: Number and Average Cost of Workers' Compensation Claims**

	Number of Claims <sup>1</sup>	Average Cost <sup>2</sup>	Total Estimated Cost <sup>3</sup>
		\$	\$'000
<b>2001-02</b>	<b>1 620</b>	<b>12 645</b>	<b>20 486</b>
<b>2002-03</b>	<b>1 457</b>	<b>12 791</b>	<b>18 637</b>
<b>2003-04 (est)</b>	<b>1 600</b>	<b>11 210</b>	<b>17 935</b>

Notes:

1. The number of claims is an actuarial estimate of the number of claims that will occur during each period. This estimate is based on claims information to 31 December 2002. In forming his opinion, the Actuary examined the number of claims made in the years prior to 2001-02 and considered that 1 600 was an appropriate estimate.
2. The average cost is an actuarial estimate of the average cost of all claims that will occur during each period. This estimate is also based on claims information to 31 December 2002. In forming his opinion, the Actuary examined the average cost of claims in the years prior to 2001-02 and considered that \$11 210 was an appropriate estimate.
3. Including Goods and Services Tax.

## Measures to Reduce the Number and Cost of Claims

The Fund has introduced a number of measures to improve the management of potential risks to which agencies are exposed, including:

- The production of an Annual Report which includes analysis of the Actuary's report on the performance of the Fund and information on the number and type of claims made and the associated costs. The Annual Report provides comprehensive information to agency managers on the performance of the Fund and the trends in specific risk areas over the preceding 12 months. The 2001-02 Annual Report can be accessed at the Treasury website [www.treasury.tas.gov.au](http://www.treasury.tas.gov.au);
- The production of a quarterly newsletter, *riskmatters*, from May 2002 to keep those involved in risk management better informed on claim trends (both within the Fund and, more generally, in Tasmania and Australia) and provide detailed information on strategies to minimise the cost of risk;
- The production of a comprehensive Procedures Manual for use by all stakeholders in the claims administration process, including agencies, the Fund Administration Agent (and its sub-contractors) and the Office of the Director of Public Prosecutions. Version 2 of the Procedures Manual was released in July 2002;
- The development of a Fund website in May 2002 to enable all information relevant to the operation of the Fund to be accessed electronically, including Annual Reports, Newsletters and the Procedures Manual; and
- The hosting of regular workshops and seminars for officers of participating agencies to increase the awareness of risk management and share actions/strategies that can be implemented to better manage risk.

In 2003-04, the Fund will undertake the following work:

- The development of policies related to whole-of-government risk management issues, including:
  - a fleet purchase and use policy;
  - a policy on inclusion of indemnity/insurance clauses in agency contracts for the purchase of goods and services; and
  - a policy on the management of workers' compensation, specifically relating to the payment of weekly benefits and rehabilitation of injured workers; and
- The redevelopment of incident and claim forms. To date, these forms have been oriented to initiating/defending legal actions and have recorded very little information to assist agency managers in preventing claims from occurring or reducing the severity of claims that do occur. In addition, it is proposed to develop electronic versions of these forms to minimise the time and effort required to complete and submit the forms and facilitate greater consistency in the information collected.

## TOTAL STATE ASSETS AND LIABILITIES

### Net Debt

Total State Net Debt is an important overall measure of the financial position of the State Government.

Tables 7.17 and 7.18 show the Total State Government Sector Net Debt, in nominal and real terms respectively.

**Table 7.17: Total State Government Sector Net Debt (Nominal Terms) as at 30 June**

Year	General	Public	Total	Public	Total State
	Government	Non-Financial Corporations	Non-Financial Public Sector	Financial Enterprises	Government Sector
	\$m	\$m	\$m	\$m	\$m
1995	1 631	1 684	3 315	(298)	3 017
1996	1 650	1 625	3 275	(308)	2 967
1997	1 659	1 539	3 198	(350)	2 848
1998	1 610	1 485	3 095	(390)	2 705
1999	1 527	1 493	3 020	(302)	2 719
2000	1 143	1 429	2 572	(373)	2 199
2001	949	1 440	2 389	(512)	1 877
2002	751	1 668	2 419	(328)	2 089
2003 (est)	573	1 544	2 117	(328)	1 789
2004 (est)	461	1 481	1 942	(328)	1 614

Sources: Australian Bureau of Statistics; Department of Treasury and Finance.

**Table 7.18: Total State Government Sector Net Debt (Real Terms) as at 30 June 2003**

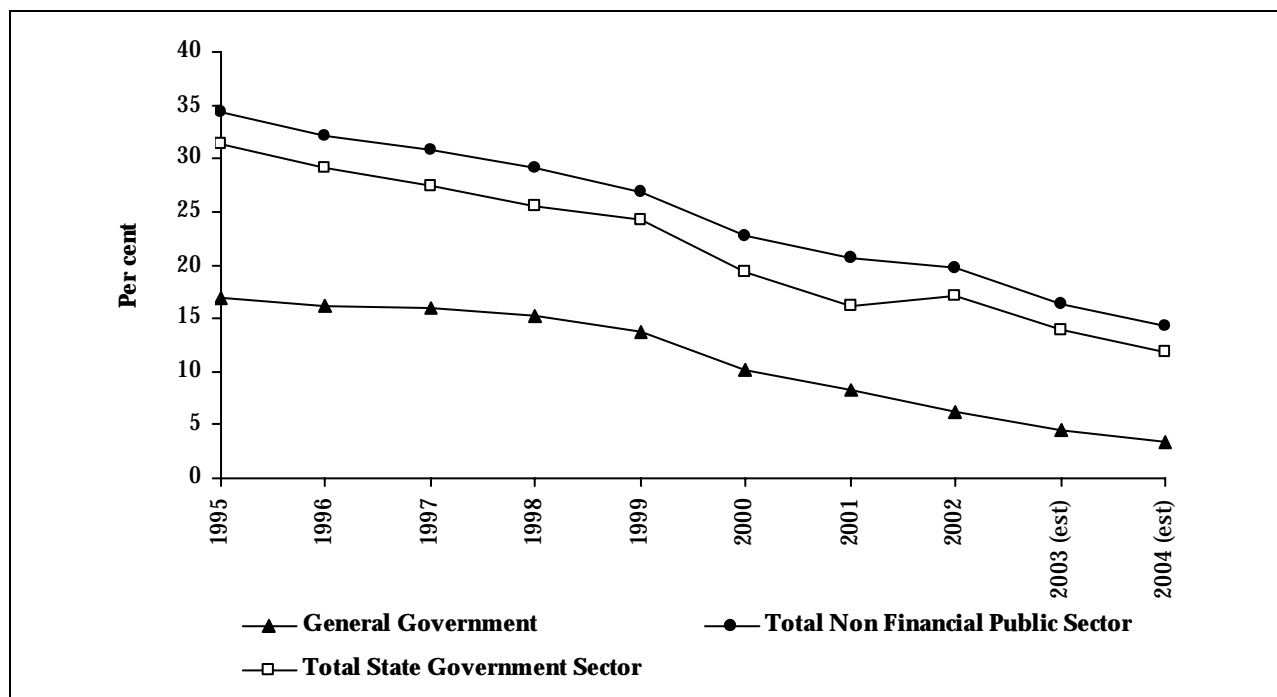
Year	General	Public	Total	Public	Total State
	Government	Non-Financial Corporations	Non-Financial Public Sector	Financial Corporations	Government Sector
	\$m	\$m	\$m	\$m	\$m
1995	2 008	2 073	4 080	(367)	3 714
1996	1 956	1 927	3 883	(365)	3 518
1997	1 937	1 797	3 735	(409)	3 326
1998	1 881	1 735	3 616	(456)	3 161
1999	1 767	1 727	3 494	(349)	3 146
2000	1 299	1 624	2 922	(424)	2 498
2001	1 019	1 547	2 566	(550)	2 016
2002	790	1 755	2 545	(345)	2 198
2003 (est)	586	1 580	2 166	(336)	1 830
2004 (est)	461	1 481	1 942	(328)	1 614

Sources: Australian Bureau of Statistics; Department of Treasury and Finance; *Consumer Price Index, Australia*, ABS Cat. No. 6401.0.

Total State Government Sector Net Debt decreased by \$170 million, or 9.5 per cent in nominal terms, from \$1 789 million to \$1 619 million between 30 June 2003 and 30 June 2004. In real terms, Total State Government Sector Net Debt decreased by 11.8 per cent from 30 June 2003 to 30 June 2004.

As can be seen in Chart 7.8, Total State Government Sector Net Debt as a percentage of Gross State Product (GSP) has fallen from 13.9 per cent as at 30 June 2003 to 11.8 per cent as at 30 June 2004.

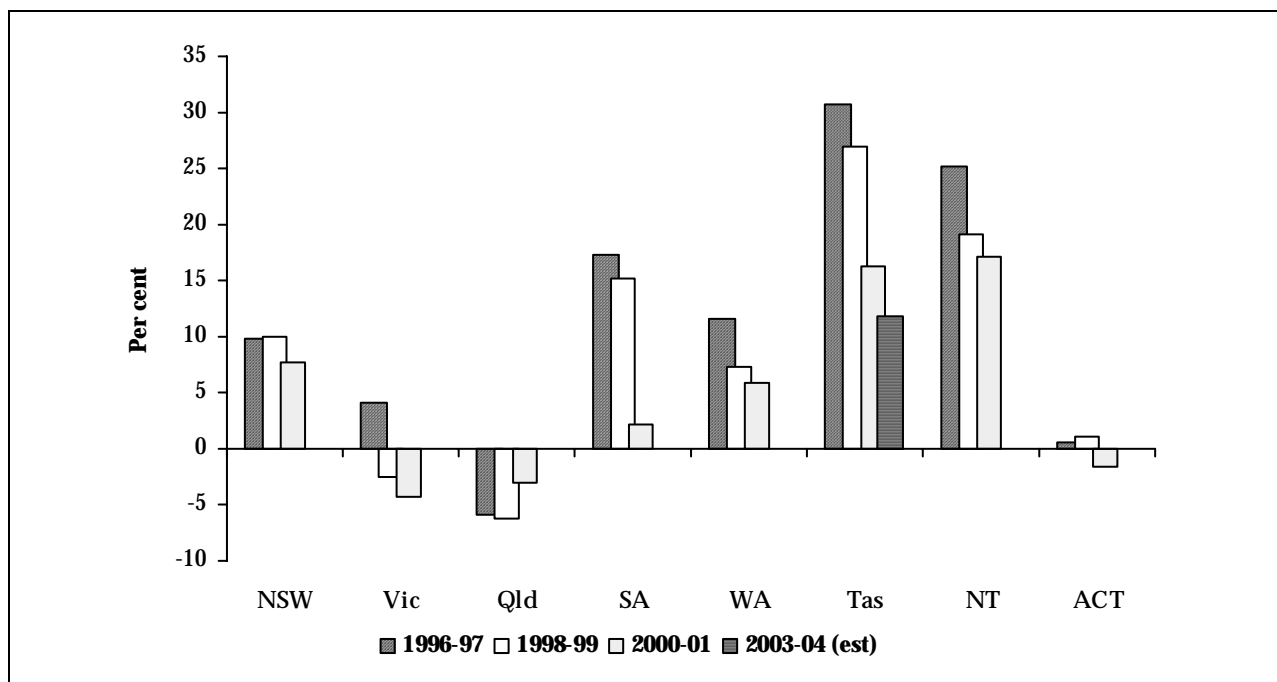
**Chart 7.8: Total State Government Sector Net Debt to Gross State Product (GSP)**



Sources: Australian Bureau of Statistics; Department of Treasury and Finance; *Australian National Accounts: State Accounts, 2000-01*, ABS Cat. No. 5220.0.

Chart 7.9 shows that Tasmania, on a Total State Government Sector basis, has the highest Net Debt burden as a proportion of GSP. This stems largely from the State's past heavy investment in its electricity system, inadequate returns in the past from that system and from other PNFCs, and a series of substantial deficits in the Total State Government Sector in the 1980s and early 1990s. Nevertheless, despite Tasmania recording the highest level of Total State Government Sector Net Debt as a proportion of GSP over the five years to 2000-01, the State's net debt ratio has fallen in recent years and will continue to decrease in accordance with the Government's Fiscal Strategy announced in the 2002-03 Budget. It is estimated that the Total State Government Sector Net Debt for Tasmania will improve to 11.8 per cent by June 2004, and will improve further by June 2008, when the Fiscal Strategy target of Total State Government Net Debt of below \$1 000 million is achieved.

**Chart 7.9: Total State Government Sector Net Debt as a percentage of GSP<sup>1</sup>**



Sources: *Government Financial Statistics, Australia 2000-2001*, ABS Cat No 5512.0; *Australian National Accounts: State Accounts, 2000-01*, ABS Cat No 5220.0, Northern Territory Treasury.

Note:

1. The 2001-02 Total State Net Debt numbers for other states are not available until the ABS publishes the *Government Financial Statistics, Australia 2001-02* publication.

## Asset and Liabilities

A summary of the Total State Government Sector assets and liabilities at 30 June 2002 is shown below in Table 7.19.

**Table 7.19: Total State Government Assets and Liabilities as at 30 June 2002**

	<b>General Government Sector</b>	<b>Public Non-Financial Corporations Sector</b>	<b>Public Financial Corporations Sector</b>	<b>Total State Government Sector<sup>1</sup></b>
	<b>\$m</b>	<b>\$m</b>	<b>\$m</b>	<b>\$m</b>
<b>Financial Assets</b>	<b>5 348</b>	<b>338</b>	<b>5 831</b>	<b>2 970</b>
<b>Non-financial Assets</b>	<b>5 670</b>	<b>6 045</b>	<b>51</b>	<b>11 767</b>
<b>Total Assets</b>	<b>11 018</b>	<b>6 383</b>	<b>5 882</b>	<b>14 737</b>
<b>Liabilities</b>	<b>4 167</b>	<b>2 588</b>	<b>5 810</b>	<b>7 882</b>

Source: Australian Bureau of Statistics

Note:

1. The asset and liability amounts for each sector will not sum to the Total State Government Sector as some assets and liabilities held relate to other sectors within government and have been excluded from the total to avoid double counting.

## Foreign Currency Exposure

Whilst Tascorp borrows in overseas markets through a number of facilities, it has no foreign currency exposure as all offshore borrowings are immediately swapped into Australian dollars.

No debt serviced from the Consolidated Fund is subject to exchange rate variations.

## Credit Status of the State Public Sector

Since the mid 1980s, the two major rating agencies, Moody's Investors Service (Moody's) and Standard & Poor's (S&P), have progressively assigned a credit rating to each State. Tasmania was first rated in 1991. Both of the major rating agencies review the credit ratings of all States on an annual basis.

The credit rating influences the interest rate margin Tasmania must pay over Commonwealth debt, or debt of a State with a AAA credit rating. Ratings, therefore, impact on interest paid on State debt and thus on the State Budget.

A very important influence of the credit rating is its impact on the perception of Tasmania by business investors. Comments made by the rating agencies in their reports and the relative movements of different States' ratings can have a significant effect on business confidence. Reviews by both Moody's and S&P have commented favourably on the achievements of successive Tasmanian Governments' policies to improve the State's financial position, particularly in relation to reduced levels of debt and debt servicing costs.

The current credit ratings for long term domestic debt of the States and the Territories are detailed in Table 7.20. All States have a prime rating of P-1/A-1+ on their short-term debt.

**Table 7.20: Government Ratings**

	Moody's	Standard & Poor's
<b>New South Wales</b>	<b>Aaa</b>	<b>AAA</b>
<b>Queensland</b>	<b>Aaa</b>	<b>AAA</b>
<b>Australian Capital Territory</b>	<b>Aaa</b>	<b>AAA</b>
<b>Western Australia</b>	<b>Aaa</b>	<b>AAA</b>
<b>Victoria</b>	<b>Aaa</b>	<b>AAA</b>
<b>South Australia</b>	<b>Aa2</b>	<b>AA+</b>
<b>Tasmania</b>	<b>Aa2</b>	<b>AA</b>
<b>Northern Territory</b>	<b>Aa2</b>	<b>n.a.</b>

The ability of a State to manage and service its debt is reflected in the credit rating assigned to the State by the rating agencies. Rating assessments depend particularly on the level of debt and debt servicing costs relative to revenue, budget net position relative to revenue, and the magnitude of other unfunded liabilities (particularly superannuation). A range of qualitative economic and political factors is also considered, particularly the quality of financial management, commitment to debt containment and outlook for the State's economy. The rating agencies have reinforced the need for all State Governments to maintain prudent financial management policies.

On 19 September 2002, S&P confirmed the State's 'AA' long term, local and foreign currency credit ratings. Significantly, the outlook was revised to 'positive' from 'stable', less than one year after the upgrade to 'AA'. The S&P short-term rating remains 'A-1+'. The guaranteed debt issues of Tascorp have also been confirmed as 'AA'.

In arriving at its assessment, S&P noted that Tasmania has made substantial progress in reducing its financial liabilities over the past decade, and the Government has demonstrated its commitment to the continuing improvement of the State's financial position with the introduction of the current Fiscal Strategy. In S&P's own words ' the positive outlook reflects Standard & Poor's opinion that, in two or three years time, based on current fiscal projections, Tasmania's credit quality will be consistent with the higher AA+ rating.'

The favourable change in outlook confirms the Government's commitment to the Fiscal Strategy as the appropriate approach to achieve results. The positive outlook is a strong indication of the State's solid economic and financial position and is providing a confidence boost to business investors in Tasmania.

On 1 November 2002, Moody's confirmed the State's 'Aa2' long term, local and foreign currency credit ratings and Prime 1 (P-1) ratings for commercial paper for Tasmania. Significantly, the rating outlook was revised to 'positive' from 'stable', representing the first change in rating from Moody's since Tasmania was first rated in 1991.

In arriving at its assessment, Moody's noted Tasmania's improved fiscal and debt position, and the State's sound financial operations.