

Mid-Year Financial Report

as at 31 December 2006

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1. INTRODUCTION

The Mid-Year Financial 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 six months ending 31 December each year. The Report is to be gazetted by the following 15 February.

The Mid-Year Financial Report contains the following information:

- Section 2 provides an update on progress against the Key Fiscal Strategy Measures contained within the 2006-07 Budget Papers and commentary on significant variations to the Budget outlook.
- Section 3 updates the Tasmanian economic aggregates and forecasts published in the 2006-07 Budget Papers.
- Section 4 presents the Operating Statement, Balance Sheet and Cash Flow Statement for the General Government Sector showing year-to-date results, original Budget and revised Budget estimates presented on a Government Finance Statistics (GFS) basis. Where required, commentary is provided on material changes between original and revised Budget estimates. The revised Budget estimates have been based on information available as at 31 December 2006.
- Section 5 incorporates the uniform government reporting requirements for the Loan Council Mid-Year Report. In accordance with the Uniform Presentation Framework (UPF), agreed to by the Australian Loan Council in March 2000, this Section presents revised fiscal estimates for the General Government, Public Non-Financial Corporations and Total Non-Financial Public Sectors.
- Section 6 summarises details of the receipts to and expenditure from the Consolidated Fund.
- Section 7 provides an overview of the key concepts and definitions used within this Report.

Explanations are provided for significant variations in financial estimates.

2. KEY FISCAL STRATEGY MEASURES

A credible medium-term Fiscal Strategy is an essential component of contemporary financial management practice. It represents not only an effective planning tool for the Government, but also provides clear signals to financial markets, the business sector and the community of the Government's direction in financial management. A Fiscal Strategy also provides a framework for the Government to demonstrate to credit rating agencies the financial focus of the Government, any identified issues and how these issues will be addressed.

The current Fiscal Strategy commenced in 2006-07 and extends for a period of five years. The five year period of the Fiscal Strategy represents an appropriate medium-term timeframe in which to set Tasmania's fiscal goals.

Table 1 summarises the major General Government Sector headline Budget measures and the revised Budget estimates. Generally, the Forward Estimates for the three-year period 2007-08 to 2009-10 have been prepared on the assumption that 2006-07 Budget policies and parameters will continue over the period on a "same policy" basis. However, where variations have been identified during the first six months of 2006-07 and are anticipated to have a material impact on the financial projections, the Budget and Forward Estimates have been revised accordingly.

The Table shows that all the Fiscal Strategy targets are met for 2006-07 and the first year of the Forward Estimates. However, the Government will need to take action over the Forward Estimates period in order to ensure that the Net Operating Surplus and Fiscal Surplus targets are met.

The General Government Sector financial statements reflect agencies' best estimates of the revised Budget and Forward Estimates. Treasury has accepted the advice of agencies on these financial estimates for the purposes of preparing the budgeted financial statements. However, these financial estimates may vary from the final outcome.

Table 1: Key Fiscal Strategy Measures

Tactical Target	2006-07 Dec YTD Actual	2006-07 Original Budget	2006-07 Revised Estimate	2007-08 Revised Estimate	2008-09 Revised Estimate	2009-10 Revised Estimate	Assessment of Progress
	\$m	\$m	\$m	\$m	\$m	\$m	
General Government Net Operating Balance							
to be maintained in surplus on average over four-year rolling period							
Net Operating Surplus/(Deficit)	(29)	(90)	(111)	(81)	(12)	(1)	
Four-year rolling average	na	142	136	42	(21)	(55)	☹
General Government Fiscal Balance							
to be maintained in surplus on average over four-year rolling period							
Fiscal Surplus/(Deficit)	23	(84)	(109)	(49)	(5)	12	
Four-year rolling average	na	145	139	34	(20)	(38)	☹
General Government Sector to remain Net Debt free	(315)	(232)	(286)	(367)	(505)	(652)	✓
General Government Capital expenditure							
to at least equal depreciation, on average, over four-year rolling periods							
Capital expenditure in excess of depreciation	(29)	66	55	38	38	12	
Four-year rolling average	na	55	52	63	55	36	✓

Key: ✓ On Target, ☹ Issues to be addressed, X Remedial action required, na not applicable.

3. TASMANIAN ECONOMIC AGGREGATES AND FORECASTS

Table 2: 2006-07 Economic Forecasts

	2005-06 Actual	2006-07 Budget Forecast	2006-07 Revised Estimate
State Economic Activity (real, % change) ¹	....²	3½	2¾
Employment (year-average, % change)	3.3	2¾	¾
Level of employment (year-average, '000s)	223	229	225
Labour force participation rate (year-average, %)	61.0	61¾	60¾
Unemployment rate (year-average, %)	6.5	6¼	6¼
Consumer price index (Hobart, year-average, % change)	3.2	2¾	3
Population (year-average, % change)	0.7	0.6	0.6

Sources: Data - Australian Bureau of Statistics (ABS) and Reserve Bank of Australia;
Estimates - Department of Treasury and Finance.

Notes:

1. Treasury's estimate of growth in real State economic activity for 2006-07 focuses on the underlying movements in output and is derived from trend projections based on a variety of indicators. This estimate is not designed to be consistent with, or to forecast, the experimental GSP series produced by the ABS.
2. Actual unavailable. See note 1.

2006-07 Economic Forecasts

At the time of the 2006-07 Budget, the forecast growth in State economic activity for 2006-07 was 3½ per cent. Tasmania's economic performance in the first half of 2006-07 has been solid, but economic growth has not been as strong as anticipated. This has been due, in part, to the impact of weaker national economic conditions, the increases in interest rates and the effects of the drought and late frosts in Tasmania. Growth in State economic activity has been revised downwards from 3½ per cent to 2¾ per cent. The Australian Treasury's forecast for Gross Domestic Product growth in 2006-07 has also been revised downwards in the 2006-07 Mid-Year Economic and Fiscal Outlook.

According to the Australian Bureau of Statistics (ABS), in the first six months of 2006-07, full-time employment has increased, while part-time employment has eased. There was modest growth in total hours worked in the first half of 2006-07, despite the easing in total employment from its record high in mid-2006. These employment trends have resulted in a downward revision to the employment growth forecast for 2006-07, from 2¾ per cent to ¾ per cent.

At the time of the 2006-07 Budget, Treasury forecast an average participation rate of 61¾ per cent. However, in the first half of 2006-07, the trend level has eased from 61.1 per cent in July 2006 to 60.0 per cent in December 2006. The participation rate is now estimated to average 60¾ per cent for 2006-07. In terms of the unemployment rate, the effect of the downward revision of the employment growth forecast for 2006-07 has been offset by the easing in the participation rate, with the result that the forecast unemployment rate for 2006-07 remains unchanged at 6¾ per cent.

In the September quarter 2006, (the latest data available for 2006-07), private investment was below its recent record high, as some major investment projects have been completed. However, the level of investment remains well above the long-term trend. Construction activity is expected to continue at high levels, with the value of building approvals growing strongly in the first half of 2006-07. Although business surveys have shown some easing in confidence, the majority of Tasmanian businesses expect economic conditions in the State to remain strong or improve over the next twelve months. Population growth and the wealth effect associated with higher property prices have supported continued growth in consumption.

The rebound in Tasmania's exports is expected to continue throughout 2006-07. The appreciation of the Australian dollar over the two-year period to February 2004 constrained the demand for Tasmanian exports, but exports have since rebounded strongly. The upturn in the value of exports since mid-2004 has largely been driven by strong increases in commodity prices. The value of Tasmania's overseas merchandise exports grew by 23.4 per cent to \$3.33 billion in nominal terms in the year to November 2006, the highest level on record. For the third consecutive month, Hong Kong has overtaken Japan as the largest market for Tasmanian exports, accounting for 17.8 per cent of the State's total exports. It is likely that most of the recent growth in exports to Hong Kong is due to Hong Kong's position as the gateway to China. Tasmania's major export markets have favourable economic outlooks, as Japan experiences improved economic conditions and China's rapid economic expansion is expected to continue.

The forecast for growth in the Tasmanian Consumer Price Index (CPI) is slightly higher than that published in the 2006-07 Budget, but is expected to be lower than in 2005-06. The CPI data to date, for the first half of 2006-07, show a relatively benign inflation trend. Petrol prices, in particular, have decreased significantly in the first half of 2006-07.

The strong growth in population in 2003-04 (1.1 per cent in year-average terms and identical to the national average) did not continue into 2004-05 and 2005-06. This is likely to be due, in part, to Tasmania's house price boom reducing interstate in-migration. Despite this, population growth has been well above the long-term average since 2003-04, and is expected to be 0.6 per cent in 2006-07, the same growth rate published in the 2006-07 Budget.

Considered together, these factors suggest that growth in State economic activity for 2006-07 will be above the long-term average, but below the recent very high growth experienced in the State.

The relationship between the level of economic activity in Tasmania and State taxation receipts is not straightforward. Payroll tax is the only State tax that has an identifiable relationship with economic activity, through the level of employment. However, this is not a simple one-to-one relationship because the level of payroll tax receipts is affected by employment within the payroll tax paying sector only, namely those businesses with annual payrolls over \$1.01 million. This comprises only 5 per cent of all businesses. Furthermore, these receipts are influenced by the number of hours worked by employees in these businesses, rather than the absolute level of employment. Finally, payroll tax receipts are influenced by wage rates, which can increase without growth in employment levels.

4. GENERAL GOVERNMENT REVISED BUDGET OUTLOOK

OPERATING STATEMENT

The Operating Statement shows the revised 2006-07 Fiscal Balance to be a deficit of \$109 million, an increase of \$25 million on the original Budget estimate of a deficit of \$84 million. The General Government Sector Operating Statement for 2006-07 is detailed in Table 3. The significant variations to revenue, expenses and net acquisition of non-financial assets are outlined below.

Revenue

Total revenue is estimated to be \$3 605 million in 2006-07, \$73 million or 2.1 per cent greater than the original 2006-07 Budget estimate of \$3 532 million. The favourable movement in revenue reflects:

- an increase in Grants and Subsidies revenue of \$37 million, primarily due to additional GST revenue of \$10 million, additional funding of \$8 million from the Australian Government for National Action Plan grants relating to resource management and conservation, and an additional \$21 million relating to the Tasmanian Community Forest Agreement that was originally budgeted to be received in 2005-06;
- a decrease in Taxation Revenue of \$2 million, primarily due to a reduction in revenue from the Licensing of Betting Exchanges of \$8 million, Motor Tax of \$1 million, Motor Vehicle Registrations duty of \$3 million, and Guarantee Fees of \$1 million, partially offset by additional revenue of \$7 million from Conveyance Duty, \$3 million from Payroll Tax and \$2 million from Land Tax. The estimate for payroll tax revenue for 2006-07 is higher than in the 2006-07 Budget, despite lower employment growth now expected for 2006-07. This is due, in part, to strong wages growth and favourable conditions for many payroll tax paying businesses for 2006-07. This includes businesses in Tasmania's export sector, which is currently experiencing strong demand and high commodity prices;
- an increase in Interest Income of \$5 million primarily due to an increase in interest rates;
- additional Dividend, Tax and Rate Equivalent Income of \$21 million, primarily due to an increase in Dividends of \$4 million (including an increase of \$5 million from Transend Networks Pty Ltd, offset by a decrease in dividends from Aurora Energy Pty Ltd of \$1 million), and an increase in Tax Equivalents (TE) of \$17 million (including an increase in Hydro Tasmania's TEs of \$10 million, an increase in Transend's TEs of \$4 million and an increase in the Motor Accident Insurance Board's TEs of \$3 million); and
- an increase in Other Revenue of \$12 million, primarily due to additional Mineral Royalties income of \$13 million, as a result of continuing strength in the commodity market.

Year-to-date, as at 31 December 2006:

- Grants and Subsidies revenue is \$1 085 million, \$60 million or 5.2 per cent below the pro rata 2006-07 revised Budget estimate. This variation is primarily due to the timing of payments of GST Revenue by the Australian Government to the State; and
- Dividend, Tax and Rate Equivalent Income is \$142 million, \$58 million or 69.0 per cent above the pro rata 2006-07 revised Budget estimate. The year-to-date receipts reflect the timing of payments by GBEs and SOCs, with the bulk of dividend payments for 2006-07 being received in December 2006.

Expenses

Total expenses are estimated to be \$3 716 million, \$94 million or 2.6 per cent greater than the original 2006-07 Budget estimates of \$3 622 million. The movement in expenses reflects:

- an increase in Depreciation of \$4 million, primarily due to the upward revaluation of fixed assets by the Department of Education which has impacted on the annual expense;
- an increase in Other Operating Expenses of \$52 million, primarily due to expenditure relating to the Tasmanian Community Forest Agreement of \$30 million, \$5 million relating to the Investing In Our Schools Program, \$3 million relating to the *Listen to the Children* review brought forward from 2007-08 and additional expenditure of \$2 million relating to operating costs associated with the Housing Capital Program;
- an increase in the Nominal Superannuation Interest Expense of \$19 million which reflects an increase in the discount rate used to calculate the interest cost of the Superannuation Liability; and
- an increase in Grants and Transfers of \$5 million, primarily due to additional funds of \$2 million paid to the Flinders Council following the transfer of Crown land on Cape Barren and Clarke Islands to the Tasmanian Aboriginal community, and additional funding of \$2 million for AFL football in Tasmania.

The movement in Net Acquisition of Non-Financial Assets of \$4 million represents a decrease in the Purchase of Non-Financial Assets of \$7 million and an increase in Depreciation of \$4 million, offset by a decrease in the Sale of Non-Financial Assets of \$15 million. The decrease in the Purchases of Non-Financial Assets is primarily due to delays in capital projects. The decrease in the Sales of Non-Financial Assets is due to delays in the sale of major selected Government properties.

As at 31 December 2006, the General Government Sector year-to-date expenses for Purchase of Non-Financial Assets was \$74 million, \$54 million or 42.4 per cent below the pro rata revised Budget estimate. This largely reflects the timing of payments for major capital projects by Budget Sector agencies, such as the Roads Program where the majority of expenditure is anticipated to occur in the latter half of the financial year.

Table 3: General Government - Operating Statement

	2005-06 Dec YTD Actual \$m	2006-07 Original Budget \$m	2006-07 Revised Estimate \$m	2006-07 Dec YTD Actual \$m
Revenue				
Grants and subsidies (Refer Table 4)	1 075	2 253	2 290	1 085
Taxation revenue (Refer Table 5)	365	728	726	384
Sales of goods and services	159	296	296	155
Interest income	10	33	38	14
Dividend, tax and rate equivalent income	125	147	168	142
Other revenue	47	76	87	55
Total	1 781	3 532	3 605	1 835
Less				
Expenses				
Depreciation	97	196	200	103
Employee expenses	788	1 715	1 728	869
Other operating expenses	400	887	939	446
Nominal superannuation interest expense	78	158	177	82
Other interest expense	14	23	23	12
Grants and transfers	334	644	649	352
Total	1 711	3 622	3 716	1 864
Equals NET OPERATING BALANCE	70	(90)	(111)	(29)
Less Net acquisition of non-financial assets				
Purchase of non-financial assets	92	262	255	74
less Sale of non-financial assets	22	72	57	24
less Depreciation	97	196	200	103
Total	(27)	(6)	(2)	(52)
Equals FISCAL BALANCE	96	(84)	(109)	23

Table 4: General Government - Grants and Subsidies

	2005-06 Dec YTD Actual \$m	2006-07 Original Budget \$m	2006-07 Revised Estimate \$m	2006-07 Dec YTD Actual \$m
General Purpose Payments				
GST Revenue	738	1 557	1 567	768
Competition Payments	9	....	....	....
Total General Purpose Payments	748	1 557	1 567	768
Specific Purpose Payments	258	438	457	234
Australian Government Capital Grants	8	53	50	17
Other Grants and Subsidies	61	205	216	66
TOTAL GRANTS AND SUBSIDIES	1 075	2 253	2 290	1 085

Table 5: General Government - Taxation Revenue

	2005-06 Dec YTD Actual \$m	2006-07 Original Budget \$m	2006-07 Revised Budget \$m	2006-07 Dec YTD Actual \$m
Payroll tax	108	211	214	104
<i>Taxes on property</i>				
Land tax	49	61	63	61
Fire Service Levies	20	39	39	21
Government guarantee fees	4	10	9	4
Taxes on financial and capital transactions	67	145	153	71
Total taxes on property	140	255	263	158
<i>Taxes on the provision of goods and services</i>				
Casino tax and licence fees	26	56	56	27
Other gambling taxes	11	36	29	15
Other taxes on insurance	20	40	38	20
Total taxes on the provision of goods and services	57	132	123	63
<i>Taxes on the use of goods and performance of activities</i>				
Motor vehicle fees and taxes	60	130	126	59
Total taxes on use of goods and performance of activities	60	130	126	59
TOTAL TAXATION REVENUE	365	728	726	384

BALANCE SHEET

Table 6 details the estimated General Government Sector Balance Sheet as at 30 June 2007.

The estimated Balance Sheet as at 30 June 2007 includes the following movements:

Assets

General Government Assets are estimated to be \$13 623 million at 30 June 2007, an increase of \$1 091 million above the original 2006-07 Budget estimate of \$12 532 million.

Financial Assets are anticipated to increase by \$257 million as a result of:

- an increase in Cash and Deposits of \$20 million, which primarily reflects adjustments to the 2006-07 opening balances. Budget estimates for the 2006-07 Balance Sheet were compiled in May 2006 prior to the completion of the actual outcomes for 30 June 2006. As a result, the variance from the original Budget estimate will be impacted by the difference between the estimated and actual opening balances for 2006-07;
- an increase in Advances Paid of \$19 million which primarily relates to a change in accounting treatment relating to remediation works required to be undertaken and paid for by Goldamere Pty Ltd under the *Goldamere Agreement Act 1996*;
- an increase in Other Non-Equity Assets of \$136 million which primarily reflects an increase in income tax equivalent receivable from the Public Non-Financial Corporations Sector (PNFC); and
- an increase in Equity Assets of \$83 million, reflecting adjustments to the value of the equity investment in the PNFC Sector.

Non-Financial Assets are anticipated to increase by \$836 million. The major movements are a result of adjustments to the 2006-07 opening balances including:

- an increase in Infrastructure assets of \$313 million within the Department of Infrastructure, Energy and Resources primarily due to the revaluation of its Infrastructure assets; and
- an increase in Heritage assets of \$345 million by the Department of Tourism, Arts and the Environment, which reflects the valuation of the collections within the Tasmanian Museum and Art Gallery. The collections had not been valued when the original Budget estimates were compiled.

Liabilities

General Government Liabilities are estimated to be \$4 677 million at 30 June 2007, \$98 million more than the original 2006-07 Budget estimate of \$4 579 million. The increase in liabilities primarily relates to:

- an increase in Other Non-Equity Liabilities of \$115 million partly due to the reclassification of Australian Government Funding for the East Tamar Highway from Income in 2005-06 to Revenue Received in Advance; and
- a partially offsetting decrease in the Superannuation Liability of \$18 million due to an updated actuarial review of the liability.

Table 6: General Government - Balance Sheet

	31 Dec 2005	30 June 2007	30 June 2007	31 Dec 2006
	Actual	Original Budget	Revised Estimate	Actual
	\$m	\$m	\$m	\$m
Assets				
Financial assets				
Cash and deposits	446	586	606	679
Advances paid	37	34	53	42
Investments, loans and placements	10	1	1	1
Other non-equity assets	391	882	1 018	1 054
Equity	2 923	3 148	3 231	3 180
Total	3 807	4 652	4 909	4 957
Non-financial assets				
Land and fixed assets	7 580	7 846	8 673	8 733
Other non-financial assets	42	33	41	49
Total	7 622	7 879	8 715	8 782
Total assets	11 429	12 532	13 623	13 739
Liabilities				
Advances received	254	241	242	248
Borrowings	127	148	132	159
Superannuation liability	3 407	3 631	3 613	3 258
Other employee provisions	338	365	380	370
Other non-equity liabilities	236	194	309	274
Total liabilities	4 360	4 579	4 677	4 309
NET WORTH¹	7 069	7 952	8 946	9 429
NET FINANCIAL WORTH²	(553)	73	232	647
NET FINANCIAL LIABILITIES³	3 294	3 399	3 327	2 943
NET DEBT⁴	(113)	(232)	(286)	(315)

Notes:

1. Net Worth represents Total assets less Total liabilities.
2. Net Financial Worth represents Total financial assets less Total liabilities.
3. Net Financial Liabilities represents Net Debt plus the 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 7 details the General Government Sector Cash Flow Statement for 2006-07. The key measure of the Cash Flow Statement is the Cash Surplus.

The 2006-07 Cash Surplus is estimated to be \$56 million, \$3 million greater than the original Budget estimate of \$53 million.

The significant variations to the 2006-07 Cash Flow Statement are outlined below.

Cash Receipts from Operating Activities

Cash Receipts from Operating Activities are estimated to be \$3 752 million, \$96 million or 2.6 per cent greater than the original 2006-07 Budget estimate of \$3 656 million. The increase primarily relates to estimated additional receipts in relation to Grants and Subsidies of \$51 million, Dividend, Tax and Rate Equivalent Income of \$21 million and Other Receipts of \$19 million.

Cash Payments for Operating Activities

Cash Payments for Operating Activities are estimated to be \$3 499 million, \$86 million or 2.5 per cent greater than the original Budget estimate of \$3 413 million. The increase primarily relates to an increase in Payments for Goods and Services of \$76 million.

Net Cash Flows from Investments in Non-Financial Assets

The movement of \$8 million in Net Cash Flows from Investment in Non-Financial Assets reflects the decrease in the Sales of Non-Financial Assets of \$15 million, which is partially offset by the decrease in Purchases on Non-Financial Assets of \$7 million.

Table 7: General Government - Cash Flow Statement

	2005-06 Dec YTD Actual \$m	2006-07 Original Budget \$m	2006-07 Revised Estimate \$m	2006-07 Dec YTD Actual \$m
Cash receipts from operating activities				
Taxes received	345	728	726	354
Receipts from sales of goods and services	131	293	294	152
Grants and subsidies received	1 065	2 257	2 308	1 103
Dividend, tax and rate equivalent income	122	147	168	142
Interest received	14	33	38	16
Other receipts	109	199	218	124
Total	1 785	3 656	3 752	1 891
Cash payments for operating activities				
Payments for goods and services	(1 161)	(2 597)	(2 673)	(1 304)
Grants and subsidies paid	(335)	(640)	(645)	(352)
Interest paid	(16)	(23)	(23)	(6)
Other payments	(79)	(153)	(157)	(89)
Total	(1 591)	(3 413)	(3 499)	(1 752)
Net cash flows from operating activities	194	242	254	139
Net cash flows from investments in non-financial assets				
Sale of non-financial assets	22	72	57	24
Purchases of non-financial assets	(92)	(262)	(255)	(74)
Total	(70)	(190)	(198)	(50)
Net cash flows from investments in financial assets for policy purposes	3	3	3	3
Net cash flows from financing activities				
Advances received (net)	(7)	(6)	(6)	....
Borrowing (net)	(252)	(21)	(24)	(8)
Other financing (net)	(48)	(24)	(25)	(21)
Total	(307)	(51)	(55)	(29)
Net Increase/(Decrease) in Cash Held	(181)	5	4	62
CASH SURPLUS/(DEFICIT)¹	124	53	56	88

Note:

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

5. UNIFORM GOVERNMENT REPORTING

In accordance with the Uniform Presentation Framework, agreed to by the Australian Loan Council in March 2000, this Report presents revised fiscal estimates that take into account fiscal developments since the commencement of the Budget year.

Table 8 presents details of the revised Loan Council Allocation for 2006-07, and Tables 9 to 17 present Operating Statements, Balance Sheets and Cash Flow Statements for the General Government, Public Non-Financial Corporations (PNFC) and Total Non-Financial Public Sectors.

Loan Council arrangements provide for each State and Territory to nominate a Loan Council Allocation (LCA) based on the estimated combined General Government and PNFC sector deficit, plus memorandum items. Memorandum items are other financing transactions, which for Loan Council purposes, are treated as analogous to borrowings. This measure of the level of financing, therefore, focuses on the call of the public sector on national savings.

A tolerance band calculated as two per cent of Total Non-Financial Public Sector revenue (estimated to be \$104 million for 2006-07) applies between the approved LCA and the budgeted LCA. Applying this band to Tasmania's approved LCA for 2006-07 gives a tolerance band of \$(167) million to \$41 million. The tolerance band recognises that LCAs are nominated at early stages of the Budget process and that estimates are likely to change as a result of policy and parameter changes before and after Budgets are brought down.

Table 8 shows that the revised estimate of the 2006-07 LCA outcome is within the \$104 million tolerance limit. The 2006-07 Mid-Year revised estimate of an LCA outcome of \$43 million is \$95 million better than the original Budget estimate. The variance is due primarily to the anticipated improvement of \$92 million in the Public Non-Financial Corporations Sector Cash Deficit which has been affected by the decision taken in June 2006 to sell the *Spirit of Tasmania III*.

Table 8: Loan Council Allocation for 2006-07

	2006-07 Original Budget	2006-07 Revised Estimate
	\$m	\$m
General Government underlying Deficit/(Surplus)	(53)	(56)
Public Non-Financial Corporations (PNFC) underlying Deficit/(Surplus)	171	79
Total Non-Financial Public Sector underlying Deficit/(Surplus)	118	23
Total Non-Financial Public Sector Net Cash Flows from Investments in Financial Assets for Policy Purposes	3	3
Local Government New Cash Borrowings	17	17
Total Loan Council Allocation	138	43

Table 9: General Government – Operating Statement

	2006-07 Original Budget	2006-07 Revised Estimate	2007-08 Revised Estimate	2008-09 Revised Estimate	2009-10 Revised Estimate
	\$m	\$m	\$m	\$m	\$m
Revenue					
Grants and subsidies	2 253	2 290	2 319	2 345	2 377
Taxation revenue	728	726	769	805	846
Sales of goods and services	296	296	292	292	301
Interest income	33	38	35	48	71
Dividend, tax and rate equivalent income	147	168	137	152	163
Other revenue	76	87	80	75	75
Total	3 532	3 605	3 632	3 717	3 833
Less Expenses					
Depreciation	196	200	200	200	200
Employee expenses	1 715	1 728	1 790	1 857	1 952
Other operating expenses	887	939	859	834	845
Nominal superannuation interest expense	158	177	192	198	204
Other interest expense	23	23	20	18	18
Grants and transfers	664	649	652	621	631
Total	3 622	3 716	3 712	3 729	3 850
Equals NET OPERATING RESULT	(90)	(111)	(81)	(12)	(17)
Less Net acquisition of non-financial assets					
Purchase of non-financial assets	262	255	238	238	212
less Sale of non-financial assets	72	57	70	45	41
less Depreciation	196	200	200	200	200
Total	(6)	(2)	(32)	(7)	(30)
Equals FISCAL SURPLUS	(84)	(109)	(49)	(5)	12

Table 10: General Government Balance Sheet as at 30 June

	2007 Original Budget	2007 Revised Estimate	2008 Revised Estimate	2009 Revised Estimate	2010 Revised Estimate
	\$m	\$m	\$m	\$m	\$m
Assets					
Financial assets					
Cash and deposits	586	606	631	747	885
Advances paid	34	53	50	47	45
Investments, loans and placements	1	1	1	1	1
Other non-equity assets	882	1 018	1 014	1 009	1 024
Equity	3 148	3 231	3 355	3 514	3 683
Total	4 652	4 909	5 050	5 319	5 637
Non-financial assets					
Land and fixed assets	7 846	8 673	8 727	8 767	8 819
Other non-financial assets	33	41	46	48	48
Total	7 879	8 715	8 774	8 815	8 867
Total assets	12 532	13 623	13 824	14 134	14 504
Liabilities					
Advances received	241	242	235	228	220
Borrowings	148	132	80	63	58
Superannuation liability	3 631	3 613	3 738	3 858	3 959
Other employee provisions	365	380	397	414	432
Other non-equity liabilities	194	309	280	263	267
Total liabilities	4 579	4 677	4 730	4 827	4 937
NET WORTH¹	7 952	8 946	9 094	9 307	9 567
NET FINANCIAL WORTH²	73	232	320	491	700
NET FINANCIAL LIABILITIES³	3 399	3 327	3 371	3 354	3 307
NET DEBT⁴	(232)	(286)	(367)	(505)	(652)

Notes:

1. Net Worth represents Total Assets less Total Liabilities.
2. Net Financial Worth represents Total Financial Assets less Total Liabilities.
3. Net Financial Liabilities represents Net Debt plus the 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.

Table 11: General Government – Cash Flow Statement

	2006-07 Original Budget	2006-07 Revised Estimate	2007-08 Revised Estimate	2008-09 Revised Estimate	2009-10 Revised Estimate
	\$m	\$m	\$m	\$m	\$m
Cash receipts from operating activities					
Taxes received	728	726	769	805	846
Receipts from sales of goods and services	293	294	289	289	287
Grants and subsidies received	2 257	2 308	2 293	2 321	2 374
Dividend, tax and rate equivalent income	147	168	137	152	163
Interest received	33	38	35	47	64
Other receipts	199	218	199	194	190
Total	3 656	3 752	3 721	3 808	3 925
Cash payments for operating activities					
Payments for goods and services	(2 597)	(2 673)	(2 660)	(2 719)	(2 838)
Grants and subsidies paid	(640)	(645)	(649)	(618)	(627)
Interest paid	(23)	(23)	(20)	(17)	(17)
Other payments	(153)	(157)	(139)	(127)	(126)
Total	(3 413)	(3 499)	(3 468)	(3 482)	(3 609)
Net cash flows from operating activities	242	254	253	327	316
Net cash flows from investments in non-financial assets					
Sale of non-financial assets	72	57	70	45	41
Purchases of non-financial assets	(262)	(255)	(238)	(238)	(212)
Total	(190)	(198)	(168)	(193)	(171)
Net cash flows from investments in financial assets for policy purposes	3	3	3	3	3
Net cash flows from financing activities					
Advances received (net)	(6)	(6)	(7)	(7)	(7)
Borrowing (net)	(21)	(24)	(52)	(16)	(3)
Other financing (net)	(24)	(25)	....	6	....
Total	(51)	(55)	(59)	(17)	(11)
Net Increase/(Decrease) in Cash Held	5	4	29	119	138
CASH SURPLUS/(DEFICIT)	53	56	85	134	146

Note:

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

Table 12: Public Non-Financial Corporations Sector - Operating Statement

	2006-07 Original Budget	2006-07 Revised Estimate
	\$m	\$m
Revenue		
Grants and subsidies	75	79
Sales of goods and services	1 636	1 646
Interest income	4	5
Other revenue	26	30
Total	1 741	1 761
less Expenses		
Depreciation	211	210
Employee expenses	345	338
Other operating expenses	958	954
Other interest expense	128	120
Grants and Transfers	12	122
Dividend and Income Tax Equivalent expenses	104	12
Total	1 758	1 756
equals NET OPERATING RESULT	(17)	5
less Net acquisition of non-financial assets		
Purchases of non-financial assets	344	340
less Sale of non-financial assets	29	108
less Depreciation	211	210
Total	103	22
equals FISCAL BALANCE	(120)	(18)

Table 13: Public Non-Financial Corporations Sector – Balance Sheet
as at 30 June

	2007 Original Budget	2007 Revised Estimate
	\$m	\$m
Assets		
Financial assets		
Cash and deposits	65	89
Investments, loans and placements	138	144
Other non-equity assets	509	424
Total	712	657
Non-financial assets		
Land and fixed assets	5 975	5 941
Other non-financial assets	92	92
Total	6 068	6 033
Total assets	6 780	6 691
Liabilities		
Borrowings	2 011	1 915
Superannuation liability	466	430
Other employee entitlements	104	102
Other provisions	7	15
Other non-equity liabilities	1 241	1 339
Total liabilities	3 830	3 801
Shares and other contributed capital	2 949	2 890
NET WORTH¹	....	....
NET FINANCIAL WORTH²	(6 068)	(6 033)
NET FINANCIAL LIABILITIES³	2 275	2 113
NET DEBT⁴	1 809	1 683

Notes:

1. Net Worth represents Total Assets less Total Liabilities and Shares and other contributed capital.
2. Net Financial Worth represents Total Financial Assets less Total Liabilities and Shares and other contributed capital.
3. Net Financial Liabilities represents Net Debt plus the Superannuation liability.
4. Net Debt equals Borrowings less the sum of Cash and deposits and Investments, loans and placements.

Table 14: Public Non-Financial Corporations Sector – Cash Flow Statement

	2006-07 Original Budget	2006-07 Revised Estimate
	\$m	\$m
Cash receipts from operating activities		
Receipts from sales of goods and services	1 508	1 535
Grants and subsidies received	51	53
Interest received	3	4
Other receipts	156	160
Total	1 718	1 752
Cash payments for operating activities		
Payments for goods and services	(1 040)	(1 080)
Grants and subsidies paid	(12)	(12)
Interest paid	(126)	(116)
Other payments	(283)	(279)
Total	(1 461)	(1 487)
Net cash flows from operating activities	257	265
Net cash flows from investments in non-financial assets		
Sales of non-financial assets	29	108
Purchases of non-financial assets	(344)	(348)
Total	(314)	(240)
Net cash flows from investments in financial assets for liquidity purposes	5	(21)
Net cash flows from financing activities		
Distributions paid	(113)	(104)
Borrowing (net)	107	17
Other financing (net)	30	30
Total	24	(57)
Net Increase/(Decrease) in Cash Held	(28)	(53)
CASH SURPLUS / (DEFICIT)¹	(171)	(79)

Note:

1. Cash Surplus/(Deficit) is equal to Net cash flows from operating activities plus Net cash flows from investments in non-financial assets plus Distributions paid (Income Tax Equivalents and Dividends).

Table 15: Total Non-Financial Public Sector – Operating Statement

	2006-07 Original Budget	2006-07 Revised Estimate
	\$m	\$m
Revenue		
Taxation revenue	720	718
Grants and subsidies	2 279	2 320
Sales of goods and services	1 903	1 913
Interest income	37	43
Dividend and income tax equivalent income	43	46
Other revenue	102	117
Total	5 084	5 158
less Expenses		
Depreciation	407	410
Employee expenses	2 053	2 059
Other operating expenses	1 816	1 864
Nominal superannuation interest expenses	158	177
Other interest expenses	151	143
Grants and transfers	607	612
Total	5 191	5 265
equals NET OPERATING RESULT	(107)	(107)
less Net acquisition of non-financial assets		
Purchases of non-financial assets	606	595
less Sale of non-financial assets	101	165
less Depreciation	407	410
Total	97	20
equals FISCAL SURPLUS	(204)	(128)

Table 16: Total Non-Financial Public Sector – Balance Sheet as at 30 June

	2007 Original Budget	2007 Revised Estimate
	\$m	\$m
Assets		
Financial assets		
Cash and deposits	651	695
Advances paid	34	53
Investments, loans and placements	139	145
Other non-equity assets	674	589
Equity	199	282
Total	1 697	1 764
Non-financial assets		
Land and fixed assets	13 821	14 614
Other non-financial assets	125	133
Total	13 946	14 747
Total assets	15 643	16 512
Liabilities		
Advances received	241	242
Borrowings	2 159	2 047
Superannuation liability	4 097	4 043
Other employee entitlements	469	482
Other provisions	7	15
Other non-equity liabilities	717	930
Total liabilities	7 691	7 759
Shares and other contributed capital	....	....
NET WORTH¹	7 951	8 752
NET FINANCIAL WORTH²	(5 994)	(5 994)
NET FINANCIAL LIABILITIES³	5 674	5 440
NET DEBT⁴	1 576	1 396

Notes:

1. Net Worth represents Total Assets less Total Liabilities and Shares and other contributed capital.
2. Net Financial Worth represents Total Financial Assets less Total Liabilities and Shares and other contributed capital.
3. Net Financial Liabilities represents Net Debt plus the 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.

Table 17: Total Non-Financial Public Sector – Cash Flow Statement

	2006-07 Original Budget	2006-07 Revised Estimate
	\$m	\$m
Cash receipts from operating activities		
Taxes received	720	799
Receipts from sales of goods and services	1 772	1 800
Grants and subsidies received	2 259	2 312
Interest received	36	42
Other receipts	399	444
Total	5 186	5 397
Cash payments for operating activities		
Payments for goods and services	(3 600)	(3 716)
Grants and subsidies paid	(613)	(618)
Interest paid	(149)	(139)
Other payments	(436)	(436)
Total	(4 798)	(4 909)
Net cash flows from operating activities	388	488
Net cash flows from investments in non-financial assets		
Sales of non-financial assets	101	165
Purchases of non-financial assets	(606)	(603)
Total	(504)	(438)
Net cash flows from investments in financial assets for policy purposes	3	3
Net cash flows from investments in financial assets for liquidity purposes	5	(21)
Net cash flows from financing activities		
Advances received	(6)	(6)
Distribution Paid (net)	....	9
Borrowings (net)	86	(7)
Other financing (net)	6	5
Total	86	1
Net Increase/(Decrease) in Cash Held	(22)	34
CASH SURPLUS /(DEFICIT)¹	(116)	50

Note:

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

6. CONSOLIDATED FUND

The Consolidated Fund Surplus (CFS) is estimated to be \$2.0 million for 2006-07, \$1.8 million less than the original Budget estimate of \$3.8 million. The actual CFS for the six months ended 31 December 2006 is \$6.7 million.

The CFS as at 31 December 2006 may reflect cyclic variations in revenue collections and expenditure through the Consolidated Fund and does not provide a pro rata indication of the Consolidated Fund Outcome for the full financial year.

Table 18: Consolidated Fund Outcome, 2006-07

	2005-06 December YTD Actual \$'000	2006-07 Original Budget \$'000	2006-07 Revised Budget \$'000	2006-07 December YTD Actual \$'000
Receipts				
Commonwealth Sources				
Recurrent Receipts	971 783	1 995 719	2 024 419	1 002 720
Capital Receipts	8 454	52 922	49 713	17 453
Total Commonwealth Sources	980 237	2 048 641	2 074 132	1 020 173
State Sources				
Recurrent Receipts	541 791	1 081 135	1 107 673	592 949
Capital Receipts	33	270	234	17
Total State Sources	541 824	1 081 405	1 107 907	592 966
Total Receipts	1 522 061	3 130 046	3 182 039	1 613 140
Less Expenditure				
Recurrent Services				
Appropriation Act	1 351 469	2 796 927	2 852 407	1 478 190
Reserved by Law ¹	93 483	121 475	123 463	63 774
Total Recurrent Services	1 444 952	2 918 402	2 975 870	1 541 964
Works and Services	65 059	207 868	204 121	64 488
Total Expenditure (Refer Table 19)	1 510 011	3 126 270	3 179 991	1 606 452
Gross Consolidated Fund Surplus	12 050	3 776	2 048	6 688
Add Loan Repayments ¹	61	....	....	....
Consolidated Fund Surplus	12 111	3 776	2 048	6 688

Note:

1. For the purpose of calculating the Consolidated Fund Surplus, Reserved by Law expenditure includes the amount of the contribution payable to the Debt Retirement Reserve Trust Account. This figure is also shown as Loan Repayments.

Table 19: Consolidated Fund Expenditure, 2006-07

	2005-06 December YTD Actual	2006-07 Original Budget	2006-07 Revised Budget	2006-07 December YTD Actual
	\$'000	\$'000	\$'000	\$'000
Economic Development				
Recurrent Expenditure	18 088	43 648	46 038	17 934
Capital Expenditure	10	....	....	....
Total	18 098	43 648	46 038	17 934
Education				
Recurrent Expenditure	379 566	758 049	757 995	400 757
Capital Expenditure	7 085	18 596	16 096	3 388
Total	386 651	776 645	774 091	404 145
Finance-General				
Recurrent Expenditure	229 948	396 082	443 775	188 331
Capital Expenditure	....	21 325	21 325	....
Total	229 948	417 407	465 100	188 331
Health and Human Services				
Recurrent Expenditure	515 770	1 060 511	1 063 311	607 404
Capital Expenditure	3 385	31 973	33 535	7 277
Total	519 155	1 092 484	1 096 846	614 681
House of Assembly				
Recurrent Expenditure	2 512	5 379	6 093	3 159
Total	2 512	5 379	6 093	3 159
Infrastructure, Energy and Resources				
Recurrent Expenditure	60 309	115 449	118 227	60 054
Capital Expenditure	40 887	104 420	101 211	32 378
Total	101 196	219 869	219 438	92 432
Justice				
Recurrent Expenditure	43 461	104 131	105 095	48 368
Capital Expenditure	12 516	19 904	19 904	19 490
Total	55 977	124 035	124 999	67 858
Legislative Council				
Recurrent Expenditure	2 191	4 495	4 914	2 459
Total	2 191	4 495	4 914	2 459

Table 19: Consolidated Fund Expenditure, 2006-07 (continued)

	2005-06 December YTD Actual \$'000	2006-07 Original Budget \$'000	2006-07 Revised Budget \$'000	2006-07 December YTD Actual \$'000
Legislature-General				
Recurrent Expenditure	2 577	4 531	4 531	2 731
Total	2 577	4 531	4 531	2 731
Ministerial and Parliamentary Support				
Recurrent Expenditure	7 705	17 514	17 514	8 885
Total	7 705	17 514	17 514	8 885
Office of the Governor				
Recurrent Expenditure	1 259	2 798	2 798	1 268
Total	1 259	2 798	2 798	1 268
Police and Emergency Management				
Recurrent Expenditure	73 734	156 612	156 612	78 814
Capital Expenditure	151	700	1 100	706
Total	73 885	157 312	157 712	79 519
Premier and Cabinet				
Recurrent Expenditure	16 762	39 167	42 045	19 667
Capital Expenditure	3	500	500	1
Total	16 765	39 667	42 545	19 668
Primary Industries and Water				
Recurrent Expenditure	42 275	86 802	83 638	41 155
Capital Expenditure	132	1 147	1 147	652
Total	42 407	87 949	84 785	41 808
Tasmanian Audit Office				
Recurrent Expenditure	140	319	319	156
Total	140	319	319	156
Tourism, Arts and the Environment				
Recurrent Expenditure	34 832	87 210	87 260	44 099
Capital Expenditure	890	9 303	9 303	597
Total	35 722	96 513	96 563	44 696
Treasury and Finance				
Recurrent Expenditure	13 823	35 705	35 705	16 722
Total	13 823	35 705	35 705	16 722
TOTAL	1 510 011	3 126 270	3 179 991	1 606 452

7. CONCEPTS AND DEFINITIONS

UNIFORM PRESENTATION FRAMEWORK (UPF)

The Mid-Year Financial Report is prepared on a Uniform Presentation Framework (UPF) basis.

The UPF is based on the concepts and classifications used by the Australian Bureau of Statistics (ABS) in the preparation of public finance reports. 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 the Australian, 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 understanding of individual government's financial results and projections.

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 Outcomes Statements; and
- includes accrual transactions such as depreciation and nominal interest on superannuation.

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

An important distinction made in the UPF framework is between "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 a liability, that does not result from a transaction. This includes a wide variety of events such as the 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 is a major source of differences between the UPF Operating Statement and the Income Statement prepared in accordance with the Australian Accounting Standards.

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

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 Net Operating Result is the excess of revenues 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.

A 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 to meet one off projects or programs, and/or revenues are not sufficient to meet all expenses for the current year.

Fiscal Balance

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

The Fiscal Balance measures the 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. A Fiscal Deficit indicates that the Government is spending reserves, including previously accumulated surpluses, to fund 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 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, taken at the end of each financial year. By providing information on the type of assets and liabilities held by a government, the Balance Sheet gives an indication of the government's financial strength at that point in time.

The Balance Sheet includes information on the make up and value of a government's financial assets and on the extent of liabilities such as borrowings and superannuation liabilities. This allows for

intertemporal and interjurisdictional comparisons of asset and liability levels. The major Balance Sheet indicators are Net Debt, Net Financial Liabilities, Net Financial Worth and Net Worth.

Net Debt

Net Debt is a measure used to help judge the overall strength of a jurisdiction's fiscal position. Net Debt comprises the stock of specified gross financial liabilities less selected financial assets. 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. Currently, Tasmania's selected financial assets exceed the stock of specified gross financial liabilities. Therefore, the State has a "negative" Net Debt and is considered a net investor of funds.

Net Financial Liabilities

Net Financial Liabilities is Net Debt plus the 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 Financial Worth

Net Financial Worth 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 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, shares and other contributed capital. 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.

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 convention 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

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, and provides a mechanism for managing the cash position to ensure that sufficient cash is available to fund Government policy decisions.

Cash Surplus

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.

The Cash Surplus is important for cash management purposes. It represents the difference between General Government operating and investing receipts over expenditure (including capital expenditure). It is important to note that a Cash Surplus does not necessarily imply that there is cash available for spending. This is because the Cash Surplus includes funds allocated to provisions such as the Superannuation Provision Account (SPA).

It should be noted that the ABS concept of a surplus/(deficit) does not include equity injections/withdrawals 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).

Consolidation of Transactions

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

To compile statistics for the financial activities of the General Government Sector the receipts, payments, financial assets and liabilities held with other agencies within the Sector have to be matched and eliminated to avoid double counting. This process is known as consolidation.

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

Consolidated Fund

The Consolidated Fund contributes to the operations of all on-Budget departments, is the source of funding for Reserved by Law payments and may contribute 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.

Expenditure from the Consolidated Fund is subject to appropriation by Parliament and actual expenditure and receipts are compared with the annual estimates.

CLASSIFICATION OF THE TASMANIAN PUBLIC SECTOR

The Tasmanian Public Sector comprises several different types of entities. These are classified according to the sectors comprising the UPF, namely General Government, Public Non-Financial Corporations (PNFC) or Public Financial Corporations (PFC) Sectors.

The General Government Sector comprises those agencies of government, the primary function of which is to provide public services which are mainly non-market in nature, for the collective consumption of the community, or which involve the transfer or redistribution of income and are financed mainly through taxes and other compulsory levies. This Sector includes government departments and a number of entities that act outside the Public Account including the Inland Fisheries Service, Marine *and* Safety Tasmania, the Royal Tasmanian Botanical Gardens, the State Fire Commission and the Nominal Insurer (a statutory entity created by the *Workers Rehabilitation and Compensation 1988 Act*). The 2006-07 State Budget is based on the General Government Sector.

The PNFC Sector comprises those entities that aim to cover the majority of their expenses by revenue from the sales of goods and services and which are mainly market, non-regulatory and non-financial in nature. Generally, this Sector covers the State-owned Companies (SOCs) and Government Business Enterprises (GBEs). These entities have a variety of functions and responsibilities, are established in varying ways and also have different relationships with the Budget.

The PFC Sector comprises those entities that perform central bank functions or have the authority to incur financial liabilities and acquire financial assets in the market on their own account. In Tasmania, there are two organisations in this Sector. These are the Tasmanian Public Finance Corporation and the Motor Accidents Insurance Board.

The following provides a breakdown of the Tasmanian Public Sector entities by sector.

General Government

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 Emergency Management
Premier and Cabinet
Primary Industries and Water
Royal Tasmanian Botanical Gardens

General Government (continued)

State Fire Commission
TAFE Tasmania
Tasmanian Audit Office
The Nominal Insurer
Tourism, Arts and the Environment
Treasury and Finance

Public Non-Financial Corporations

Aurora Energy Pty Ltd
Forestry Tasmania
Hydro Tasmania
Metro Tasmania Pty Ltd
Port Arthur Historic Site Management Authority
Printing Authority of Tasmania
Private Forests Tasmania
Rivers and Water Supply Commission
Southern Regional Cemetery Trust
Tasmanian International Velodrome Management Authority
Tasmanian Ports Corporation Pty Ltd
The Public Trustee
TOTE Tasmania Pty Ltd
Transend Networks Pty Ltd
TT-Line Company Pty Ltd

Public Financial Corporations

Motor Accidents Insurance Board
Tasmanian Public Finance Corporation



Tasmania
Explore the possibilities