Tasmania

2002

P A R L I A M E N T O F T A S M A N I A

Budget Paper No 1

Budget Overview 2002-03

Presented by the Honourable
Dr David Crean, MLC, Treasurer, for the information of
Honourable Members, on the occasion of the Budget, 2002-03

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1 THE 2002-03 BUDGET DEVELOPMENT CONTEXT

Features

- The 2002-03 Budget, like the previous four budgets, reflects a clear strategic approach. It is based on three objectives – the creation of sustainable job opportunities by establishing a more competitive business environment and securing major developments, providing improved and more responsive community services and achieving progress for the State through strong and responsible financial management.
- The improvement to date has been achieved by developing long term social, economic and fiscal strategies These strategies include the Industry Development Plan, the Fiscal Strategy, Partnership Agreements with Local Government and the overarching vision and goals of Tasmania *Together*.
- The key initiatives in this Budget to achieve the Government's objectives include:
  - a $70 million increase in funding for recurrent services, with specific base funding increases of $21 million for health and $4.3 million for justice services;
  - the establishment of a new Social Infrastructure Fund of $30 million to deliver improved services and infrastructure;
  - funding of $44 million per annum for four years towards the cost of the acquisition of two vessels by TT-Line for the Bass Strait service;
  - State taxation relief of $9.4 million in 2002-03; and
  - the creation of a $30 million Major Projects Fund to aid the development of strategic infrastructure within the State.
- A Consolidated Fund Surplus of $8.5 million in 2002-03, following a projected surplus of $4.7 million in 2001-02.
- Continued substantial improvement in the debt position of the State.
- The achievement of the Government's Fiscal targets two years ahead of schedule and the committment to a new Fiscal Strategy to ensure financial sustainability of Government services.
- This Chapter outlines the context within which the 2002-03 Budget has been developed and highlights the major strategies, Budget drivers and initiatives the Government is pursuing to ensure Tasmania's continued economic, social and financial development.

OVERVIEW

The 2002-03 Budget is the fifth and final presentation by the Government to Parliament during its current term of office. All five Budgets have contributed to a strategic approach by the Government to delivering greater economic development and improving community services, both of which are funded by increasing Budget flexibility through reducing debt under strong financial management.

Each of the five Budgets has been delivered with the understanding that, although there are external influences over the State economy about which the Government has limited control, a consistent, strategic approach to industry development will bring immense opportunities to Tasmania.

Tasmania's total production is distributed across three areas of demand; 50 per cent to local markets, 30 per cent interstate and 20 per cent as overseas exports. While inflation, commodity prices, interest rates and the Australian dollar can provide constraints and opportunities affecting all three areas of demand, the State Government has concentrated its efforts on the two primary areas over which it has the scope to accelerate industry development. These two areas of focus are creating a more competitive business environment and promoting major developments.

Over the last five Budgets, Tasmania's competitive business environment has improved to being one of the nation's best. This achievement is evidenced through the Competition Index, now an annual document which objectively compares business costs in Tasmania with those in other States. Over the same period, regulation that constrains business activity unjustifiably has been stripped away, delivering important initiatives like open shop trading hours consistent with the rest of Australia. To ensure all growth opportunities for local business are maximised, the Industry Development Plan provides a broad range of enterprise development programs to business which tactically improve Tasmania's chances of grasping growing export and import replacement trade.

Major projects, and in particular infrastructure projects, are now a feature of Tasmania's industrial landscape. Major projects which have either commenced or are about to commence represent private investment at a level not seen in the State since the early days of hydro-industrialisation. Natural gas, wind energy, water storage and irrigation, a fibre optic network, Basslink and a two vessel service across Bass Strait are all of enormous significance to Tasmania. All will contribute to moulding a very bright future for the State.

For the Tasmanian community, the tangible result of this strategic approach over five State Budgets includes increased wealth, growing job numbers and rapidly diminishing numbers of unemployed. As a consequence, population growth has returned to the State. Over this time, funding for important community services like health, justice and education has increased by over 14 per cent in real terms, delivered through reducing levels of debt and debt servicing costs and increased receipts through economic activity.

Along with the previous four Budgets, this Budget includes numerous, detailed initiatives to support the Government's strategic approach.

The key features of the Budget are:

- reductions in state taxation totalling $9.4 million in 2002-03. This is in addition to the $34.7 million in tax relief announced in last year's Budget;
- a contribution of $30 million to a new Social Infrastructure Fund;

- a $70 million increase in funding for recurrent services, with specific base funding increases of $21 million for health and $4.3 million for justice services;
- the achievement of the Government's fiscal targets two years ahead of schedule and the establishment of a new Fiscal Strategy and targets to ensure financial sustainability of Government services;
- the creation of a $30 million Major Projects Fund to aid the development of strategic infrastructure within the State;
- funding of $44 million per annum for four years towards the cost of the acquisition of two vessels by TT-Line for the Bass Strait service;
- a Consolidated Fund Surplus of $8.5 million in 2002-03, following a projected surplus of $4.7 million in 2001-02; and
- continued substantial improvement in the debt position of the State.

Further information on the initiatives and issues outlined above is provided in the subsequent sections of this introductory chapter, with detailed information being provided in other chapters of this Budget Paper and also within Budget Paper No 2 *Operations of Government Departments 2002-03*. Budget Paper No 2 outlines the Government's strategies and services on an agency by agency basis.

MAJOR 2002-03 BUDGET DRIVERS

The 2002-03 Budget tabled by the Government has been developed and finalised based upon the Government's commitment to the implementation of a number of key strategies (eg Tasmania *Together*, the Industry Development Plan, Partnership Agreements and the Fiscal Strategy). Detailed information on the economic Budget drivers and the status of the Tasmanian economy is provided in Chapter 2 of this Budget Paper. The following sections highlight the key Government strategies, progress with these strategies and other major 2002-03 Budget drivers.

Tasmania *Together* – Shaping Our Future

Tasmania *Together* is the overarching social, environmental and economic plan for Tasmania developed through broad consultation with the Tasmanian community. The goals and benchmarks of Tasmania *Together* provide a framework for both Government and non-government decision making into the future.

The State Government has a significant contribution to make towards achieving the Tasmania *Together* goals and benchmarks. But the non-government sector also has a critical role to play. Ultimately, Tasmania *Together* is about the Government working in partnership with the broader community to achieve a shared vision of Tasmania in the year 2020.

Tasmania *Together* provides the broad framework and links between major Government policy initiatives. The strategies and goals of the Government's Industry Development Plan, State and Local Government Partnership Agreements, *Learning Together* and other major initiatives, will all focus on achieving the vision and goals in Tasmania *Together*.

Tasmania *Together* will also improve whole-of-government long-term strategic planning. The Budget process has been amended to link policy and financial planning to achieve the community's objectives for the year 2020. Social, economic and environmental community outcomes are also being directly linked to

Agency outputs and strategies. The funding and initiatives included within the Budget are directed to addressing community, cultural, economic and environmental goals as developed in the Tasmania *Together* processes.

Progress during 2001-02 saw the establishment of the Tasmania *Together* Progress Board, the development of benchmarks and the publication of the *Tasmania Together, Community Leaders Group Report* in September 2001. Government agencies are presently preparing agency plans to address the goals. The Government, industry and the broader community's performance in achieving the goals outlined in Tasmania *Together* will be regularly monitored and reported against. Progress toward achieving Tasmania *Together* benchmarks will be regularly assessed by the Tasmania *Together* Progress Board to ensure that all Tasmanians are aware of progress being made in achieving the goals. Reports will be made to Parliament and will be widely circulated throughout the community.

The Government's performance in implementing Tasmania *Together* is also being regularly monitored and new arrangements have been established within Government to ensure that all Agencies are working together to achieve outcomes.

Industry Development Plan

The Industry Development Plan (IDP) is a key Government initiative which was first presented by the Government in November 1998, within three months of the 1998 Election. The Government's Industry Development Plan is a structured and systematic approach to strengthening and growing the Tasmanian economy. It is a major vehicle to achieve the economic and social goals of Tasmania *Together.*

The Industry Development Plan remains the Government's key strategic planning document on industry development. It is a vehicle for an integrated response to the strategic priorities of government, industry and the community and is directed at maximising job creation, investment attraction, net export growth, higher value products and enhanced skills base.

The industry development plans from 1998 to 2001 have focused on first halting, and then reversing, the relative economic disparity between Tasmania and the rest of Australia experienced throughout most of the 1990s.

The success of the annual series of Industry Development Plans in consolidating and re-building the economy is reflected in Tasmania's improved economic performance reported in Chapter 2 of this Budget Paper.

The four cornerstones of the 1998 Industry Development Plan have evolved over time as major initiatives which were implemented and milestones achieved. This evolution is summarised below.

IDP Cornerstones 1998	**Key elements of the IDP 2002**
A re-vitalised Department of State Development	More integrated approach by the key government agencies involved in industry development, particularly the Departments of State Development; Infrastructure, Energy and Resources; Primary Industries Water and Environment; Education; Treasury and Premier and Cabinet
Industry Audits	Industry Audits and Government's Response, Competition Index, Industry Councils and their Industry Plans
Ten Industry-based Programs	Competitive business environment, major infrastructure developments and industry-based programs
Local Government Partnerships	Partnership Agreements - with individual councils, regional groupings of councils and an agreement with the University of Tasmania

All four cornerstones were in place by the time the Government's second Budget was delivered in May 1999. Since that time, the implementation of the IDP by the Government has continued with the following major steps being taken:

- the release of the Government's audit response document *The Way Forward* in August 1999;
- the holding of forums to brief industry and the community on the IDP and the Government's response;
- the establishment of the Centre for Research, Industry and Strategic Planning; and
- the formation of Industry Councils.

The *Industry Development Plan 2002* will be delivered on 1 July 2002 to coincide with the business planning cycle. The *Industry Development Plan 2002* will see a shift from the re-building and consolidation focus of previous years to one of creating and maximising opportunities for growth. It will build on the existing policy fundamentals of the IDP 2001 and will focus on emerging strategic and growth issues.

Partnership Agreements

The Government is committed to the development of Partnership Agreements as a key mechanism for strengthening working relations with Local Government. The Government recognises that committed, progressive local communities and sound local economies are fundamental to the social and economic development of the State. The process for developing Partnership Agreements takes into account consultative mechanisms at the local level, encourages local input to community and economic development decisions and promotes shared responsibilities for improved targeting of service delivery.

The Government's objectives for the Partnership Agreements were outlined in its *Framework for Developing State-Local Government Partnership Agreements*, released in December 1998. In summary, these objectives are to:

- identify opportunities to work in partnership with Local Government to progress agreed social, economic and environmental outcomes for Local Government areas; and

- ensure effective service delivery arrangements including, where appropriate, options to improve coordination and joint service delivery arrangements or address gaps and overlaps in service delivery.

More broadly, the Government recognises that Partnership Agreements have a key role to play in facilitating the achievement of agreed social, economic and community development goals. In particular, they provide a vehicle to achieve the following whole-of-government strategic policy objectives:

- economic growth;
- social development; and
- environmental sustainability.

Partnership Agreements will also have a role in facilitating the achievement of agreed social, economic and community development benchmarks identified in Tasmania *Together*. At a sectoral level, the Partnership Agreements provide a framework for implementing the sector specific Industry Development Plans.

Progress to date in developing Partnership Agreements include Bilateral Partnership Agreements having been signed with Circular Head, Launceston City, Glenorchy City, Flinders, Hobart City, Kingborough and Break O'Day Councils. Negotiations have commenced with Burnie City, Central Highlands, Derwent Valley, Dorset, George Town, Glamorgan-Spring Bay, King Island, West Coast and West Tamar Councils.

In addition, following the pilot phase of the Partnerships program, a number of revised arrangements were introduced to improve the process. Amongst these was the introduction of regional Agreements to allow negotiations between the State Government and a number of councils in an area. Regional Partnership Agreements give the parties the opportunity to look broadly at issues that extend beyond the boundaries of a single council.

Every council in the State is currently involved in one of three regional Partnership Agreements. Eight northern councils are engaged in the Northern Tasmanian Municipal Organisation Partnership Agreement, which was signed in July 2001. Nine north western councils are involved in the Cradle Coast Authority Partnership Agreement, signed in October 2001. The twelve southern councils are involved in the development of the Southern Tasmanian Councils Partnership Agreement, to be completed in the near future.

In addition, the Premier's Local Government Council (PLGC) was established in 2000 as a forum for high-level discussions with councils on issues of statewide significance. The Council meets four times a year in the north and south of the State. The Council is chaired by the Premier and comprises the eight elected council representatives who make up the General Management Committee of the Local Government Association of Tasmania (LGAT). The PLGC maintains discussion on a range of issues that affect all councils in the State, including constitutional recognition of Local Government, State and Local Government financial relations, the implementation of Tasmania *Together*, the limited review of the *Local Government Act 1993*, public liability costs, forestry issues and other matters of topical interest. An Officials Committee with a membership of State and Local Government officers supports the Council. Statewide Partnership Agreements are negotiated through the PLGC. These involve all councils and the State Government and are signed by the President of the LGAT on behalf of the councils.

Two statewide Partnership Agreements on waste management and simplifying planning schemes have been developed under the PLGC. Work on these Partnership Agreements has now entered the implementation phase. A new statewide Partnership Agreement on communication and consultation between State and Local Government is currently under development.

Competition Index

Following the completion of the Industry Audit component of the Industry Development Plan, the Government committed to the development of a series of business competitiveness indices. The purpose of this initiative was to compare the costs and benefits of undertaking business in Tasmania (across a range of indices) with those in other states and territories. The Government has met this commitment through the preparation and release by Treasury, in May 2000, of the paper *The Competition Index – A State by State Comparison*. This was followed up with the release of an updated version of this document with the 2001-02 Budget Papers. A further release will be provided on 1 July 2002 to coincide with the business planning cycle and release of the *Industry Development Plan 2002*.

The Competition Index document provides 'warts and all' information on the comparative status of Tasmania as a place in which to do business. The more competitive the State is as a business environment, the greater the likelihood of increased economic development activity in the State.

The creation of a more competitive business environment is achieved by improving all aspects impacting on competition as identified by The Competition Index, reducing and eliminating unnecessary regulation and promoting business enterprise development and infrastructure projects through the Industry Development Plan.

The Competition Index is now an annual document which objectively compares business and industry sector costs and constraints in Tasmania with other States. The Competition Index provides the essential measurement necessary to focus government, business and the community on those competitive areas where the State may be weak and which should be addressed, and those areas where Tasmania is strong and which should be maintained. This type of detailed analysis is unique in Australia.

Highlighting areas of relative competitiveness provides critical direction for policy development, in particular directing and effectively utilising government resources. The Competition Index, therefore, underpins the Government's comprehensive Industry Development Plan. For example, the identification by The Competition Index of relatively high energy costs and its causes in Tasmania led to the more relevant, strategic and successful approach through the Industry Development Plan to securing the arrival and distribution of natural gas. The identification of high energy costs also led to priority being given to the development of a wind power industry in Tasmania, and the commitment to Basslink so that a more competitive energy market is established.

Regulation that constrains business activity unjustifiably is being stripped away. The Government has in place a comprehensive program to ensure only relevant legislation and regulation remain, or are placed, on the statute books. Using the principles of National Competition Policy, the Government has put in place a mechanism to review all existing legislation for anti-competitive features and, unless a strong public benefit test shows those features are in the public's best interest, they are removed. In five years, 134 Acts have been removed or repealed. Complementing this process is a gatekeeper assessment of all new legislation. The repeal of unnecessary legislation will continue in conjunction with the *Subordinate Legislation Act 1992*. The Government's commitment to reducing and eliminating unnecessary Government regulation was recently demonstrated through the successful delivery of legislation to open-up shop trading hours consistent with the rest of Australia.

Tasmania's competitive business environment has improved to being one of the nation's best. This achievement is evidenced through results detailed in The Competition Index, all of which have been delivered through a strategic response to identified issues impacting on competitiveness, a steadfast commitment to reducing and eliminating unnecessary regulation, and assisting Tasmanian business through the delivery of enterprise development programs and major infrastructure projects.

TASMANIA'S FINANCIAL POSITION AND FISCAL STRATEGY

The Budget Position

The financial position of the State has been the subject of considerable debate for many years. Much of the focus of initiatives of successive Governments over the past decade has been on improving the State's financial position. In assessing the State's financial position, attention is focused on a range of financial factors such as the annual Budget position, the State's liabilities and the State's assets.

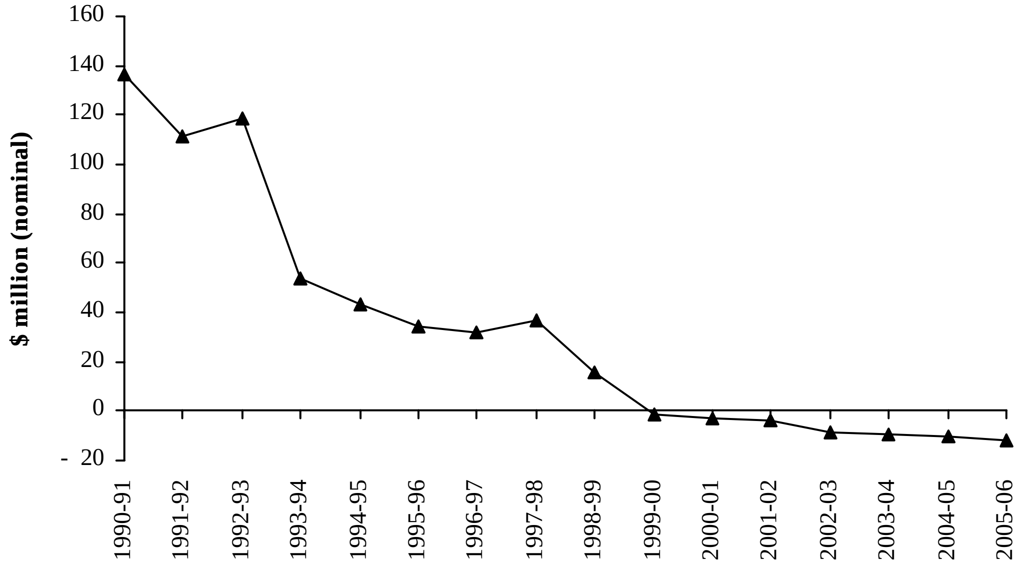
Historically, Governments have incurred an annual Budget deficit ie Government expenditure has exceeded Government revenue. This excess of expenditure over revenue is referred to as the Net Financing Requirement (NFR). A Budget surplus is described as a Consolidated Fund Surplus (CFS). The Budget deficit has been funded by successive Governments undertaking borrowings each year which in turn increased the level of expenditure on debt servicing costs. Such a position was unsustainable in the long-term, adversely affected the State's financial position and significantly impacted on the Government's capacity to provide services to the community.

In 1990, the Field Labor Government introduced the first Fiscal Strategy to be adopted by a Tasmanian Government. Between 1990 and the election of the Bacon Government in 1998, the implementation of a number of fiscal strategies by successive Governments resulted in a significant reduction in the NFR.

The Bacon Government introduced a new Fiscal Strategy as part of the 1998-99 Budget. Consistent with the requirements of that Fiscal Strategy, since 1999-00 the Budget deficit (NFR) has been eliminated and small, but increasing, Budget surpluses achieved. In addition, through strong financial management, all other targets under the Fiscal Strategy have been achieved two years ahead of schedule. The achievement of a CFS and meeting the fiscal targets represented a significant milestone in the improvement of the financial position of the State.

Chart 1.1 shows the reduction and eventual elimination of the NFR during the 1990s and the achievement of a CFS from 1999-00. The Chart also shows the projected CFS result for the next four years.

Chart 1.1: Net Financing Requirement[1]



Note:
1. Figures for 2001-02 to 2005-06 are estimates only based on the Forward Estimates. The negative NFR shown in the above chart from 1999-00 onwards represents a CFS.

The Government is committed to consolidating and improving the current position of the State Budget while also ensuring that funding is available to meet the cost of essential services. To ensure that appropriate financial management continues, the Government has committed to a new Fiscal Strategy from 2002-03. Details on the new Fiscal Strategy, and on the achievement of the current Fiscal Strategy targets, are outlined later in this chapter.

Assets

As at 30 June 2001, the Tasmanian State Government Sector controlled assets (on a Uniform Presentation Framework basis) totalling $13 984 million.

On an individual sector (unconsolidated) basis, this comprised:

- General Government Sector assets of $10 232 million;
- Public Trading Enterprises Sector assets of $5 899 million; and
- Public Financial Enterprise Sector assets of $5 506 million.

The most significant Total State Government Sector asset holdings are in the areas of:

- infrastructure assets ($6 818 million) – this includes road, bridge, water, electricity and other infrastructure assets;
- land, buildings and forest estate ($3 824 million) – this includes assets such as schools, hospitals, other buildings and Crown land (including national parks and conservation areas);
- plant and equipment assets ($484 million) – this includes vehicles and other plant and equipment; and

- cash and investments ($2 201 million) – this includes assets such as the balance of cash in the Public Account ($751 million), and other investments in the Non-Government Sector held by Tascorp ($1 106 million) and the Motor Accidents Insurance Board ($344 million).

Further information on the Government's assets can be found in Chapters 9 and 11 of this Budget Paper.

Liabilities

As at 30 June 2001, liabilities of the Tasmanian State Government Sector (on a Uniform Presentation Framework basis) totalled $7 784 million.

On an individual sector (unconsolidated) basis, this comprised:

- General Government Sector liabilities of $4 040 million;
- Public Trading Enterprise Sector liabilities of $2 314 million; and
- Public Financial Enterprise Sector liabilities of $5 437 million.

The level of debt which a state holds at a particular point in time, and trends in the level of debt, are significant factors in the assessment of the overall financial position of the State. These indicators provide a guide to the financial position of the state and the Government's financial performance. This in turn impacts on business confidence in investing in the state and, through assessments of the State's credit rating, it also impacts on the cost of borrowings to the State. The resulting debt servicing costs limit the level of resources available to fund the provision of community services.

As with the State's Budget position, Tasmania's relatively high debt position has been a strong focus of the Fiscal Strategies which were implemented by successive Governments during the 1990s.

Further information on the Government's liabilities can be found in Chapters 9 and 11 of this Budget Paper.

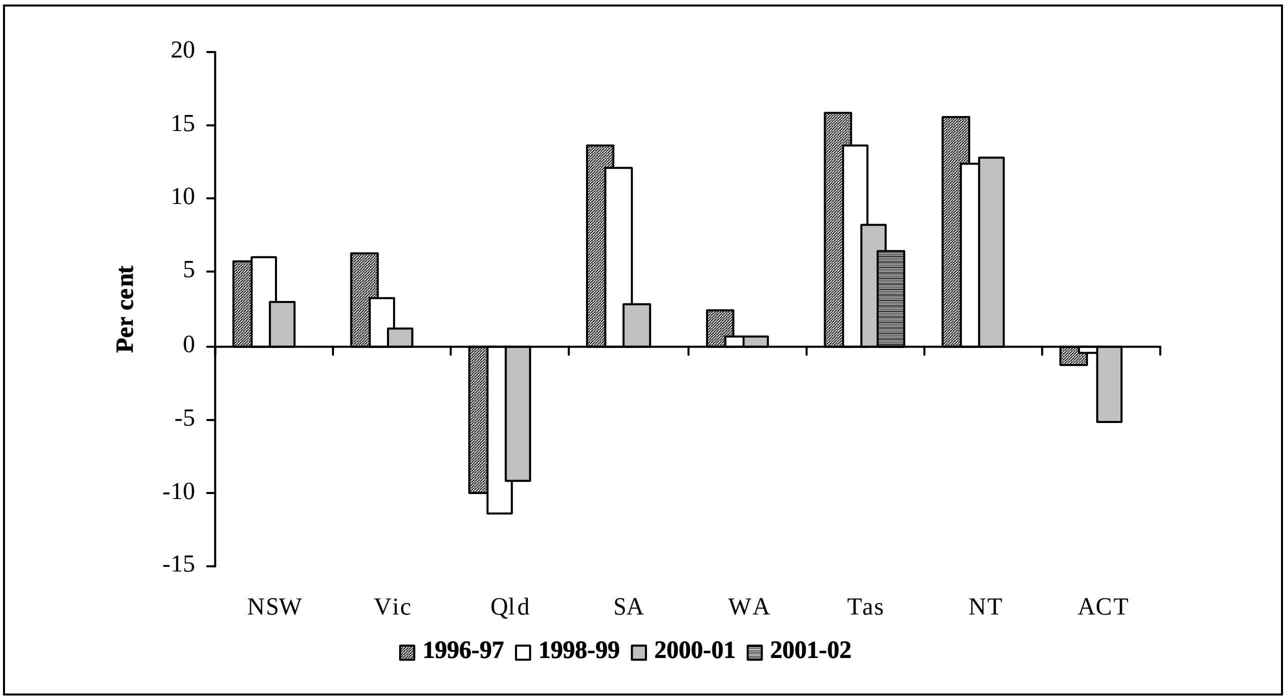
Net Debt

The standard measure to assess the State Government's indebtedness is Net Debt as defined by the Uniform Presentation Framework (see Chapters 9 and 11 of this Budget Paper).

As at 30 June 2001, Total State Government Sector Net Debt totalled (in nominal terms) $1 953 million. This represents a decline, in nominal terms, of 12.4 per cent from the 30 June 2000 figure of $2 229 million. In real terms, a decrease in Total State Government Sector Net Debt of 46.4 per cent or $1 761 million has been achieved since the peak Net Debt level of $3 797 million at 30 June 1994. The substantial progress in reducing debt has been endorsed by Ratings Agencies, as underscored by Standard and Poor's decision in October 2001 to upgrade the State's credit rating for the first time to AA.

Chart 1.2 shows that Tasmania's General Government Sector Net Debt as a proportion of Gross State Product (GSP) has 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 shows 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. However, unlike Victoria and South Australia, Tasmania has retained its electricity businesses in public ownership. These businesses make significant annual contributions to Tasmania's Budget position. There has also been a steady decrease, over the five years to 2000-01, in Net Debt levels as a proportion of GSP for all other States and Territories, with the exception of Queensland.

Chart 1.2: General Government Sector Net Debt as a percentage of GSP[1]



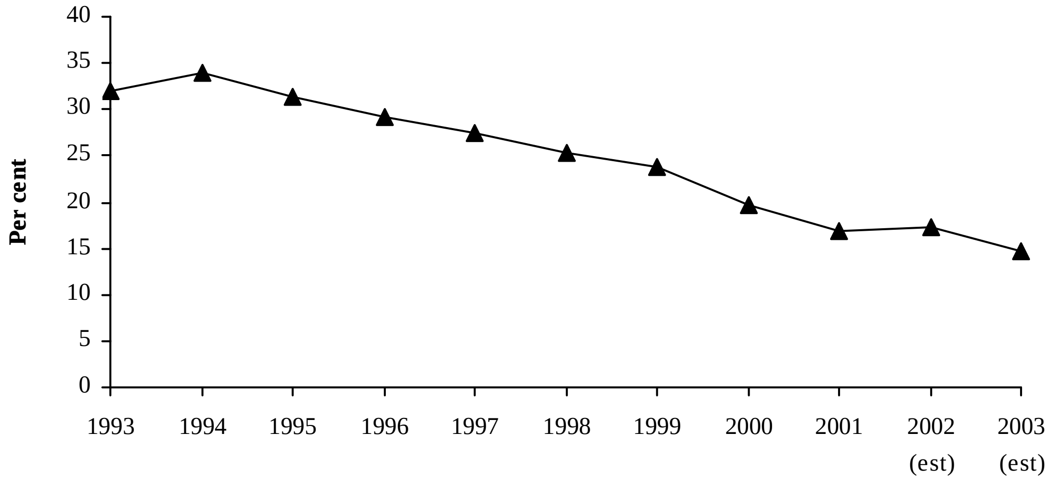
Sources: *Government Financial Estimates, Australia 2000-01*, ABS Cat No 5501.0; *Australian National Accounts: State Accounts, 2000-01*, ABS Cat No 5220.0.

Note:

1. The 2001-02 figure for Tasmania is an estimate only. Estimates for other states are unable to be calculated until debt information is published by the states in their 2002-03 Budget Papers.

Chart 1.3 emphasises the substantial improvement in the level of Tasmania's Total State Sector Net Debt, as a percentage of GSP, which has occurred since June 1998.

Chart 1.3: Tasmania Total State Sector Net Debt as a percentage of GSP

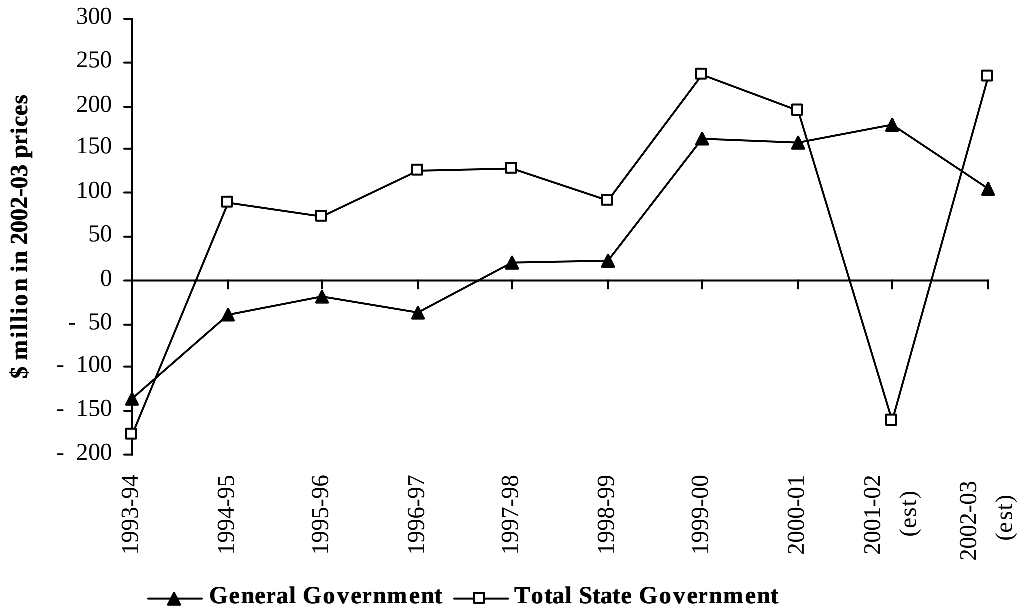


The acquisition of two vessels by the TT-Line in 2001-02 will result in only a temporary increase in Total State Sector Net Debt as at 30 June 2002, after which there is a projected substantial decrease in net debt, consistent with the Government's Fiscal Strategy. It is estimated that despite the purchase, Total State Sector Net Debt at June 2003 will be less than it was at June 2001. In terms of the Government's overall debt strategy, the purchases will have no impact on the stated financial target of eliminating General Government Sector Net Debt by 2007-08.

GFS Cash Surplus/(Deficit)

The reduction in Net Debt is attributable to the GFS cash surplus results that have been achieved in the Total State Government Sector. The General Government Sector has been in a surplus position since 1997-98, and is projected to continue to achieve surplus results. The Total State Government Sector has been in a surplus position since 1994-95. Chart 1.4 compares real term trends in the surplus/(deficit) for the General Government and the Total State Government Sectors, demonstrating the reductions in deficits and the shift into surpluses achieved in each Sector.

Chart 1.4: Real General Government and Total State Government Sectors Surplus / (Deficit)



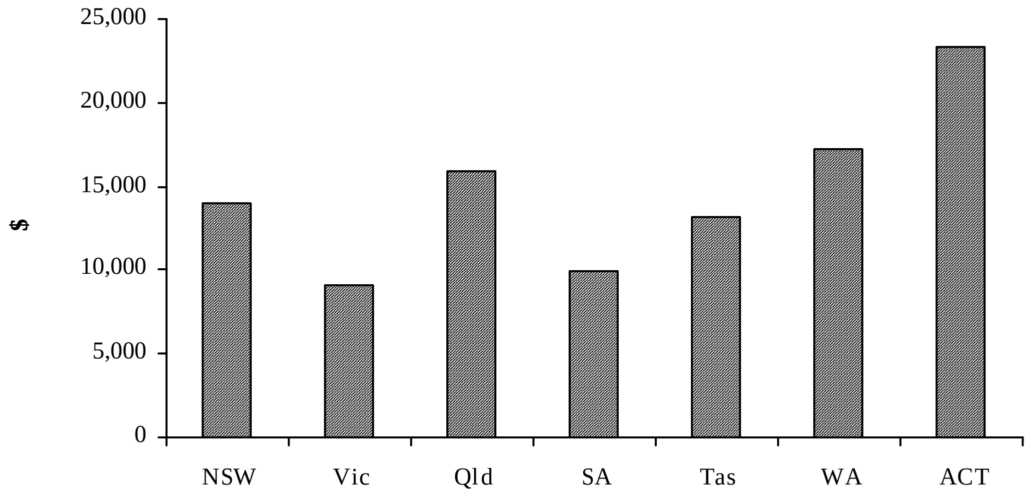
Sources: *Government Finance Statistics*, Australia, ABS Cat No 5512.0; Department of Treasury and Finance.

The capital outlay relating to the acquisition of the two vessels by TT-Line will result in a temporary deficit for the Total State Government Sector in 2001-02.

Net Financial Position

The net financial position of Tasmania is represented by the difference between the level of the State's assets and its liabilities. The net assets of the Total State Government Sector, as at 30 June 2001, totalled $6 200 million. This represents a net worth per head of population of $13 186. As shown in Chart 1.5, this level of net worth per head of population is substantially greater than Victoria and South Australia, on a par with New South Wales but below that of Queensland, Western Australia and the Australian Capital Territory.

Chart 1.5: Interstate Comparison of Total State Government Sector Net Worth per Head of Population as at 30 June 2001



Further information on the Government's net worth can be found in Chapter 9 of this Budget Paper.

Superannuation

The Government's unfunded superannuation liability is a significant component of Tasmania's overall liabilities. Prior to 1994, the Government's liability for the vast majority of public servants was met on an emerging cost basis, that is when the public servant retired. In 1994, a Superannuation Provision Account (SPA) was established in the Special Deposits and Trust Fund in order to accumulate funds over time to offset the unfunded superannuation liability associated with the Retirement Benefits Fund (RBF) scheme.

Agencies are required to pay into the SPA an annual amount determined by the Treasurer, currently 11 per cent of the salary of each public servant who is a member of the RBF defined benefit scheme. The employer share of emerging RBF pensions and lump sum benefits payable to, or in respect of, former public servants of those agencies that contribute to the SPA is then reimbursed to the Retirement Benefits Fund Board from that Account. The balance of the SPA as at 30 April 2002 was $421 million, which is $90 million more than at the same time in 2001 ($331.4 million).

It should be noted that while the agency contributions into the SPA relate to service after 1 July 1994, the payments made from that Account often relate to the service of employees before that date. This is the reason why annual contributions into the SPA from Finance-General are required.

In 1999, the Government made significant superannuation reforms, closing the defined benefit scheme to new entrants and establishing a fully funded, and hence fully portable, superannuation scheme for new entrants and those current employees who were not members of the RBF defined benefit scheme. This reform, which had been introduced into most other states a few years earlier in respect of public servants, went further than in all other jurisdictions in that it was also applied to the State's parliamentary and judicial superannuation arrangements.

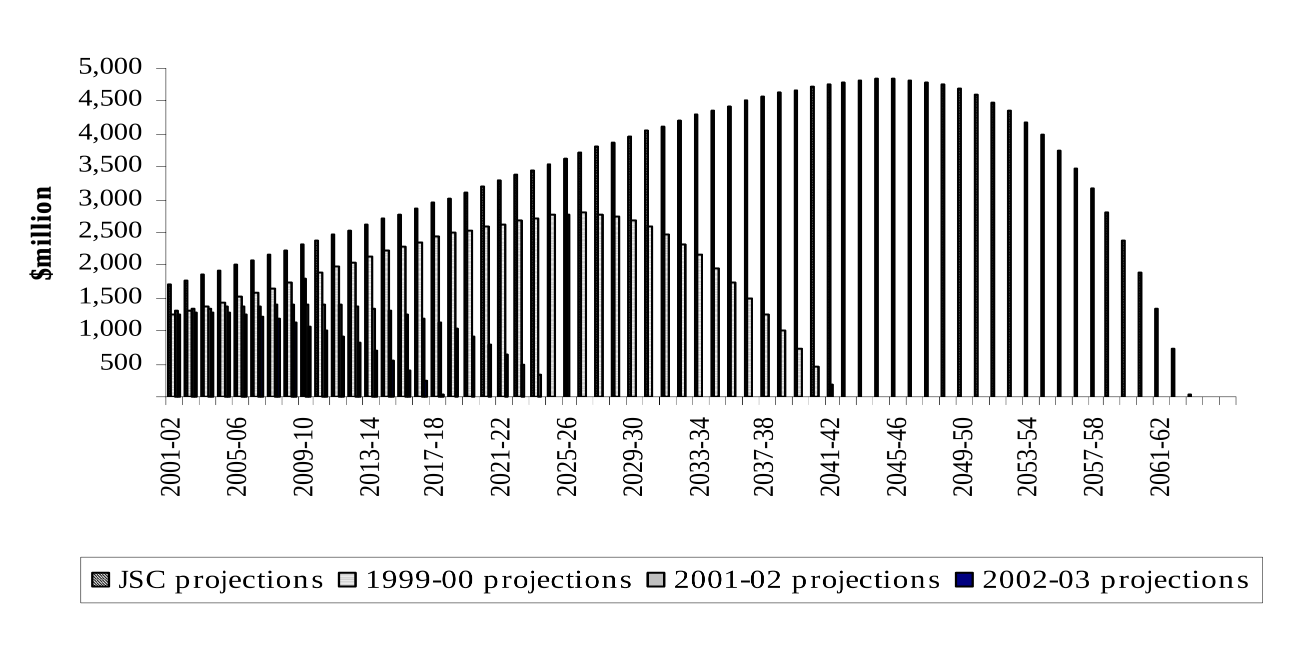
The effect of these changes is that all new public servants appointed after 15 May 1999, all new members of Parliament elected after 1 July 1999 and all new judges and Solicitors-General appointed after 1 July 1999 are now members of fully funded superannuation schemes. As at 30 June 2001, over 60 per cent of all Tasmanian public sector employees are now members of fully funded superannuation schemes. This percentage will clearly increase over time, as members of the closed defined benefit schemes exit. These developments ensured that the Government met its Fiscal Strategy commitment that the accruing superannuation liabilities of all new public sector employees would be fully funded on and from 1 July 1999.

The purpose of the 1999 reforms was to ensure that the State's unfunded superannuation liability was firstly capped and then eventually eliminated over a reasonable time period. In the first instance, the reforms capped the unfunded liability in the sense that no new employees would add to that liability. It was accepted, however, that the unfunded liability would continue to increase in nominal terms for a number of years (as salaries increased, members worked additional years of service and so on), but that eventually it will disappear as membership of the closed schemes declines.

The 1997 report of the Joint Select Committee on Superannuation (JSC), which was the catalyst for the reforms outlined above, estimated that, on a then present policy basis, the State's unfunded superannuation liability would be eliminated by 2064 (that is, within about 67 years). However, given developments between the release of the JSC Report in 1997 and the eventual closure of the scheme in 1999, the significant funding effort that the Government has made towards building up assets in the SPA since that time and the strong investment performance of the RBF Board, it is now estimated by the Actuary that the unfunded RBF superannuation liability can be eliminated by 30 June 2018. This target therefore forms part of the Government's new Fiscal Strategy announced in this Budget.

Chart 1.6 shows the original JSC estimate of when the unfunded RBF superannuation liability would be eliminated, the actuarially revised estimates shown in the 1999-00 and 2001-02 Budget Papers and the most recent estimates referred to above.

Chart 1.6: Projected Unfunded Liability (Nominal)



The Fiscal Strategy

A credible and achievable medium-term Fiscal Strategy is an essential component of prudent 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 or problems and how these will be addressed.

The Current Fiscal Strategy

The Government introduced the current Fiscal Strategy as part of the 1998-99 Budget. Its primary objective was to ensure responsible financial management while supporting the Government's other priority initiatives such as Tasmania Together, the Industry Development Plan and Partnership Agreements. The Fiscal Strategy was structured to run until the end of 2003-04. However, all tactical targets established under the 1998-99 Fiscal Strategy have been achieved.

Table 1.1: Fiscal Strategy Targets[1]

Tactical target	1997-98 Actual	1998-99 Actual	1999-00 Actual	2000-01 Actual	2001-02 Revised Estimate	2002-03 Estimate	Targets
Consolidated Fund Budget to be maintained in surplus from 1999-00 ($ million)	**(37.1)**	**(15.2)**	**1.3**	**3.5**	**4.7**	**8.5**	**> 0**
General Government surplus as a proportion of General Government revenue on average from 1999-00 to 2003-04 (%)	**1.0**	**1.1**	**7.2**	**6.9**[2,3]	**7.9**	**4.7**	**2.5**
Total State Government net debt as a percentage of GSP by 2003-04 (%)	**25.4**	**23.8**	**19.7**	**16.8**	**17.5**	**14.8**	**< 20.0**
General Government net debt as a proportion of GSP by 2003-04 (%)	**12.7**	**11.3**	**8.0**	**8.3**[2,4]	**6.5**	**5.4**	**< 10.0**
Net interest cost ratio by 2003-04 (%)	**7.6**	**6.9**	**5.2**	**4.0**	**3.5**	**2.8**	**< 5.0**

Sources: Department of Treasury and Finance and the Australian Bureau of Statistics (ABS).

Notes:

1. There have been minor changes to some actual figures previously reported in Chapter 1 of Budget Paper No 1 *Budget Overview 2001-02*. These changes are primarily the result of changes in ABS GSP figures.
2. The 2000-01 figure is affected by the ABS reclassification of housing activities, with associated debt, from the PTE Sector to the General Government Sector.
3. Had the reclassification of housing activities not occurred, the 2000-01 figure would have been 7.1 per cent.
4. Had the reclassification of housing activities not occurred, the 2000-01 figures would have been 6.2 per cent. Subsequent year's figures would also be correspondingly lower.

The above Table shows that not only has the Government now met all of the targets established in 1998-99, it has also achieved the targets well before the Fiscal Strategy deadline of 2003-04. These are very important results for the Government, as it has successfully achieved all elements of its Fiscal Strategy while also:

- addressing the major risks that have impacted on the management and development of the State Budget over previous years arising from past inadequate funding of health and community services and the growth in the State's unfunded superannuation liability;
- fully providing for all of the Government's insurable risks;
- providing significant additional recurrent funding to agencies for social services;
- establishing Infrastructure Funds to facilitate the improvement of Tasmania's social and economic infrastructure;
- implementing a range of initiatives to improve the Tasmanian economy; and
- reducing the payroll tax rate, the level of land tax, stamp duty taxation and abolishing the Electricity Entities Levy.

The New Fiscal Strategy

Having achieved all of the targets established in the previous Fiscal Strategy some two years ahead of schedule, the Government has developed a new Fiscal Strategy. This new 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.

The implementation of the new Fiscal Strategy will continue to support the Government's priority initiatives such as Tasmania *Together*, the Industry Development Plan and Partnership Agreements by delivering quantifiable benefits to the community in the form of improved service provision, tax cuts and infrastructure development. Key elements of the new Fiscal Strategy include ongoing Budget surpluses, the elimination of General Government Net Debt and net interest payments, a significant reduction in Total State Sector Net Debt and the elimination of the Government's unfunded superannuation liability within a reasonable time frame.

The new Fiscal Strategy will extend for a period of six years, commencing in 2002-03. Extending the period of the Fiscal Strategy to six years represents an appropriate medium-term timeframe in which to set Tasmania's fiscal goals. The conclusion of the new Fiscal Strategy will also coincide with major achievements such as the elimination of General Government Sector Net Debt.

The principles and targets which form the basis of the new Fiscal Strategy are outlined in detail below.

Budget Position

Principle - *To strengthen the State's financial position, the State Budget will be managed in surplus on a long-term sustainable basis to achieve the Government's net debt targets.*

Target - *The annual Consolidated Fund Budget will be maintained in surplus; and*

- *The General Government Sector surplus will be sufficient to achieve the Government's established net debt targets.*

The annual Budget outcome is a vital factor in the long-term management of the State's finances. In the absence of asset sales and additional financial assets, the only means of achieving a significant reduction in net debt is through the achievement of ongoing surpluses. In order for the net debt targets established as part of this new Fiscal Strategy to be achieved, it is therefore essential that the necessary level of Budget surpluses be achieved.

Debt and Liability Reduction

Principles - *The debt and liability burden on the Tasmanian community will be further reduced; and*

- *The proceeds from major asset sales over $2 million will be used to retire State debt.*

Targets - *General Government Sector Net Debt will be below $450 million by June 2005;*

- *General Government Sector Net Debt will be eliminated by June 2008;*
- *General Government Sector Net Interest Costs will be zero by June 2008;*
- *Total State Sector Net Debt will be below $1 000 million by June 2008;*
- *The State's unfunded superannuation liability will be extinguished within 16 years (that is, by June 2018); and*

- *Net Financial Liabilities for the General Government Sector will be eliminated within 15 years (that is, by June 2017).*

Debt and liability reduction will again be a centrepiece of the new Fiscal Strategy. Achieving a reduction in the level of net debt is a critical factor in the achievement of further improvements in the State's financial position while also reducing the pressure on the annual Budget from increases in interest rates. A reduction in the level of debt is also of great importance due to the strong focus rating agencies place on the liability side of the State's balance sheet.

In addition to these significant benefits, the reduced interest costs associated with debt reduction also mean that savings are generated which can then be applied to major Government initiatives such as tax cuts, improved services to the community and increased spending on public infrastructure. This has been a significant factor in the increased funding which the Government has been able to apply in recent Budgets to a range of services and initiatives. Chart 1.7 details the estimated reduction in net debt in the Total State and General Government Sectors. The small temporary rise in Total State Sector Net Debt in 2001-02 is due to the purchase of the two vessels for the Bass Strait service.

Chart 1.7: Total State Sector and General Government Sector Net Debt

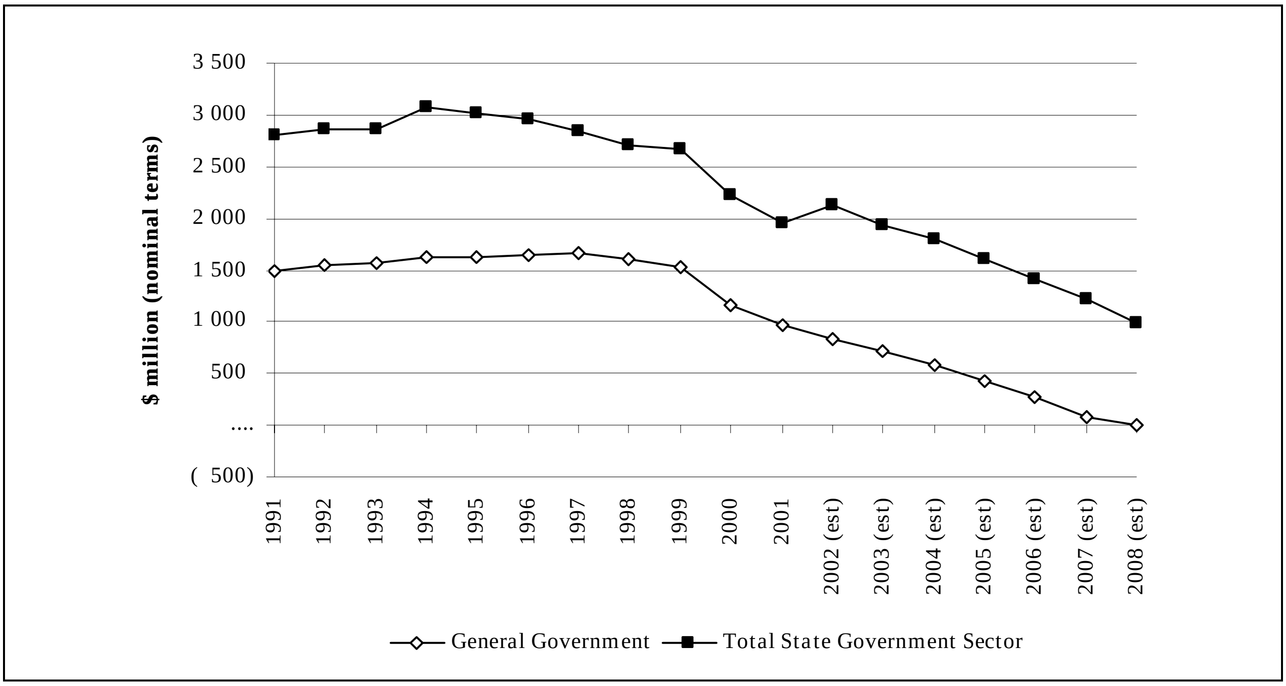
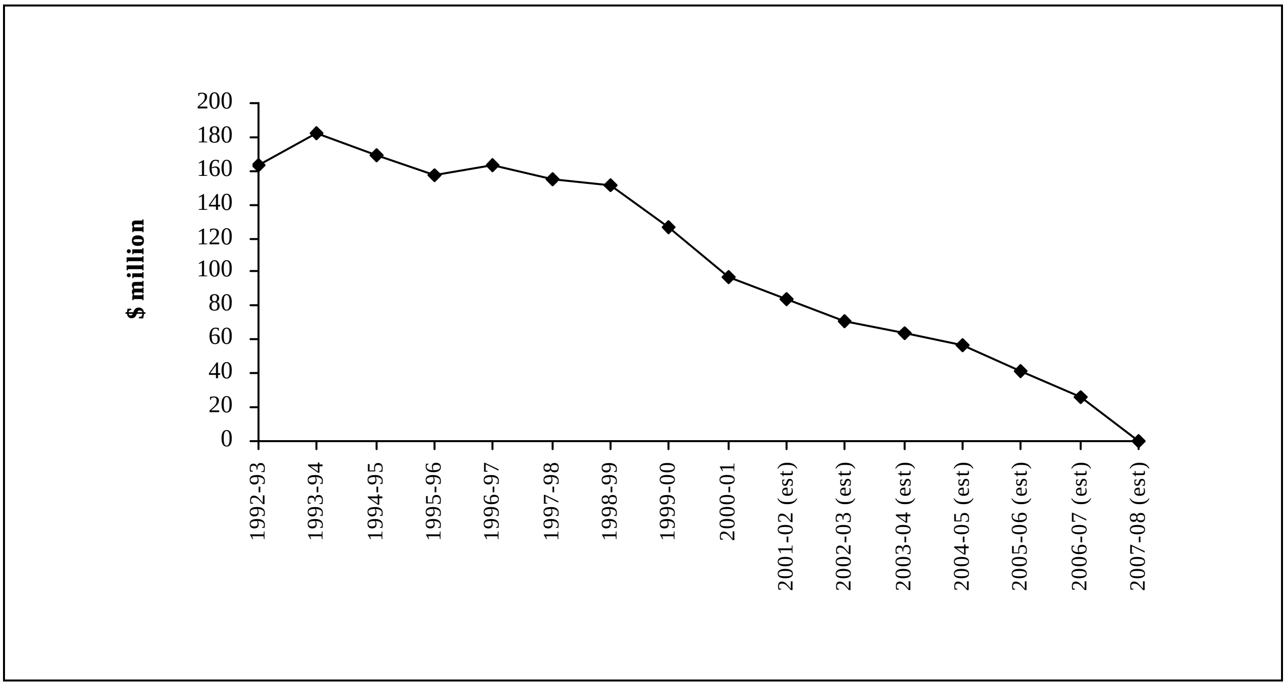


Chart 1.8 illustrates the targeted reduction in General Government Sector Net Interest Costs to below zero by June 2008.

Chart 1.8: General Government Sector Net Interest Costs



Taxation Competitiveness

Principle - *Maintain a competitive State tax environment.*

Targets - *Tasmania's tax severity (as measured by the Commonwealth Grants Commission) will remain below the average of all states and territories and below that of Victoria; and*

- *There will be no new taxes and no increase in the rate of any existing taxes.*

The Government is committed to fostering an increasingly competitive business environment in Tasmania and to ensuring that Tasmania is an attractive place for people to live. These are both major factors in increasing the level of employment in Tasmania.

Through its Industry Development Plan and a range of other major strategies and initiatives, the Government has actively sought to achieve these important objectives. Foremost amongst these strategies and initiatives has been the creation of a competitive State tax environment through the implementation of State tax reform, a key element of the 2001-02 Budget and this Budget.

The principles and targets relating to taxation competitiveness established in this new Fiscal Strategy will ensure that Tasmania continues to be highly competitive with the other states and territories when it comes to levels of business and other taxation.

Infrastructure Maintenance

Principle - *Maintain infrastructure to support the delivery of Government services and to foster economic and industry development.*

Target - *The State funded component of the Capital Investment Program will be maintained in real terms.*

The proper maintenance of Tasmania's public infrastructure assets and investment in new public assets is essential to the effective delivery of services to the community and to promoting growth within the State. Appropriate levels of ongoing capital expenditure also assists in reducing the likelihood and impact of significant one-off capital expenditure 'hits' on the Budget.

The focus on infrastructure maintenance as part of this new Fiscal Strategy will ensure that the significant additional expenditure which has been allocated by the Government to infrastructure maintenance in recent years will be supported by the maintenance, in real terms, of the level of State funding provided in the Capital Investment Program over the next six years.

Risk Management

Principle - *Ensure that adequate mechanisms and financial provisions are in place to minimise the risks to the Tasmanian Government.*

Target - *The Tasmanian Risk Management Fund will operate on a fully funded basis and have reserves that are sufficient to meet estimated outstanding liabilities.*

While it is prudent financial management to reduce levels of net debt and unfunded superannuation liabilities and to seek to increase the level of Budget surpluses, it is also prudent financial management to seek to reduce the impact which other risks could have on the Government's overall financial position. Through the establishment of the Tasmanian Risk Management Fund in December 1998, the Government has taken important steps to reduce the potential impact of a range of risks on government agencies.

The inclusion of this principle and target in the new Fiscal Strategy emphasises the importance of the Government continuing to take appropriate action in relation to minimising all risks to the Government's financial position.

Competitive Business Environment

The Competition Index highlights a number of areas where Tasmania could improve and therefore create a more competitive environment. The areas include the cost of energy, reducing and eliminating unnecessary regulations, improving worker and business management skills, promoting enterprise and infrastructure development as well as maintaining a competitive state taxation system. In developing the 2002-03 Budget, the Government has directed policies and resources to address the areas highlighted by the Competition Index to improve economic development and increase employment.

Many of the initiatives implemented by the Government in this and previous Budgets have focused on improving the competitiveness of Tasmania as a place to do business. The Government will continue to seek to build on the benefits which these initiatives have, and will, generate.

Business Initiatives

Tax Relief

The 2002-03 Budget incorporates several taxation relief initiatives that build upon the tax initiatives delivered in the 2001-02 Budget. The substantial amount of relief provided in 2001-02 through the abolition of the Electricity Entities Levy and the reduction in payroll tax, together with the abolition of financial institutions duty (FID) and stamp duty on quoted marketable securities, has assisted in creating a strong economic climate for businesses to operate and expand. The aim of the taxation relief measures in this Budget is to continue to foster a competitive business environment in the State.

The initiatives in this Budget provide relief through a reduction in land tax and through the abolition of several duties. These initiatives are intended to specifically target small business through direct tax benefits and decreasing the cost of complying with State tax requirements by reducing the overall number of taxes. The number of business taxes imposed in Tasmania will also be the lowest amongst all states and territories from 1 July 2002.

The Government will reduce land tax by $2 million in 2002-03. This will be achieved by reducing the number of steps in the land tax scale and by raising the level below which no tax is paid from $1 000 to $15 000. Taxpayers currently paying land tax will benefit from a lower tax liability, with those with lower valued land receiving higher proportionate relief than the relatively few who own higher valued land.

A rebate will also be provided to home owners in transitional circumstances who incur a land tax liability when they are moving from one residence to another. The rebate will be paid to those home owners who have paid the land tax liability, provided no income is earned from either property over the transitional period.

The land tax relief will, in particular, assist small business owners in a wide range of industry sectors including manufacturing, retailing, and financial and business services.

A number of duties currently levied under the *Duties Act 2001* will also be abolished with effect from 1 July 2002. These duties are:

- lease duty;
- a range of miscellaneous duties;
- non-quoted marketable securities duty;

- public liability insurance premium duty; and
- hire of goods duty.

The removal of these duties offers significantly reduced compliance costs for businesses. Households will also benefit from the removal of duty on loan agreements and consumer credit contracts.

The Government has recognised and responded to the problems faced in the community as a result of rising public liability insurance premiums by abolishing duty on this class of insurance. This relief will assist the many community and sporting organisations in the State which have encountered public liability insurance premium rises, as well as small businesses which have also been affected.

These Budget initiatives will result in savings to businesses and households of approximately $9.4 million in 2002-03.

Skills and Business Training

The job opportunities that flow from the large investments being made in Tasmania will require new or enhanced skills in a range of areas. Whilst the proportion of the labour force undertaking ongoing training in Tasmania is positive, only a relatively small proportion of the Tasmanian labour force has some form of qualification. The initiatives in this Budget will provide the basis to increase the number of Tasmanians with formal qualifications and aim to develop the business and other skills needed to take advantage of the opportunities that will arise over the next few years.

Funding will be allocated to encourage student participation in courses of economic importance to the State by reducing fees. The program will allow access to 265 000 hours of training at a concessional rate of $0.75 per nominal hour, which is half of the current fee, ensure a pool of skills available to support industries of high significance to the State's economic growth and potentially enable people currently unemployed to gain jobs. It will also contribute to the success of major State projects, by anticipating and responding positively to demands for skilled labour.

Additional initiatives include a Business Skills Development Program to provide existing and prospective business managers with training in a range of business management skills, including financial management, marketing, human resource management and information technology.

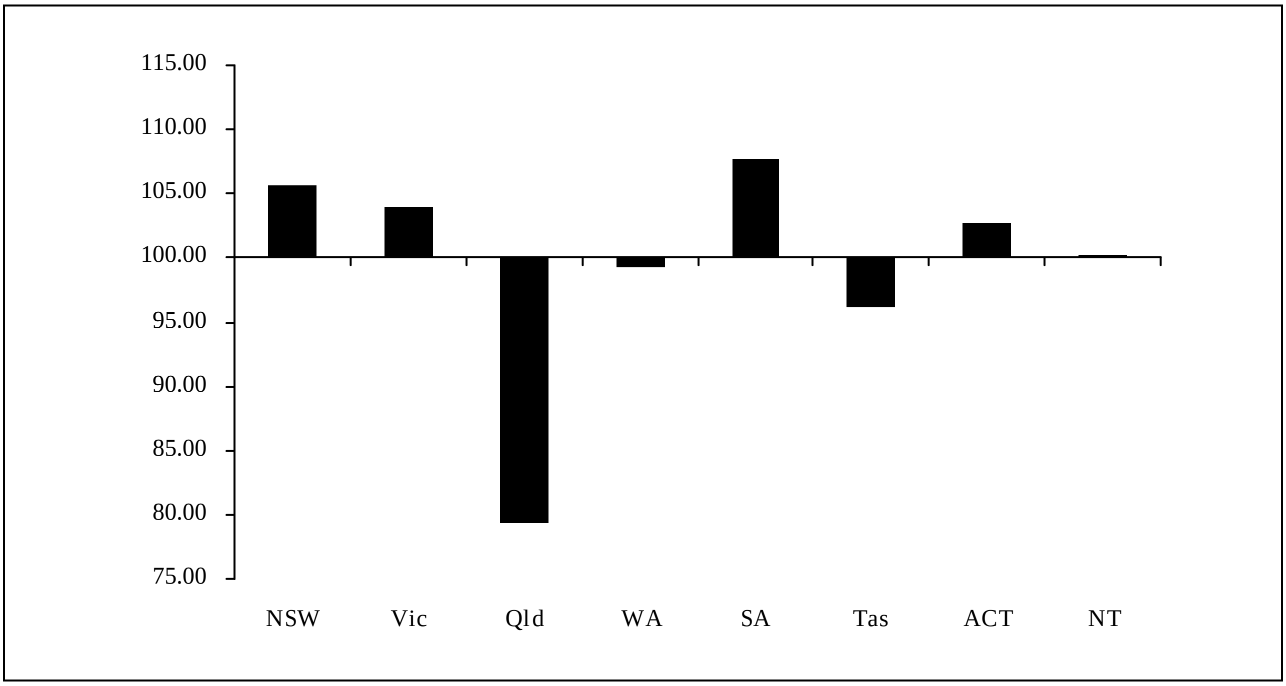
Over $7.7 million will also be allocated to TAFE for redevelopment of facilities to maximise the potential for TAFE to provide a modern learning environment. Accessible TAFE Learning Centres have been provided funding to develop highly accessible learning centres at the Devonport, Burnie, Launceston and Hobart TAFE campuses. The learning centres will enable students and businesses to access learning at times suited to their work, personal and business requirements and access to the latest learning technology.

Tax Competitiveness

Tax competitiveness plays a key role in creating a competitive business environment. The taxation relief initiatives in this Budget will consolidate Tasmania's competitive position. As a result of the initiatives in the 2001-02 Budget, the State has a very competitive payroll tax regime. This will be further enhanced with the changes to land tax and duties from 1 July 2002.

Taxation competitiveness is measured by the Commonwealth Grants Commission. The latest national comparison shows that Tasmania's tax severity is four per cent below the national average, and is the second lowest of all jurisdictions. This comparison is shown in Chart 1.9.

Chart 1.9: Taxation Severity, 2000-01



Source: *Report on State Revenue Sharing Relatives 2002 Update*, Commonwealth Grants Commission

On the latest figures, Tasmania is the second lowest taxed State in Australia. In the new Fiscal Strategy announced in this Budget, the Government has set a goal of maintaining Tasmania's taxation severity below the average of States and Territories and below that of Victoria. It should be noted that the data in Chart 1.9 does not include the substantial relief delivered in the last Budget or this Budget, and therefore Tasmania's current tax competitiveness is likely to be even better than that shown.

One of the key components of tax competitiveness from a business perspective is payroll tax. The Budget initiatives in 2001-02 reduced the marginal rate of payroll tax from 6.53 per cent to 6.30 per cent and increased the general exemption threshold from $606 000 to $1.0 million from 1 July 2001. The initiatives also allowed for a further payroll tax rate reduction from 6.30 per cent to 6.24 per cent, and a further increase in the general exemption threshold from $1.0 million to $1.01 million, to take effect from 1 July 2002.

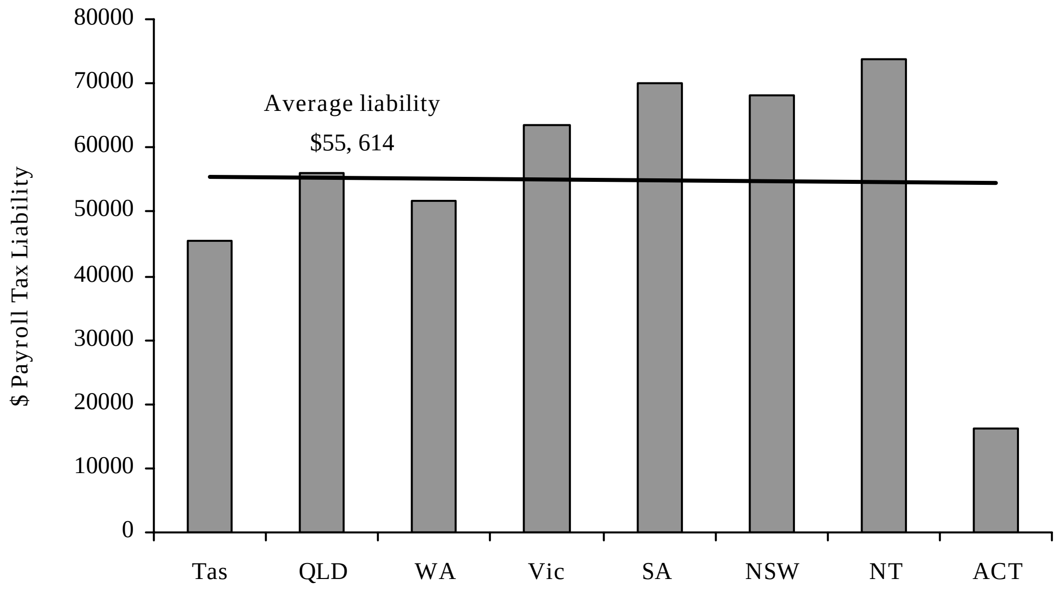
As a result of these changes, Tasmania has the most competitive payroll tax regime for small to medium sized businesses (ie businesses with up to 50 employees) outside of the ACT. Furthermore, the payroll tax liability faced by larger businesses is competitive with other jurisdictions. Table 1.2 shows the effective payroll tax rates, which take into account general exemption thresholds, in all states and territories for a range of employee numbers. Chart 1.10 shows the payroll tax liability in all states and territories for a firm with 50 employees.

Table 1.2: Comparison of Effective Payroll Tax Rates, 2002-03[1]

No of Employees	TAS	QLD	WA	VIC	SA	NSW	NT	ACT	Average
	%	%	%	%	%	%	%	%	%
50	**2.61**	**3.40**	**2.98**	**3.66**	**4.02**	**3.93**	**4.25**	**0.93**	**3.22**
75	**3.82**	**4.49**	**3.61**	**4.22**	**4.57**	**4.62**	**5.00**	**2.91**	**4.16**
100	**4.43**	**4.75**	**4.18**	**4.50**	**4.85**	**4.96**	**5.38**	**3.89**	**4.62**
200	**5.33**	**4.75**	**6.00**	**4.93**	**5.26**	**5.48**	**5.94**	**5.37**	**5.38**
300	**5.64**	**4.75**	**6.00**	**5.07**	**5.40**	**5.65**	**6.13**	**5.86**	**5.56**
500	**5.88**	**4.75**	**6.00**	**5.18**	**5.51**	**5.79**	**6.28**	**6.26**	**5.70**

Note:
1. Payroll tax effective rates are calculated using the national average weekly earnings average for the four quarters to December 2001 as published by the Australian Bureau of Statistics (ABS). Rates and thresholds used in the calculations are those that will apply in each jurisdiction from 1 July 2002 as announced as at 1 May 2002.

Chart 1.10: Actual Payroll Tax Liability for an Employer with 50 Employees, 2002-03[1]



Note:
1. Payroll tax liabilities are calculated using the national average weekly earnings average for the four quarters to December 2001 as published by the Australian Bureau of Statistics (ABS). Rates and thresholds used in the calculations are those that will apply in each jurisdiction from 1 July 2002 as announced as at 1 May 2002.

Capital Projects

In the 2001-02 Budget, the State Capital Program, at $475 million, was the highest in more than 10 years. It was boosted by a special $60 million Infrastructure Fund which was partly aimed at redressing the past under-investment in, and the deferred maintenance of, public infrastructure such as the State's hospitals and schools. As well as providing funding for deferred maintenance, the Infrastructure Fund provides funding for strategic infrastructure such as irrigation schemes. In addition, in May 2002, the TT-Line purchased two new vessels for the Bass Strait service at a cost of $290 million. To assist TT-Line in servicing this debt, the Government will make payments of $44 million per annum over four years to TT-Line through an appropriation from the Consolidated Fund.

The purchase of the two ships to replace the *Spirit of Tasmania* will significantly strengthen a key aspect of the State's transport infrastructure. The two new Bass Strait vessels will provide substantial benefits to the Tasmanian economy through increased tourism, employment, and increased business investment in tourism infrastructure and services. It is anticipated that the new Bass Strait vessels will boost in-bound tourism by around 36 000 visitors per annum in the early years of operation and generate additional spending within the State of around $40 million per year.

Major Projects Fund

Around $1.5 billion of major infrastructure projects are planned for Tasmania over the next three years. The vast bulk of this will be privately funded investment.

The projects include the Basslink electricity cable connecting the Tasmanian electricity grid with the National Electricity Market, the Tasmanian Natural Gas Project – a pipeline bringing gas from Longford in Victoria to Tasmanian users, wind energy developments in which renewable Tasmanian energy will be exported across Basslink to enable mainland electricity retailers to achieve their renewable energy targets, and a fibre optic network both across Bass Strait with Basslink and then following the natural gas pipeline onshore in Tasmania.

As well as these projects, the Bell Bay Power Station is being converted from oil to gas. This decision, which will substantially reduce the cost of electricity from Bell Bay, has also enabled the gas project to proceed and with it the onshore fibre optic telecommunications project.

To secure major projects such as these requires enormous efforts by Government and substantial resources. Since 1998, over $20 million has been spent in facilitation costs by the State Government. Securing these projects will result in a period of economic development in Tasmania not seen since the days of hydro-industrialisation.

In the 2002-03 Budget, the Government has established a $30 million Major Projects Fund from one-off capacity generated in 2001-02 through higher than anticipated revenues. The funds are specifically earmarked for ensuring that opportunities from the major developments are optimised and as many as possible communities benefit. Funds will be expended over the next few years.

Social and Community Initiatives

The 2002-03 Budget builds upon previous Budgets which improved essential social services. The initiatives announced by the Government in the 2002-03 Budget, and funding allocations detailed in the Budget, continue the strong commitment to providing social services which meet the needs of the Tasmanian community. The initiatives embrace a range of services, including hospitals, mental health services, disability services, concessions for pensioners and families on low incomes, and student assistance.

Measures included in the 2002-03 Budget are detailed below. Further information on the wide range of agency initiatives which will be implemented can be found in individual agency Chapters in Budget Paper No 2 *Operations of Government Departments 2002-03.*

Health Initiatives

The Government's commitment to maintaining a sustainable funding position for the Department will continue with the provision of additional base funding of $21 million, increasing in subsequent years, to fund increasing demand for hospital services and disability and mental health services. Increased Home and Community Care funding will provide an additional $2.3 million in 2002-03 for community support services to the frail aged and younger people with disabilities.

Funding of $5 million will be provided over four years as part of the Social Infrastructure Fund to improve the throughput times of patients currently on elective surgery waiting lists in public hospitals. In addition, funding of $5.3 million will be provided over four years to better deliver the Government's goals for oral health in Tasmania, particularly for the provision of dentures and emergency care.

The current Capital Investment Program also includes funding for a number of new regional hospital projects to either construct new facilities, or upgrade existing facilities, at a number of district hospitals including Smithton ($3.8 million), George Town ($2.3 million) and Scottsdale ($2.9 million).

During 2002-03, the Royal Hobart Hospital will also acquire a new high energy linear accelerator at a cost of approximately $3.5 million which will enable the Royal Hobart Hospital to continue to meet the needs of patients.

Education

Funding of an additional $2 million per annum has been provided for the Student Assistance Scheme (STAS) to further assist low-income families meet the cost of education. In addition, $1 .8 million will be provided over three years as part of the Social Infrastructure Fund to increase the staffing for the Managing and Retaining Secondary Students at School (MARSSS) program, significantly increasing the capacity to improve the education outcomes for students at risk.

Funding of $350 000 per annum has been provided to increase the level of resources for students with disabilities in regular schools, the number of which, in line with other States, have increased. An additional $1.3 million was also provided in 2000-01.

Funding has also been provided to increase the Student Conveyance Allowance by 50 per cent. The allowance is paid to isolated parents or guardians to assist with the cost of transporting students to school. In addition, the Government has increased its financial support to the non-government school sector by more than $2 million in 2002-03 and subsequent years.

In addition, in the 2002-03 Budget the Government will be providing an additional $1.1 million for student transport route services and an additional $267 000 for student transport contract services.

Community

The 2002-03 Budget allocation for the Department of Justice and Industrial Relations includes additional base funding of $4.3 million or 10 per cent in 2002-03 and subsequent years. The increased funding will go into improved correctional, court and public guardian services and improve information sharing across the criminal justice system.

Road Safety funding of $1.5 million will be provided over four years for the implementation of a number of road safety initiatives in line with the Tasmanian Road Safety Strategy 2002-06.

The Government is also providing recurrent funding to increase the taxi fare rebate from 35 per cent to 50 per cent for non-wheelchair dependent members of the Transport Access Scheme.

Significant additional funding for Community Facilities and Institutions has been provided, including $1 million over two years for Bicentenary Celebrations, and $1.6 million over three years from 2004 for the redevelopment of the Theatre Royal. The Government is also providing more than $100 000 to the Queen Victoria Museum and Art Gallery to meet the costs of an increased endowment that is required under the Partnership Agreement between the State and Launceston City Council.

As part of a national adjustment package for orchestral funding in 2001-02, the Tasmanian Symphony Orchestra (TSO) will receive additional funding of $94 000 in 2002-03. The funding will increase the long-term viability of the TSO by building a reserve fund, increasing marketing expertise and funding a Board governance program.

Services

Additional funding of $1.2 million in 2002-03 and 2003-04 has been provided to the Department of Primary Industries, Water and Environment for a fox eradication program aimed at preventing the establishment of foxes in Tasmania. Funding of $1.1 million has also been provided to the Department of Primary Industries, Water and Environment in 2002-03 to upgrade the Government's capacity to monitor the condition and use of Tasmania's water and to establish a capacity to administer and control water development and water trading activities.

The Department of Premier and Cabinet will receive an additional $125 000 in 2002-03 and subsequent years to fund the operating expenses associated with the new *Service* Tasmania shop in Wynyard.

The limitation on the size of payments that can be made with credit cards on *Service* Tasmania channels will also be increased from $1000 to $5000. This will assist rural and business customers who cannot readily access the *Service* Tasmania shops and will now be able to make substantial bill payments using the phone and internet facilities.

2 TASMANIAN ECONOMY

Features

- Since early 1999, Tasmania's economic performance has been characterised by:
  - improved rates of economic growth and solid growth in final demand;
  - a strong recovery in investment;
  - sustained growth in overseas merchandise exports, to record levels;
  - higher levels of both full time and part time employment;
  - a substantial reduction in unemployment, currently around a 12-year low; and
  - a return to population growth as a result of lower levels of interstate out-migration.
- Consistent with the improvement in economic performance over the past three years, business confidence has recently been on a generally rising trend, notwithstanding the impact of the slowdown in the national and US economies.
- Following economic growth for the nation averaging over 4 per cent for most of the 1990s, Australia's growth almost halved to 2.4 per cent in 2001, the lowest since the 1991-92 recession. The reduction in national economic growth has adversely impacted on Tasmania.
- The fiscal stimulus package announced by the State Government in the 2001-02 Budget has provided a substantial positive boost to the Tasmanian economy.
- The Economic Outlook section highlights a number of positive developments, which are expected to underpin solid economic and employment growth in Tasmania in 2002-03.
- These include the Government's additional fiscal stimulus of increased expenditure and tax cuts, the commencement of gas flowing to the State, the continued low value of the Australian dollar and the low levels of interest rates.
- Tasmania's economic outlook is positively influenced by major infrastructure projects worth $1.5 billion already commenced or planned to commence.

INTRODUCTION

This Chapter provides an account of the recent performance of Tasmania's economy and provides projections of key economic variables for 2002-03.

The first section provides a comprehensive analysis of the State's recent economic performance and this is compared with the performance of the Australian economy as a whole. A brief overview of Tasmania's relative performance over the past five years is also presented.

The final section presents an overview of Tasmania's economic outlook for 2002-03.

Note

- All data measured in dollars, unless otherwise indicated, are expressed in real (1999-00) prices.

RECENT ECONOMIC PERFORMANCE

Overview

This section provides a brief overview of Tasmania's economic performance since the mid-1990s and a more detailed analysis of recent economic trends.

Following the 1991-92 national recession, the Tasmanian economy fell behind the national average on nearly all measures of economic performance and this gap widened over subsequent years. Some of the factors that have contributed to the State's relatively subdued economic performance over much of the past decade include:

- an industry structure that has lacked sufficient growth sectors;
- job shedding in the private and public sectors;
- the centralisation of financial services and corporate management in Sydney and Melbourne and restructuring in the finance industry more generally;
- the continued poor economic performance of Japan, the State's largest single export market;
- a period of generally low prices (until fairly recently) for some of the State's key commodity exports, including beef, wool, aluminium and copper;
- low levels of private business investment; and
- negative population growth from late 1996 until the return to growth in 2001.

From the above it is clear that the Tasmanian economy has not kept pace with the very strong national economic performance over most of the past decade, although there has been an improvement more recently across most economic indicators.

Tasmania's total production is distributed across three areas of demand: about half to local markets; around 20 per cent as overseas exports; and the remainder as exports to the rest of Australia. Clearly, demand for around half of the goods and services produced in this State is vulnerable to changes in external factors, and there is little that local businesses or the State Government can do to influence these factors. Recently, the Tasmanian economy has been negatively influenced by external impacts. Japan is the State's largest overseas export market and has been in recession for a number of years. The slowdown in the US (and most Western economies) since early 2001 accelerated after the 11 September 2001 attacks, though there has been some subsequent recovery. In addition, growth in the Australian economy fell by more than half in the year following the introduction of the GST and has not yet recovered, with national economic growth of only 2.4 per cent in 2001, the lowest since the 1991-92 recession.

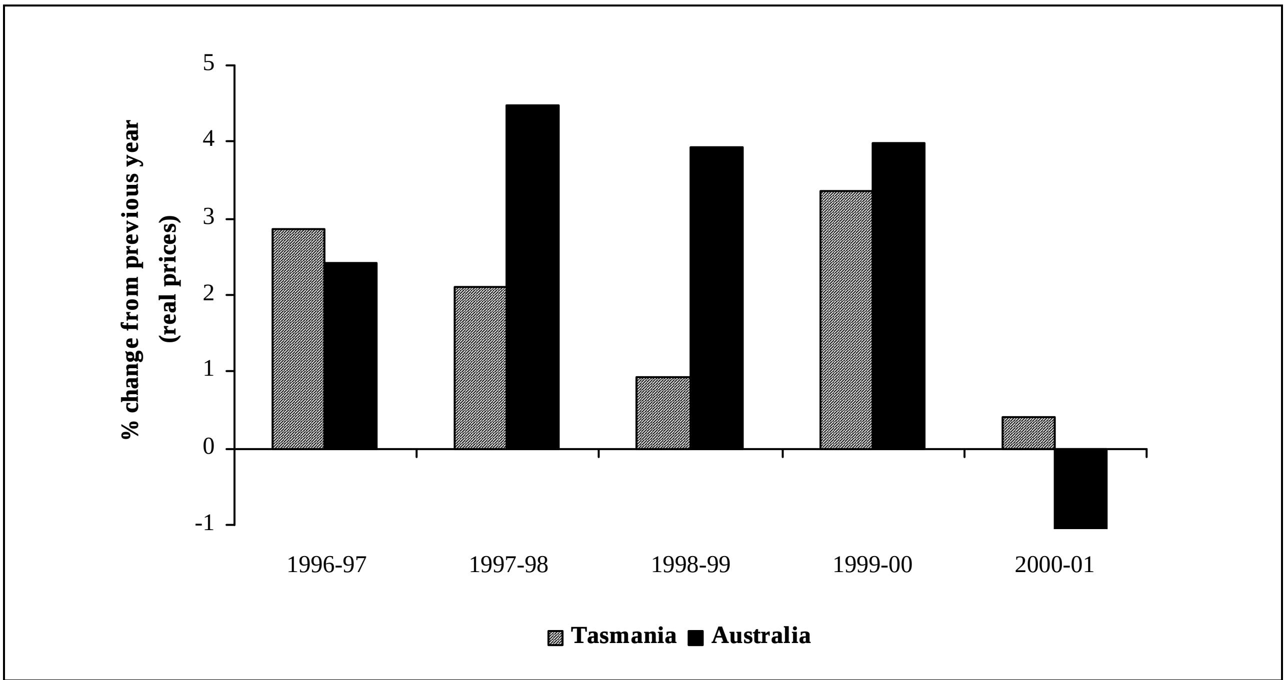
In terms of reported economic growth rates, Treasury urges caution in the use of the most recent state Gross State Product (GSP) data from the Australian Bureau of Statistics (ABS). State GSP data, especially for a small economy such as Tasmania, tend to be quite volatile and often subject to substantial revision. The GSP data have not always been consistent with partial economic indicators over recent years and hence the ABS continues to classify this series as 'experimental'.

According to ABS estimates, the Tasmanian economy contracted by 1.2 per cent in the two years to 2000-01. However, other more reliable partial economic indicators show that the State's economy has been growing over this period. For example, the same set of national accounts containing the GSP estimates reported that state final demand (the aggregate level of spending on goods and services in Tasmania by residents and visitors to the State) rose by 3.9 per cent in the past two years. Similarly, employment rose by 2.8 per cent (or 5 400 jobs) in the two-year period and the total number of hours worked in Tasmania grew to be 4.5 per cent higher than in 1998-99.

It is not plausible for both the labour force estimates and the GSP data to be correct. While there are a number of limitations associated with the ABS's labour force survey, the ABS considers the employment-related series to be quite reliable but labels the GSP series as 'experimental'. If one series were to be selected in preference to the other as a measure of economic activity, the labour force data are a more reliable indicator.

Due to the transparency of its components, the ABS's estimates of state final demand are a more reliable indicator of Tasmania's performance than GSP estimates. Chart 2.1 shows the percentage change in local and national final demand over recent years.

Chart 2.1: Economic Performance – Final Demand: Tasmania and Australia



Source: *Australian National Accounts, State Accounts*, ABS Cat No 5220.0.

The components of state final demand are consumer spending, private sector investment and total expenditure by the public sector. Over the past three years, the average annual Tasmanian growth rate has been lower than the national average for each of these components, as discussed in further detail later in this Chapter. This is particularly evident in the areas of private sector investment and public sector spending.

Historically, the total amount spent in Tasmania on goods and services has exceeded the total value of goods and services produced in the State (as measured by GSP). In the three years to 2000-01, the level of GSP was, on average, 89.7 per cent of the level of state final demand, compared to 99.0 per cent nationally. Despite concerns over the reliability of GSP estimates, it is clear that aggregate production is not matching aggregate spending in Tasmania. Setting aside any inventory changes, the value of imports from interstate and overseas has been exceeding, by some margin, the value of Tasmania's exports.

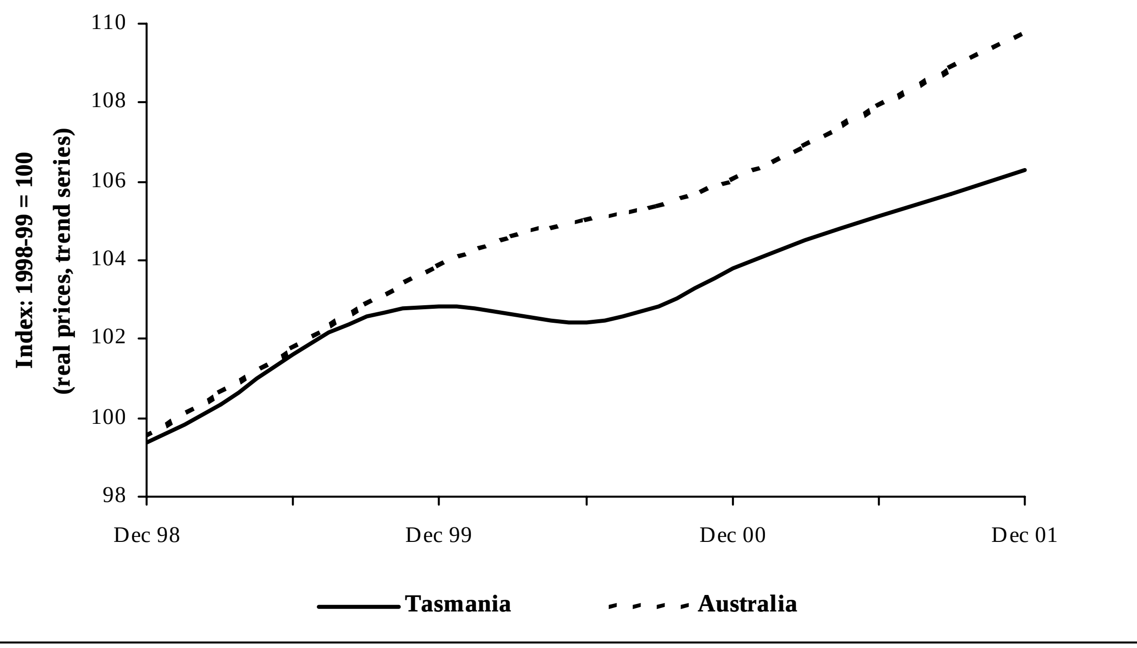
The other major determinant of Tasmania's economic performance is net trade with other regions, including mainland Australia. In a small open economy such as Tasmania, exports to other regions can contribute significantly to economic growth, especially in an environment where growth in state final demand has been constrained due to a declining population. In the early 1990s, Tasmania had the fourth most open economy of all the states and territories. The State's export performance has improved such that it is now ranked behind the Northern Territory and Western Australia. Tasmania also trades extensively with mainland Australia, though definitive data are generally not available.

Consumer Spending

Consumer spending, or household final consumption expenditure (HFCE), represents approximately 63 per cent of final demand and has been one of the stronger performing components of the Tasmanian economy over recent years.

In real terms, growth in consumer spending in Tasmania has exceeded growth in state final demand in three of the past four years, rising at an annual average rate of 1.9 per cent since 1997-98 compared with an average growth rate of 1.4 per cent in state final demand. Although still below the growth rates recorded nationally (as shown in Chart 2.2), HFCE has been the indicator that has most consistently and closely tracked the national average.

Chart 2.2: Consumer Spending: Tasmania and Australia



Sources: *National Income, Expenditure and Product, ABS Cat No 5206.0.*

In 2000-01, real HFCE increased by 1.3 per cent in Tasmania, below the increase of 2.8 per cent recorded in 1999-00. National growth in consumer spending also slowed over the same period, from 4.1 per cent in 1999-00 to 2.4 per cent in 2000-01. The reduced growth in Tasmania in 2000-01 is likely to have been, in part, a result of the reduction in national economic growth associated with the introduction of the GST by the Commonwealth Government from 1 July 2000.

Retail trade in Tasmania has experienced only slight growth in recent years, averaging 0.8 per cent annually in the past three years in real terms, compared with an average growth rate of 3.2 per cent nationally. In 2000-01, Tasmania experienced a decline in retail sales of 0.5 per cent, compared to national growth of 0.2 per cent.

Growth in consumer spending has consistently exceeded growth in retail turnover since the mid-1990s. This implies a large increase in non-retail spending, such as on health care, recreation and motor vehicle purchases. Data on nominal HFCE show strong gains over the past three years in expenditure on communications (34.1 per cent); health (33.8 per cent); alcoholic beverages and tobacco (29.0 per cent); education services (17.8 per cent); and transport (15.5 per cent). By contrast, spending on clothing and footwear declined by 3.1 per cent, while growth was relatively low for food (3.8 per cent); housing, water, electricity and gas (7.7 per cent); and furnishings (8.8 per cent).

Visitors (tourist and business arrivals) to Tasmania also contribute to consumer spending. In 2000-01, visitor expenditure was estimated to account for 6.8 per cent of Tasmanian HFCE. Data from Tourism Tasmania show that visitor numbers have risen at an average annual rate of 1.9 per cent over the three years to 2000-01, though visitor expenditure has fallen by 0.5 per cent per annum for the same period. The decline in total expenditure, despite increased visitor numbers, reflects a reduction in the duration of the average stay. In 1997-98, visitors to Tasmania stayed an average of 9.7 nights, but by 2000-01 the average stay had fallen to 9.0 nights.

Major determinants of changes in consumer spending include growth in earnings and employment, and population trends. The increase in HFCE in 2000-01 was supported by a continuation of the employment growth that had been evident since January 1999 and a return to population growth from the beginning of 2001. These factors were countered to some extent by only modest growth in earnings. Trends in each of these components are examined below. Other determinants of spending, such as direct taxation rates and interest rates, are not discussed in this Chapter.

Wages

The rate of wages growth in Tasmania has not kept pace with that of Australia as a whole over recent years, although it has held up comparatively well during those periods when the State's labour market has been subdued.

In the three years to 2000-01, average total earnings in Tasmania rose at an average annual rate of 2.0 per cent in nominal terms, below Australia's 3.3 per cent growth rate. While the change in full time average weekly ordinary time earnings (AWOTE) is the benchmark measure of growth in wage rates, changes in total earnings provide a better guide to movements in average income levels as this includes juniors, part time workers and overtime payments. It is also particularly relevant in the Tasmanian context, given the relatively high proportion of employed persons in part time work.

The level of average total earnings in Tasmania has been the lowest of all the Australian states and territories since 1993-94. The level of Tasmanian total earnings was around 86 per cent of the Australian average in 2000-01 ($560.48 per week compared to $653.63 nationally), down from an average of 95 per cent prior to the mid-1990s. This decline is due, in part, to the greater importance of part time labour in Tasmania relative to Australia as a whole. Part time positions currently account for about 31 per cent of all jobs in Tasmania (28 per cent nationally), up from 26 per cent a decade earlier (24 per cent nationally).

Tasmanian AWOTE has recorded considerably stronger growth than average total earnings since the mid-1990s. Despite growing by only 1.9 per cent in 1998-99, Tasmanian AWOTE has risen by an average (nominal) rate of 3.8 per cent in the five years to 2000-01, compared to the national growth rate of 4.1 per cent. The level of AWOTE in Tasmania remains below the national average. In 2000-01, Tasmanian AWOTE was just over 92 per cent of the Australian level ($744.88 per week compared with $808.83).

In the first three quarters of 2001-02, Tasmania's AWOTE rose by 4.1 per cent (in trend terms), compared with growth of 0.8 per cent for average total earnings. Growth in 2001-02 is likely to be above 2000-01 levels for both measures but stronger for AWOTE than for total earnings.

Labour Market

Employment and Hours Worked

Through most of the 1990s, one of the most obvious areas of the State's economic underperformance has been the weakness in the labour market, with Tasmania recording a slower rate of employment growth than the national average in each of the past 10 years.

However, there has been a general, underlying improvement in the State's employment performance since the most recent trough in late 1998. Employment fell in both 1996-97 and 1997-98, and was unchanged in the following year, before increasing solidly in 1999-00 and 2000-01. This is reinforced by Chart 2.3, which shows that employment recorded a steady improvement through 1999 and 2000.

The labour market weakened in early 2001 as a result of the national economy slowing considerably. The rebound from mid-2001 reflects, in part, the $152 million stimulus package introduced by the State Government as part of the 2001-02 Budget to counter the impact of the national and international economic slowdown. Notwithstanding the economic stimulus package, this erosion of the State's key markets saw employment fall from late 2001. On current trends, employment is expected to ease by 1.2 per cent in 2001-02, the first such decline in four years, as highlighted in Table 2.1. As explained in the Economic Outlook section, it is expected that employment will recover in 2002-03.

Table 2.1: Tasmanian Employment

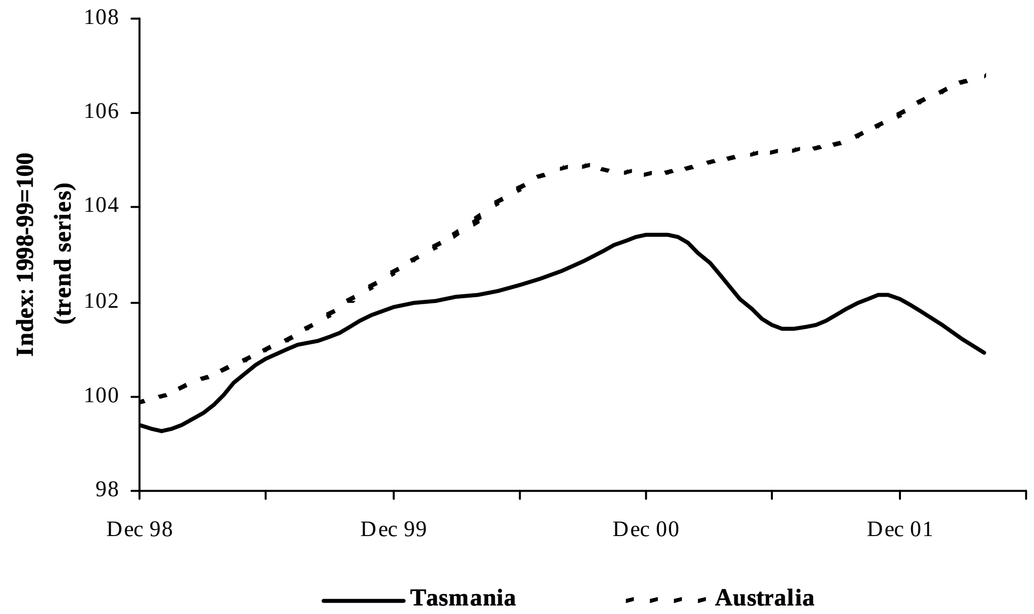
	1997-98	**1998-99**	**1999-00**	**2000-01**	**2001-02 (estimate)**	**2002-03 (forecast)**
Total Employment (year average, '000s)	**195.3**	**195.3**	**198.8**	**200.7**	**198.3**	**199.4**
Total Employment (per cent change)	**(1.1)**	**0.0**	**1.8**	**1.0**	**(1.2)**	**0.6**

Source: *The Labour Force, Australia, Preliminary Data on Floppy Disk,* ABS Cat. No 6271.0 and Department of Treasury and Finance.

In January 1999, total trend employment in Tasmania slumped to 193 900, a fall of 4 100 from only nine months earlier and 8 400 below the State's employment peak of 202 300 persons in January 1996. However, in the two years to January 2001, employment grew by 8 100 to reach a level of 202 000 – only marginally below the January 1996 peak. Since then, trend employment has eased to be currently at 197 100 persons

(April 2002). In the period since early 1999, employment growth in Tasmania has totalled 1.7 per cent, equivalent to 3 200 jobs.

Chart 2.3: Employment: Tasmania and Australia



Source: *The Labour Force, Australia, Preliminary Data on Floppy Disk, ABS Cat. No 6271.0.*

The weakness in employment in the period 1996 to 1998 was due to a decline in full time positions. The level of full time employment in 1998-99 (135 900 persons) was the lowest for the State in at least 20 years, having fallen for three consecutive years. In 1999-00, however, there was a solid recovery in the average level of full time employment for the year (140 100 persons), which was 3.1 per cent (or 4 200 persons) above the level of 1998-99 and the biggest rise in a decade. Since then, full time employment has continued to ease, but remains above the 1998-99 low. While there has been a long term easing in full time employment levels in Tasmania, there has been a solid improvement from the early 1999 low, with the trend level of full time employment in April 2002 (136 000 persons) up by around 0.7 per cent (or 1 000 persons).

In contrast to the decline in full time employment, the level of part time employment in Tasmania has generally continued to rise. The number of part time positions rose in each of the 17 years to 1998-99 but fell in 1999-00, coinciding with the strongest growth in full time employment in a decade. Part time employment increased by 6.4 per cent (or 3 700 persons) in 2000-01 to establish a new record level of 62 400. Despite easing since early 2001, the long-term trend towards greater use of part time labour has continued, with the number in part time work in April 2002 (61 100 persons) up by 3.8 per cent (or 2 200 persons) on the level of early 1999.

The improvement in employment recorded since the beginning of 1999 is therefore attributable to growth in both full and part time positions. Further analysis reveals that this has been shared between male and female employment, with female employment setting a new record level in January 2001 and male employment reaching a four-year peak in December 2000.

While Tasmania's labour market underperformed in the mid to late 1990s, particularly following the cessation of Working Nation funding by the Commonwealth Government in 1996, the strategies put in place by the State Government to address Tasmania's relative economic underperformance (including the Industry Development Plan) have had a positive impact on the State's labour market.

The impact of the relative decline in full time employment over the late 1990s is evident in Tasmanian hours worked data. The aggregate number of hours worked in Tasmania stood at a six-year low in 1998-99, having fallen for four consecutive years. While there was solid growth in part time employment and hence part time hours worked, this was more than offset by the decline in full time hours.

Consistent with the improvement in the State's labour market since early 1999, the hours worked series has since rebounded quite strongly. Aggregate hours worked rose by 4.7 per cent in 1999-00, above the 3.4 per cent growth recorded nationally, to 6.535 million hours per week, which is the second highest level on record. While the aggregate hours series eased 0.2 per cent lower in 2000-01, it remains at a historically high level. Data for the 2001-02 year to date indicate that aggregate hours worked remains at a high level, with an average of 6.434 million hours worked per week in the year to April 2002.

Data on hours worked per employee show that those in full time and part time employment are working a relatively large number of hours. In 1998-99, average hours worked per week by part time employees was at a record level of 15.45 hours; which is only marginally above the 15.26 hours worked per week in the year to April 2002. Similarly, in 1999-00, full time employees worked on average 40.32 hours per week – a record that is just above the average working week of 39.98 hours in the year to April 2002. This is indicative of the structural change in the labour market towards the increased use of part time labour, with those in part time employment working, on average, more hours per week.

Labour Force Participation and Unemployment

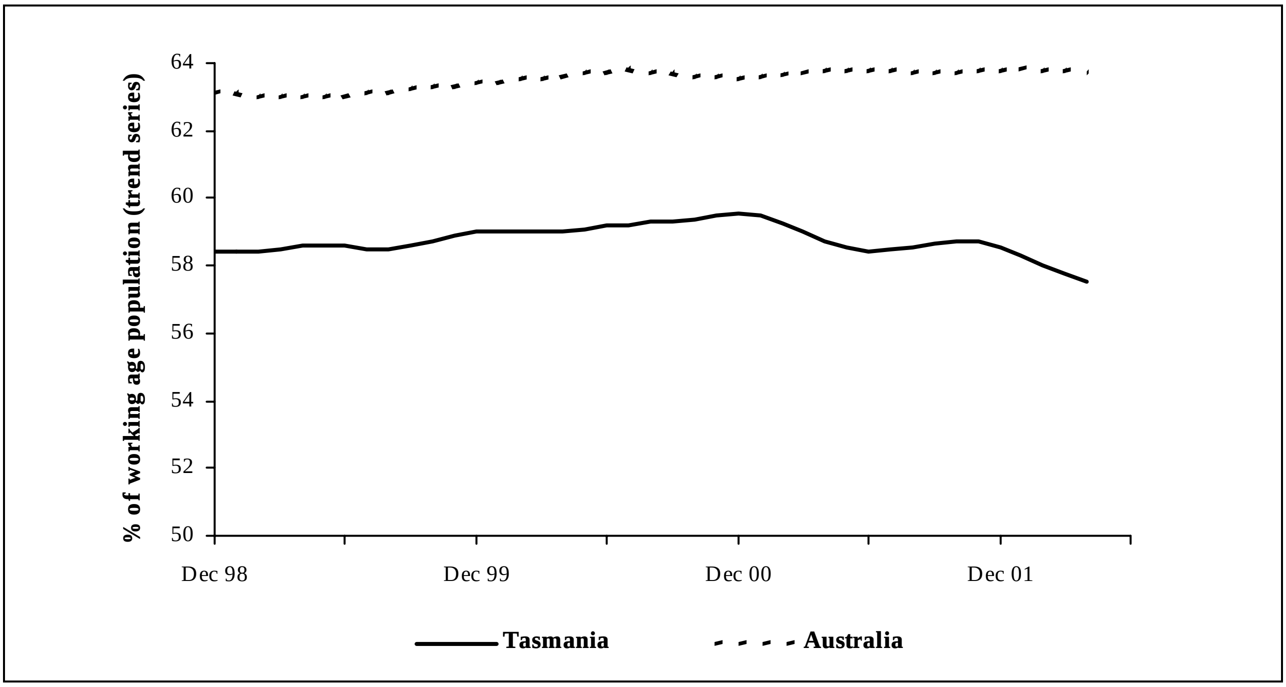
The weakness in the labour market during the late 1990s is reflected in the State's low labour force participation rate. Tasmania's recorded participation rate has always been below the national average, but the gap widened around the middle of the 1990s. As shown in Chart 2.4, there has been a slowly increasing trend in the national participation rate over the past few years, but an overall decline in the Tasmanian rate.

Since the mid-1990s, the gap between the Tasmanian and national participation rates has widened from about 3.2 percentage points to around 4.6 percentage points in 2000-01. Tasmania's average participation rate in 1998-99 of 58.7 per cent was the lowest annual rate since the mid-1980s. As with the employment series, the participation rate had improved from the trough of early 1999, although there has been a decline over the past year or so. In December 2000, the trend participation rate reached 59.5 per cent, its highest level since mid-1998.

The participation rate measures the proportion of the population aged 15 and above that are either working or actively seeking employment. There are many possible reasons why Tasmania has a lower participation rate than the nation as a whole, including: the State's relatively older population base; the lower cost of living (particularly housing), which may reduce the necessity for a second income in a household, allowing one partner not to work; and the higher proportion of people on disability pensions, which effectively removes them from the labour force.

The recent decline in the State's participation rate is likely to reflect, in part, a trend towards increased post-secondary education as the students generally withdraw from the labour force. In the two years to 2001 (the latest available data), TAFE enrolments have risen by 13.3 per cent (or by nearly 3 200 students) and vocational education and training enrolments are up by 8.2 per cent (or 2 600), while University enrolments have risen by 8.2 per cent (or 1 050 students) in the three years to 2002.

Chart 2.4: Participation Rate: Tasmania and Australia

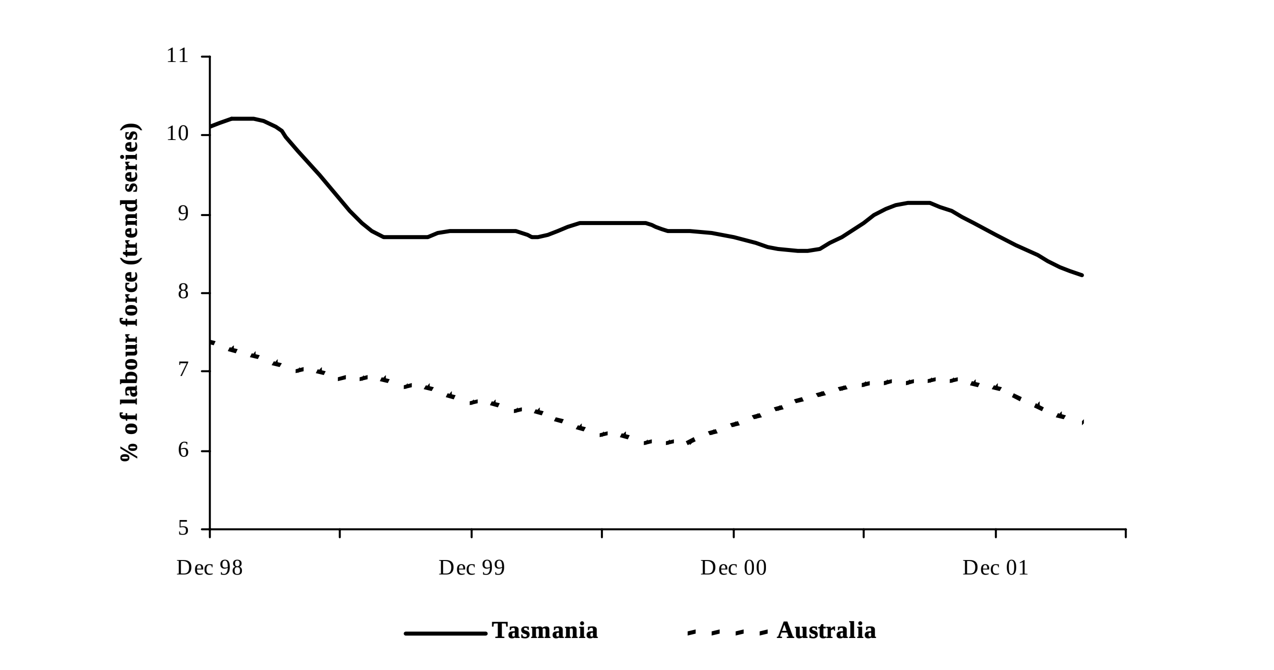


Source: *The Labour Force, Australia, Preliminary Data on Floppy Disk, ABS Cat. No 6271.0.*

Not surprisingly, Tasmania's employment record since the mid-1990s is reflected in the highest unemployment rate in Australia, although there has been a notable reduction in unemployment since early 1999, as shown in Chart 2.5. Tasmania's unemployment rate averaged 8.7 per cent in 2000-01, which was 2.3 percentage points above the Australian average but the lowest annual rate in 11 years. Tasmania's unemployment rate has fallen from 10.5 per cent in 1997-98 and been relatively stable since early 1999, while the national rate has recently started to trend higher. As at April 2002, the State's trend unemployment rate stood at 8.2 per cent – a 12-year low that has been aided by the low participation rate – but remains the highest rate of all the states and territories.

Consistent with the decline in the unemployment rate since early 1999, the number of persons unemployed has also fallen considerably over this period and is at its lowest level in more than 14 years. As at April 2002, there were 17 700 persons unemployed, which is the lowest number since November 1987 and well below the 22 000 as at January 1999. The number unemployed averaged 19 100 in 2000-01, which was the lowest annual level since 1989-90.

Chart 2.5: Unemployment Rate: Tasmania and Australia



Source: *The Labour Force, Australia, Preliminary Data on Floppy Disk, ABS Cat. No 6271.0.*

Industry and Regional Developments

The growth in employment since early 1999 has been evident in most of the major sectors of the economy, indicative of the general improvement in business confidence in Tasmania. The volatility of the industry data, however, makes it difficult to draw firm conclusions about the short term performance of some sectors. According to ABS data, there was jobs growth in all but two industry sectors over this period.

In keeping with growth in consumer spending driving economic growth in 2001, employment grew moderately in retail trade in the past year, with finance and insurance, government administration and defence, cultural and recreational services, and personal and other services also recording growth. This was, however, outweighed by declines in a number of industries. Sectors to have recorded lower employment in the past year include education, health and community services, manufacturing and transport and storage. This pattern broadly reflects employment growth in Australia as a whole over the past twelve months.

In terms of regional labour market performance within Tasmania, the strongest growth in employment over the past year according to ABS data has been in the North-West region, with employment rising 3.4 per cent in the 12 months to April 2002 relative to the previous 12 month period. Employment fell by 1.9 per cent in the Southern region and by 2.0 per cent in the Northern region over the same period.

The unemployment rate in the Southern region fell by 0.6 percentage points in the year to April 2002 to 8.9 per cent, while in the North-West the unemployment rate fell by 1.2 percentage points to 9.7 per cent, an 11-year low. The unemployment rate for the Northern region increased by 0.3 percentage points, but was still the State's lowest unemployment rate in the year to April 2002 at 7.9 per cent.

A summary of the performance of the State's regional labour markets over the past year is shown in Table 2.2.

Table 2.2: Regional Labour Market Statistics

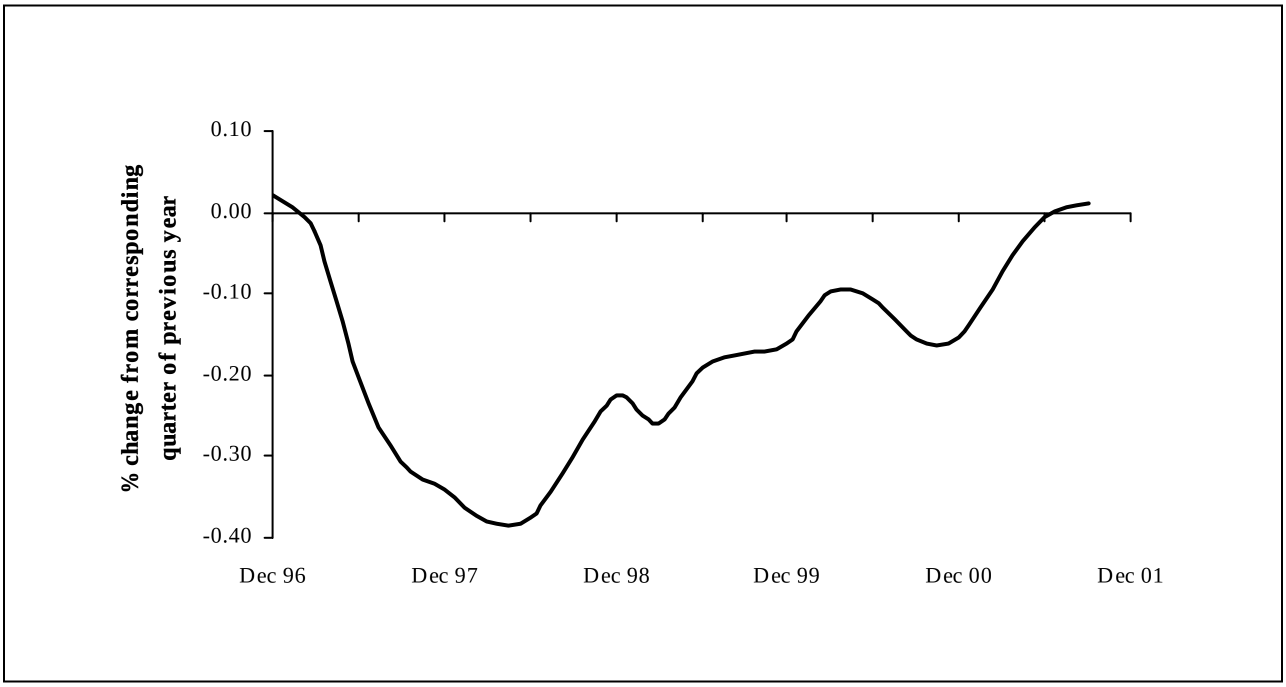
	South	North	North-West	Total State
Employment				
Average in 12 mths to April 2002 ('000)	**94.8**	**60.1**	**43.6**	**198.5**
% change from year to April 2001	**(1.9)**	**(2.0)**	**3.4**	**(1.2)**
Participation Rate				
Average in 12 mths to April 2002 (%)	**57.6**	**60.4**	**57.2**	**58.3**
% point change from year to April 2001	**(1.4)**	**(0.7)**	**(0.4)**	**(1.0)**
Unemployment Rate				
Average in 12 mths to April 2002 (%)	**8.9**	**7.9**	**9.7**	**8.7**
% point change from year to April 2001	**(0.6)**	**0.3**	**(1.2)**	**(0.0)**

Source: *The Labour Force, Australia, ABS Cat. No 6203.0.*

Demographics

A consequence of Tasmania's subdued economic performance through the 1990s was a downward trend in the State's population, caused by a sharp rise in interstate out-migration. However, recent data indicate that, for the first time since 1996, the State has returned to positive population growth.

Chart 2.6: Population Growth: Tasmania



Source: *Australian Demographic Statistics, ABS Cat No 3101.0.*

In December 1996, following several years of relative economic decline, the State's population fell for the first time since 1941. In the three years to 2000-01, Tasmania's total population declined by an annual average rate of 0.16 per cent, in contrast to the 1.15 per cent growth recorded nationally. As a result of this decline, Tasmania's share of the Australian population slipped to 2.44 per cent in 2000-01 from 2.60 per cent five years earlier.

However, as shown in Chart 2.6, recent data indicate that the State has returned to population growth, with Tasmania's population as at 30 September 2001 being 51 persons higher than one year earlier. As yet unpublished ABS data indicate that further growth occurred in the December quarter 2001. In 2000-01, Tasmania's population fell by only 458 persons, compared with an average annual population decline of 1 150 persons in the three years to 1999-00. This recent improvement reflects, in part, the underlying recovery in the State's labour market that has been evident since January 1999. Further improvements in the performance of the labour market, together with the likely lag between changes in the labour market and changes in net migration, suggest that population growth will continue.

It is important to note that while all quarterly population numbers from the December quarter 1996 to date have been estimated by the ABS, they cannot be validated until the release of data from the 2001 Census, due in early June 2002. While the ABS takes great care to ensure that the quarterly estimates are as reliable as possible, it is accepted that the Census data will reveal that the level of Tasmania's population differs to that reported previously. The size of this difference is of critical importance, as is whether changes to the State's population had been under or over-estimated.

Tasmania's natural population increase (2 368 persons in 2000-01) has contributed around 0.5 per cent per annum to total population growth in recent years, similar to the national average. The contribution of net inward migration from overseas fell during the 1990s. Net overseas migration currently has only a marginal impact on changes in the State's population, averaging 185 persons per year from 1997-98 to 2000-01.

In recent years, the most significant influence on changes in the State's population has been the level of net out-migration interstate. In 2000-01, net interstate out-migration totalled 2 559 persons, or 0.5 per cent of the State's population. In the first half of the 1990s, the average annual level was around 1 150 persons. Nevertheless, the 2000-01 total represents a notable improvement on the peak year of 1997-98, when there was a net loss of 3 966 persons interstate. The improvement has been due to a stabilisation in the number of people leaving the State, to 15 090 persons in 2000-01, and an increase in the number of interstate arrivals to an 11-year high of 12 531 in 2000-01. This decline in net interstate out-migration is the primary reason for the improvement in Tasmania's population trend.

Data reveal that the rise in out-migration through the 1990s included a higher proportion of people in the 5 to 14 year and 35 to 54 year age groups (that is, established families). This suggests that economic factors were the primary reason for the increase in out-migration. Consistent with the stabilisation of gross out-migration in 2000-01, however, more recent data show a reduction in the numbers of persons leaving the State in these age groups. This is likely to be a result of the State's improved overall economic performance.

Net interstate out-migration is not unique to Tasmania, all states and territories except Victoria, Queensland and the ACT recorded net interstate out-migration in 2000-01. In the medium to long term, sustained population growth will depend to a large extent on sustained improvement in the State's economic performance.

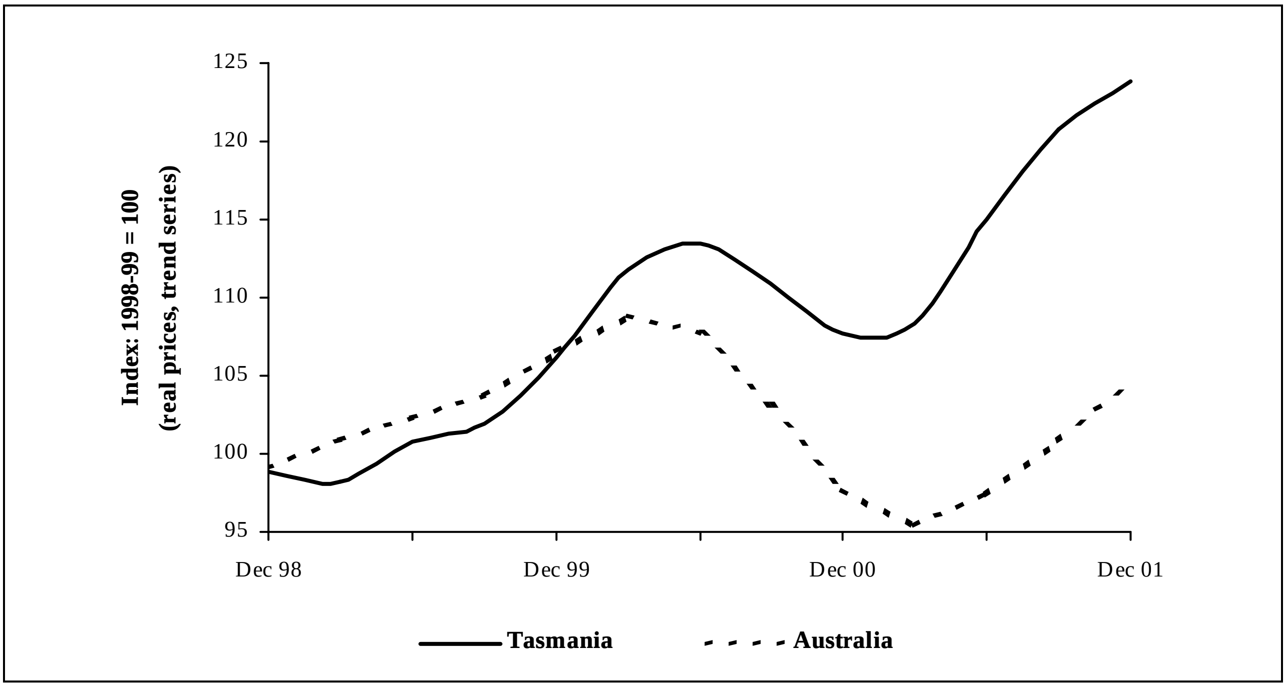
The impact of Tasmania's population on the level of Commonwealth payments to Tasmania is covered in Chapter 7 of this Budget Paper.

Private Sector Investment

Tasmanian investment is fairly cyclical and historically it has followed a similar pattern to the national investment cycle. However, while private investment continued to experience solid growth at the national level over the 1990s, the level of investment in Tasmania in real terms has not risen above the peak recorded in 1988-89. In 2000-01, the real value of private investment in Tasmania totalled $1 366 million; in 1988-89 it stood at $1 678 million.

Following two years of decline, Tasmania's private investment (incorporating business and dwellings investment) increased by 9.0 per cent in real terms in 1999-00, the strongest increase since 1996-97. Private investment in Tasmania appears to be performing better than at the national level, easing by just 0.7 per cent in 2000-01, compared to a fall of 10.4 per cent nationally. Total private sector investment in Tasmania comprised only 12.1 per cent of GSP in 2000-01, compared with the national average of 17.4 per cent of GDP.

Chart 2.7: Private Sector Investment: Tasmania and Australia



Source: *National Income, Expenditure and Product, ABS Cat No 5206.0.*

After falling through 1997-98 and reaching a trough in early 1999, investment levels in Tasmania have recovered, as highlighted in Chart 2.7. The initial improvement reflects both an improvement in business confidence and the bringing forward of dwelling construction as consumers sought to have houses built prior to the introduction of the GST. Investment levels eased slightly in the second half of 2000, although not to the same extent as nationally, due primarily to the subsequent post-GST decline in dwelling investment. Since the beginning of 2001, investment levels have risen strongly, in part as a result of dwelling investment being stimulated by the additional First Home Owners Scheme (FHOS), which will continue until June 2002, and in part by the low interest rate environment.

The FHOS is a $7 000 payment introduced as part of the Commonwealth's tax reform package on 1 July 2000 to compensate first home buyers for the additional GST-related cost of purchasing a dwelling. In response to the significant drop in dwelling construction in the second half of 2000, the Commonwealth Government introduced an additional FHOS payment in March 2001 for those building a new home or substantially renovating an existing dwelling. The additional FHOS was initially a further $7 000 but this was reduced to $3 000 from 1 January 2002 and will be phased out completely on 30 June 2002.

Notwithstanding the recent rebound in private construction activity, employment in the industry has fallen substantially since the mid-1990s. Between 1993-94 and 1996-97, the average annual employment in construction was 13 200 persons, while the equivalent figure for the period 1997-98 to 2000-01 was 11 000 persons, a decline of over 16 per cent. Nationally, there was a rise of 11.7 per cent between the same periods.

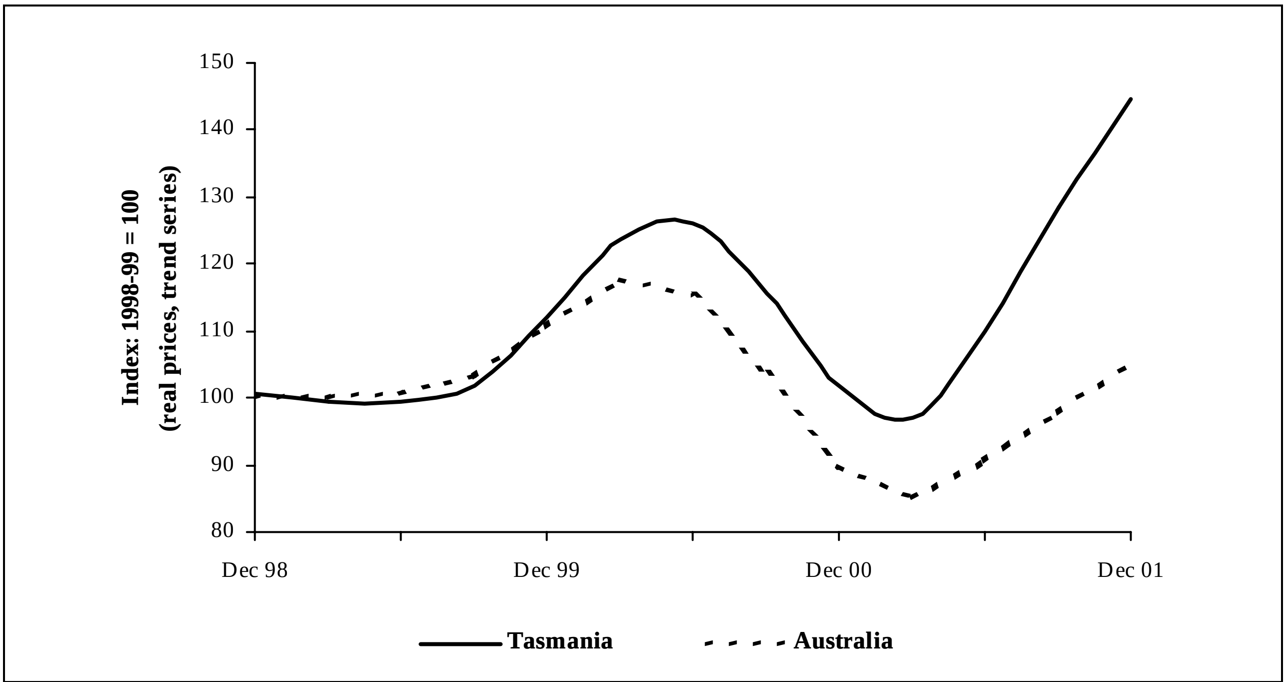
Investment is both a component of GSP and a major determinant of future growth in productivity and output. The underperformance of private investment in Tasmania since the early 1990s has contributed to Tasmania's relatively poor economic growth over the same period.

Trends in the major components of private investment are discussed in further detail below.

Dwelling Investment and Construction

Dwelling investment contributed 31 per cent of the growth in state final demand through 2001. As evident in Chart 2.8, the level of dwelling investment has swung widely over the past two years, which has been in response to the introduction of the GST and the additional FHOS for new dwellings. While similar trends were observed nationally, it is likely that the impact in Tasmania has been relatively larger than for the rest of Australia due to the relatively lower level of house prices in the State.

Chart 2.8: Dwelling Investment: Tasmania and Australia



Source: *National Income, Expenditure and Product,* ABS Cat No 5206.0.

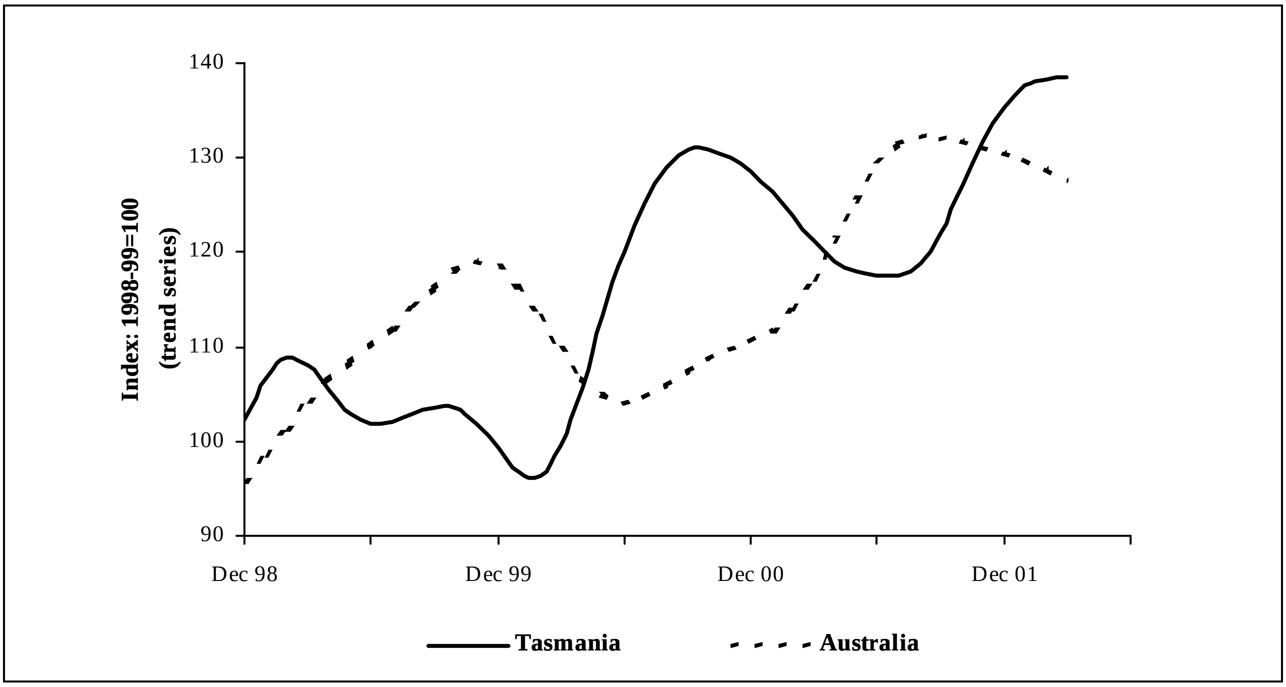
Investment in new houses grew through 1999-00 as decisions were brought forward to avoid the increase in cost associated with the introduction of the GST on building services. Immediately following the introduction of the GST, housing investment slumped, exerting a negative influence on state final demand for three consecutive quarters. The introduction of the additional FHOS for new homes led a strong recovery, supported by a series of interest rate reductions through 2001. From a trough in the

March quarter 2001, dwelling investment has recovered to significantly surpass the peak levels recorded in the period immediately prior to the introduction of the GST.

Dwelling approval numbers in Tasmania have increased by 42.5 per cent in the 12 months to March 2002 compared to the same period one year earlier. This followed a sharp decline in demand for new housing evident in the first half of 2000-01, with the number of housing approvals in trend terms falling to its lowest level in at least 18 years. A similar decline was observed at the national level, which triggered the Commonwealth Government to extend the FHOS and played some part in the Reserve Bank's decision to cut official interest rates by 125 basis points in the first few months of 2001. Nonetheless, it is highly likely that the recovery in dwelling approvals over the past year is not just attributable to the introduction of the additional FHOS and reduced interest rates but also to improved economic prospects for Tasmania. The national dwellings approvals trend series peaked in September 2001 and has since fallen for six consecutive months. The decline in the national series was not unexpected as the additional FHOS declined from $7 000 to $3 000 for dwellings commenced after 1 January 2002. The Tasmanian series has continued to advance in recent months suggesting that there are other factors at play in the State that have not influenced activity at the national level.

Most economic commentators agree that dwelling approvals in Australia will continue to fall away over the remainder of 2002 (in part due to the additional FHOS ceasing in June 2002), but there is some support for the view that further growth will occur in Tasmania in 2003. Furthermore, the strength in the sector to date should see employment levels sustained as builders report that a large amount of work has been delayed due to the shortage of suitable workers.

Chart 2.9: Secured Housing Finance Commitments: Tasmania and Australia



Source: *Housing Finance for Owner Occupation, Australia,* ABS Cat No 5609.0.

As shown in Chart 2.9, housing finance commitments have risen strongly since mid-2001, after the introduction of the additional FHOS in March of that year. The current (March 2002) level of the Tasmanian series is the highest on record, with the increase primarily the result of commitments for the purchase of established dwellings, rather than for new dwellings. By comparison, the national housing finance series peaked in August 2001. Tasmania recorded the largest growth in housing finance in 2000-01 of all the states and territories. Among the factors likely to be producing the relatively high growth in Tasmania are: the affordability of real estate; the impact of the FHOS on purchasing intentions, with $7 000 for existing homes and up to $14 000 for new dwellings accounting for a higher share of an average house price in Tasmania relative to the national average; low interest rates; the return to population growth; and improvements in confidence stemming from the recovery in the Tasmanian labour market and economy in general.

Lower repayments and higher weekly incomes in Tasmania have made home loans more affordable and, as a result, Tasmania's real estate industry is experiencing a period of heightened activity. The Real Estate Institute of Tasmania (REIT) reports rises in the number of sales during calendar 2001 in all areas of the State. The REIT found that Hobart achieved a 23.8 per cent increase in sales in the year, to record the highest number in the region since 1994. Sales in the Launceston area rose by 22.8 per cent in 2001, while sales rose by 13.8 per cent in the North-West of the State. Data for the March quarter 2002 show a continued upward trend in sales throughout all regions of the State.

Following the pre-GST rush on building services, new dwelling unit commencements fell by 37.3 per cent in 2000-01. However, the number of commencements has rebounded since early 2001 and by the end of the year was at its highest level in five years. There is some concern that Tasmania may experience an oversupply in housing as a result of the industry's current boom, as was the case in 1994. For example, BIS Shrapnel has predicted that Tasmania will have an oversupply of 6 300 dwellings this year. However, the cessation of the additional FHOS in June 2002 and the fact that interest rates have started to increase are both expected to contribute to a reduction in the levels of dwelling investment and construction.

Business Investment

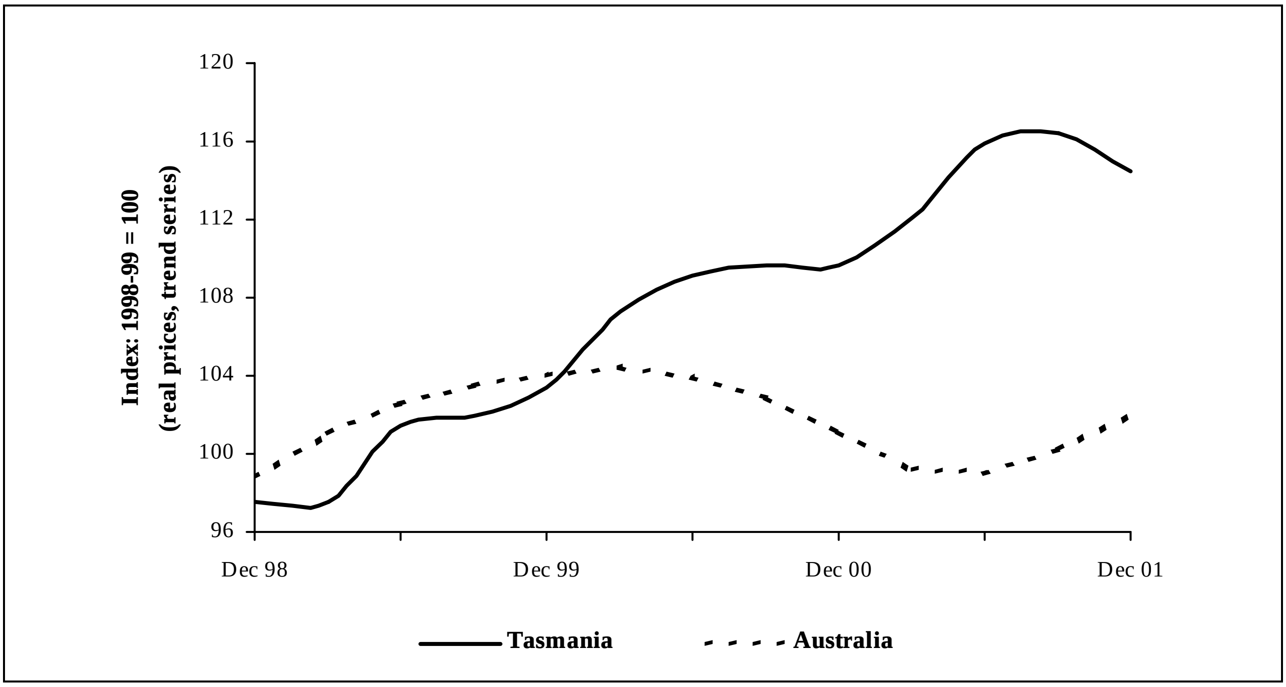
Growth in private business investment in Tasmania has lagged well behind the national average since the mid-1990s. Chart 2.10 shows the recent trends in private business investment, which is private gross fixed capital formation excluding dwelling investment and ownership transfer costs. As with many other indicators, the gap in performance widened through the mid-1990s, but has narrowed somewhat since the low point of the Tasmanian cycle in late 1998. Business investment in Tasmania grew by 4.3 per cent in 2000-01, the second consecutive yearly rise, following a decline of 19.9 per cent in 1998-99.

The improvement in business investment in 2000-01 was due to increased expenditure on machinery and equipment and on intangible fixed assets, such as copyrights, patents and mineral concessions. Investment in non-dwelling construction fell marginally, whilst investment in livestock remained steady. Interest rates are likely to have supported the growth in investment over recent years as both nominal and real interest rates have been at historically very low levels during this period.

Despite the recent improvement in business investment in Tasmania, the level of investment per capita in the State is low compared to that for Australia as a whole. One reason for the relatively low levels of local business investment is that those industries which have expanded in Tasmania in recent years have tended to be labour intensive rather than capital intensive, including transport and equipment manufacturing (for example, Incat), cultural and recreational services, finance and insurance and property and business services (such as call centres). The performance of business investment may also reflect the relative decline of the State's more traditional capital-intensive sectors, such as wood and paper products manufacturing. In part, however, the relative weakness in investment is likely to reflect a perception among Tasmania's larger companies – many of which are owned by national or international interests – that there has been a lack of attractive investment opportunities in Tasmania, or insufficient incentives for expansion, over much of the

1990s. There has also been uncertainty surrounding the outlook for key commodity prices, following the longer-term decline (in real terms) in most base metals prices.

Chart 2.10: Business Investment: Tasmania and Australia



Source: *National Income, Expenditure and Product*, ABS Cat No 5206.0.

Another reason for the weakness in private investment has been the inconsistent levels of mining investment. According to the ABS, private new capital expenditure (PNCE), a subset of the private investment measure discussed above, in the mining industry declined by 38.8 per cent between 1997-98 and 1999-00. This downturn reflected both the weakness in base metal prices in the two years to 1998-99, as well as the completion of a number of investment projects for the State's mines during the mid-1990s. Despite a slight recovery in mid-2000, PNCE in mining fell in 2001, suggesting limited prospects for the year ahead within the industry.

The total value of PNCE rose by 13.2 per cent in 2000-01 (in nominal terms), indicating that the weaker growth in overall business investment in Tasmania in 2000-01 (5.2 per cent in nominal terms) was attributable to relatively poor performance in non-PNCE items, such as expenditure on second-hand assets, or was concentrated in industries not covered by the PNCE survey, such as agriculture.

Surveys of business sentiment in Tasmania show that, due to stronger national and international economic conditions, confidence has improved in recent months and near-term investment intentions are generally positive. As detailed in the Economic Outlook section later in this Chapter, there are a number of very significant developments on the horizon, which are expected to support an increase in business investment over the coming year.

The Public Sector in Tasmania

The public sector comprises the Commonwealth, state and local government sectors and includes government business activities.

The level of total public spending in Tasmania grew marginally through most of the 1990s. However, it has grown by a solid 7.5 per cent over the past three years, including a small decline of 1.1 per cent in 2000-01. The contribution of public spending to GSP in Tasmania has increased marginally over the past decade, from an average of just over 28 per cent in the early 1990s to just over 29 per cent in the past three years. Nationally, the contribution of the public sector to GDP has fallen from 25 per cent to below 23 per cent over this period.

The largest component of public sector spending is government consumption expenditure, which has recorded modest rates of growth in recent years. Over the past decade, government consumption expenditure has risen by an average annual rate of 2.5 per cent in Tasmania (3.0 per cent nationally), including an average increase of 3.5 per cent over the past three years.

The small decline in the level of public sector spending in Tasmania in 2000-01 was due to lower levels of public sector investment, which offset the growth in government consumption expenditure. In 2000-01, public sector investment totalled $475 million, equivalent to 4.2 per cent of GSP; 10 years earlier it was $612 million or 6.2 per cent of GSP.

This smaller contribution from public sector investment reflects both some winding back of capital expenditure by the major government businesses - notably Hydro Tasmania - as well as a modest decline in investment by the General Government Sector. Nationally, there has been a sharp decline in investment by government businesses over the past decade due to a number of significant privatisations, including Qantas, the Commonwealth Bank, the airports and numerous electricity assets (Telstra remains classified as part of the public sector as less than 50 per cent of its shares are privately owned). To illustrate this point, capital expenditure by government businesses accounted for only 37 per cent of total public sector investment nationally in 2000-01, down from 54 per cent 10 years ago. The corresponding shares for Tasmanian government businesses were 48 per cent and 64 per cent respectively. The relatively greater importance of privatisations in other jurisdictions partly explains the slightly larger decline in the importance of the public sector nationally over the 1990s, relative to Tasmania.

The long-term trend towards a smaller public sector is reflected in the decline in public sector employment in Tasmania, which has been falling since the late 1980s. The overall reduction of around 11 500 jobs over this period was due to fewer jobs in both the state and Commonwealth sectors. In absolute terms, over 70 per cent of the job losses have occurred at the state level but in percentage terms the decline in Commonwealth Government employment in Tasmania has been nearly twice as large. The decline in State public sector employment in Tasmania reflects a program of redundancies undertaken by previous State Governments through the early to mid-1990s.

In the past three years, however, total public sector employment has fallen by only 0.5 per cent (or 200 persons in year average terms), comprising a 0.9 per cent increase at the State Government level (about 300 persons), a 1.3 per cent fall in local government employment (down about 50) and a reduction of 7.8 per cent (or nearly 500 persons) of those employed by the Commonwealth Government.

The privatisation of government enterprises is also relevant here, as it involves the transfer of employment from the public sector to the private sector, such as, at the Commonwealth level, the transfer of employees of Tasrail, Hobart and Launceston airports, the Commonwealth Bank and Qantas. There has also been a major reduction in employment in Tasmania's electricity supply industry, from 5 300 in the then Hydro-Electric Commission (Tasmania's largest government business) at the peak of the dam building era to around 1 600 in the three electricity entities at present – that is, Hydro Tasmania (the generation business), Transend Networks Pty Ltd (the transmission business) and Aurora Energy Pty Ltd (the distribution / retail business).

While most key data reported are for 2000-01, the current year (2001-02) has seen a number of initiatives that will boost public sector spending and employment data. For example, in the 2001-02 Budget, the State Government announced a $152 million economic stimulus package. This package included $60 million for the establishment of the Infrastructure Fund ($40 million for key economic infrastructure and $20 million for social infrastructure), $34.7 million in tax relief and $57.3 million in additional funding for recurrent services. Government business expenditure will also rise, reflecting Hydro Tasmania commencing the construction of a windfarm at Woolnorth in the State's North-West and the conversion of one unit of the Bell Bay Power Station from oil to gas generation. Information on the State's Capital Program is provided in Chapter 5 of this Budget Paper.

Further increases will be seen in 2002-03 with the announcement in this Budget of a $30 million Social Infrastructure Fund and significantly increased funding to the State's Capital Investment Program and recurrent agency allocations. In addition, the Government recently announced the details of the purchase by TT-Line of two vessels to service the Bass Strait run, for which the Government will be making equity contributions of $44 million per annum for four years.

Export Activity

As a small, open economy, exports (both overseas and interstate) are an important feature of the Tasmanian economy and have a major impact on the State's overall economic performance. While data are no longer officially compiled for the proportion of exports that are destined for interstate markets, it has been estimated that around 60 per cent of the total value of Tasmanian exports are sent interstate, with the balance to overseas destinations.

Over the past three years, overseas exports of goods and services from Tasmania have averaged 20.7 per cent of the total value of State production, above the national average of 20.0 per cent. In 2000-01, this share was an estimated 21.1 per cent for Tasmania (20.9 per cent for Australia). Although a fall from the decade-high of 22.8 per cent recorded in 1997-98, this remains the third highest share of all the states and territories, behind the Northern Territory and Western Australia.

On average, the real value of Tasmania's overseas exports has eased over the past three years. Over the three years to 2000-01, exports have declined at an average annual rate of 1.5 per cent in volume terms from the record level of exports recorded in 1997-98, which is lower than the national rate of growth of 6.2 per cent per annum over the same period.

In the 12 months to March 2002, the (nominal) value of overseas merchandise exports eased 3.1 per cent in year average terms to $2 352 million. Over this period, solid growth was recorded in exports to the United States, Korea, Japan, China and Germany.

The easing in exports reflects, in part, the fact that there were no catamaran sales by Incat Australia Pty Ltd in the 12 months to March 2002, whereas two were exported in the previous year, the last being sold in November 2000. The purchase price of a catamaran of around $80 million has a significant impact on the value of exports for Tasmania. The absence of catamaran sales over the past year is one of the reasons for the State's more subdued export performance (relative to Australia as a whole) over this period. The sale of a catamaran in April 2002 is expected to help bring exports for 2002 up to levels similar to previous years, while it is reported that the sale of at least one more vessel is imminent.

In 2000-01, Tasmania's major overseas merchandise export destinations were, in order of importance: Japan, ASEAN (which includes Brunei, Indonesia, Malaysia, Philippines, Singapore and Thailand), Hong Kong, the United States, Taiwan, South Korea, and the European Union. Japan remains Tasmania's largest single export market, accounting for 23.8 per cent (or $574 million in nominal terms) of total merchandise exports in 2000-01. In terms of the remaining market share, ASEAN countries accounted for 16.4 per cent in 2000-01, Hong Kong 10.5 per cent, the United States 9.7 per cent, Taiwan 8.8 per cent and South Korea 7.6 per cent. Over the past decade, the importance of Japan has declined, while export shares to Hong Kong, Korea and Taiwan have increased.

The key commodity class exported from Tasmania is non-ferrous metals (principally zinc and aluminium), which comprised 32.9 per cent of the value of total State merchandise exports in 2000-01. Other significant exports in 2000-01 included other and confidential items (29.3 per cent), metallic ores (10.0 per cent) and seafood (7.4 per cent). Data on woodchips, which have previously been one of the largest export items, have been moved to the confidential category as a result of the purchase of North Forest Products by Gunns Ltd in March 2001. As a result, data on exports of woodchips are no longer available.

As a result of Tasmania's greater reliance on overseas exports, the State's economic outlook depends to a large extent on the growth prospects for its major trading partners as well as trends in the prices of key commodity exports, notably aluminium, zinc, copper, tin, beef and wool. The low value of the Australian dollar in recent years has improved prospects for Tasmanian exports. Economic trends in the mainland states are also of key importance to Tasmania because a significant portion of exports goes to interstate destinations.

ECONOMIC OUTLOOK

Table 2.3 outlines Treasury's estimates for key economic variables for Tasmania for the current financial year and Treasury's forecasts for 2002-03. The forecasts show that the general recovery since early 1999 is expected to continue into 2002-03, despite some uncertainty surrounding the external environment. It is also anticipated that the recovery will extend into later years as a result of the economic benefits of the suite of energy and related infrastructure projects.

Table 2.3: Tasmanian Economic Aggregates and Forecasts

	2000-01 actual	2001-02 estimate	2002-03 forecast
State economic activity (real, % change)[1]	**....[2]**	**1.1**	**1.9**
Employment (year average, % change)	**1.0**	**(1.2)**	**0.6**
Level of employment (as at year end, trend, '000s)	**198.3**	**197.4**	**201.7**
Labour force participation rate (year average, %)	**59.1**	**58.2**	**58.2**
Unemployment rate (year average, %)	**8.7**	**8.6**	**8.4**
Consumer price index (year average, % change)	**5.8**	**1.9**	**2.7**
10 year Treasury bond rate (as at year end, %)	**6.15**	**6.25**	**6.50**
Population (year average, % change)	**(0.10)**	**0.01**	**0.02**

Sources: Actual data - Australian Bureau of Statistics and Reserve Bank of Australia.
Estimates and Forecasts – Department of Treasury and Finance.

Notes:

1. Treasury's estimates of growth in real state economic activity for 2001-02 and 2002-03 focus on the underlying movements in output and are derived from trend projections based on a variety of indicators. The estimates are not designed to be consistent with the experimental GSP series produced by the ABS, nor do they purport to forecast the ABS GSP estimates.
2. Actual unavailable. See note 1.

2001-02 Estimates

On the basis of the financial year performance to date, Treasury expects that the Tasmanian economy will record a further year of moderate economic growth in 2001-02. Nevertheless, growth is expected to be lower than previously forecast (2.3 per cent), due in large part to the sharper than anticipated international economic slowdown over this period, as most Western economies followed the slowing US economy in 2001, and the reduced growth of the Australian economy.

State final demand rose by 2.5 per cent in the year to December 2001 (the latest available data), with the strongest contributions from consumer spending and business investment. Dwelling investment also rose in calendar 2001, due to a surge in the second half of the year, driven by the First Home Owners Scheme and low interest rates. However, it is expected that dwelling investment will ease through 2002, as the additional FHOS was reduced to $3 000 from 1 January 2002 and will end on 30 June 2002, while interest rates have begun to rise. Both of these factors will have a negative impact on housing investment in 2002.

The low value of the Australian dollar has contributed positively to Tasmania's overseas export performance since early 2001, helping to set a record level of exports (in nominal terms) in the year to

October 2001. In recent times, however, the level of overseas exports has eased, primarily due to a lack of catamaran sales. The sale of a catamaran in April 2002 is expected to help bring exports for 2002 up to levels similar to previous years, while it is reported that the sale of at least one more vessel is imminent.

On current trends, employment is set to ease by around 1.2 per cent for 2001-02 in annual average terms, following growth of 1.0 per cent in 2000-01. Consistent with this decline in employment, the participation rate is expected to average around 58.2 per cent for 2001-02, down from 59.1 per cent in the previous year. The fall in the labour force will be broadly matched by the reduction in employment, hence the expectation of a small improvement in the unemployment rate for the year. The estimated 8.6 per cent rate for 2001-02 would be the lowest annual unemployment rate since 1989-90.

In terms of the private sector, the most significant project is the Tasmania Natural Gas Project, the largest industrial development in the State in 20 years. This $600 million project commenced in 2001-02 and will introduce natural gas to Tasmania via the construction of an undersea pipeline between Longford in Victoria and Bell Bay in northern Tasmania. It also involves the conversion of the Bell Bay Power Station from oil to gas (enabling the sale of gas-generated electricity), and the construction of a gas transmission network, linking the north-west, north and south of the State, and a distribution network. The latter will provide the basic infrastructure for the reticulation and retailing of natural gas to commercial, industrial and residential customers. The project will provide a major stimulus to construction and related industries, and indirectly to the economy more generally, over a number of years. More importantly, however, the arrival of gas in Tasmania will allow for the potential establishment of a new set of industries over the longer term.

The Natural Gas Project has made a substantial contribution to date, in terms of employment and investment. The majority of the $200 million investment in transmission pipelines has occurred this year. Similarly, employment for the construction of the gas pipeline peaked at around 800, with about 300 of those off-shore and 500 in Tasmania. The transmission stage of the project will wind down around the end of 2001-02 and gas is expected to starting flowing in August 2002.

Growth in the national economy in 2001 was at its lowest rate since the 1991-92 recession. Since changes to the national economy are transmitted to the Tasmanian economy with a lag, this decline in national economic growth has impacted on Tasmania in 2001-02, even as the national economy has recovered.

Overall, Treasury expects that the underlying growth rate in the Tasmanian economy for 2001-02 will be 1.1 per cent. In 2000-01, the ABS reported that the State's economy contracted by 0.5 per cent, following a fall of 0.7 per cent in 1999-00. However, as discussed earlier in this Chapter, Treasury urges caution in the use of the most recent state GSP data from the ABS. State GSP data, especially for a small economy such as Tasmania, tend to be quite volatile and often subject to substantial revision. The GSP data have not always been consistent with partial economic indicators over recent years and hence the ABS continues to classify this series as 'experimental'. As outlined in the footnote to Table 2.3, Treasury's estimates of real state economic activity are designed to reflect the underlying movements in output and are not directly comparable to the ABS estimates.

2002-03 Forecasts

State Economic Activity and State Final Demand

If current consensus forecasts prove correct in terms of national and global growth over the coming year, the Tasmanian economy should hold up relatively well, experiencing increased demand from external markets. However, in terms of the economic backdrop for 2002-03, there are a few uncertainties facing the Tasmanian economy, including the extent and duration of the recovery in national and US economic growth, and continued uncertainty surrounding the outlook for Japan, the State's largest single export market.

In addition, there will be several positives for the Tasmanian economy in 2002-03 that will not only complement the impact of the improved external environment but also partially insulate the State's prospects for economic growth from reliance on sustained recovery in the national and US economies. These positives include spending by the State Government of the remainder of the 2001-02 Infrastructure Fund monies and further increases in spending announced as part of the 2002-03 Budget (such as the $30 million Social Infrastructure Fund, a real terms increase in the State-funded component of the Capital Investment Program, further tax relief and increased recurrent agency allocations), the start of gas flowing to the State early in the financial year and the commencement of work on the distribution phase of the Tasmania Natural Gas Project, the continued low value of the Australian dollar and relatively low levels of official interest rates (despite the fact that some rises are expected to occur during the year). With some uncertainty still surrounding the contribution that external growth will make to the Tasmanian economy in 2002-03, the State Government's additional fiscal stimulus in this Budget is designed to underpin Tasmania's economic performance and maintain the positive momentum in terms of output and employment growth that has developed since early 1999.

The transmission phase of the Natural Gas Project will end in the early part of 2002-03, with gas expected to flow to the State by August 2002. The timing of the distribution rollout is subject to the outcome of a tender process now in train.

On current trends, Treasury expects that Tasmania's economic growth rate will be 1.9 per cent in 2002-03, a further improvement on the estimated 1.1 per cent for 2001-02. Commonwealth Treasury estimates that GDP will increase by 3.75 per cent in 2002-03, consistent with private sector forecasts of growth in the order of 3.5 to 4.0 per cent in 2002-03.

After a small decline in 2000-01, it is likely that government spending has risen strongly in 2001-02 and is expected to provide a further, solid contribution to economic growth over the coming financial year.

Investment in the other major energy initiative being pursued by the State Government, the Basslink power cable linking Tasmania to the national electricity market via Victoria, is due to commence in late 2002-03, with the principal impact on the economy occurring in 2003-04. As such, it is not discussed in further detail in this Chapter.

The anticipated impact of the energy and related infrastructure projects is summarised in Table 2.4, which aggregates expected investment associated with the projects, including natural gas, optic fibre, windpower, water infrastructure and Basslink, in 2001-02 and over the next three years. The Table includes only the direct value of the energy and related projects, with no allowance being made for the potential for significant flow-on investment afforded by the large infrastructure projects. Over the four years to 2004-05, it is expected that these projects will result in an average of about $370 million in additional direct investment in the State – equivalent to about 27 per cent of total private investment in Tasmania in 2000-01.

Table 2.4: Anticipated Impact of Investment in Energy and Related Infrastructure Projects

	2001-02	2002-03	2003-04	2004-05	Total
Total value of initiatives ($million)	**425**	**570**	**350**	**125**	**1 470**
Percentage of 2000-01 private investment	**31.1**	**41.7**	**25.6**	**9.2**	**107.6**

Source: *National Income, Expenditure and Product*, ABS Cat No 5206.0 and Department of Treasury and Finance.

Driven by the Natural Gas Project, the outlook for business investment has been very positive in recent business surveys, despite the expectation that the earlier downturn in the national and global economies would impact negatively on business confidence in Tasmania. As a result, Treasury expects that business investment should record a further increase in 2002-03, supported by relatively low official interest rates, the State Government's fiscal package, the direct impact of the Natural Gas Project and a more favourable (and more certain) national and global economic outlook. In relation to dwelling investment, however, these factors will not be sufficient to offset the impact of the reduced First Home Owner Scheme, and it is expected that dwelling investment will ease in 2002-03, following the FHOS-induced growth of the past year.

Growth in the other key component of final demand, consumer spending, is expected to be positive but remain below the national growth rate. Consumer spending rose by 1.3 per cent in 2000-01 and year to date performance for 2001-02 points to a further increase, aided by relatively strong wages growth and the return to population growth. Over the coming year, consumer spending will be supported by solid growth in employment, relatively low interest rates and continued population growth.

The State's overseas export performance is expected to pick up in 2002-03 due to some improvement in the economic outlook for the State's major export markets, including the United States, Europe, South Korea and the ASEAN group, and modest improvement in Japan. The outlook for commodity prices is also improved. Despite weakness in some base metal prices (in $US terms) in 2001-02, official projections by the Australian Bureau of Agricultural and Resource Economics (ABARE) point to an increase in the price of most of the State's key commodity exports next year. For most commodities, the ABARE forecasts imply a significant rebound from current levels. For 2002-03, ABARE expects increases in the $US price of copper (25.3 per cent), zinc (22.1 per cent), tin (16.8 per cent), aluminium (16.4 per cent), lead (14.2 per cent) and silver (12.6 per cent). ABARE is also forecasting a marginally higher price for beef (in $US terms) but a 5 per cent decline in the price of wool.

While the Australian dollar is expected to strengthen somewhat from its current low level, a major appreciation in the currency is not likely. The continued relatively low value of the Australian dollar is also a positive for the State's exporters, as is the prospect of improvements in the economic outlook for key overseas export markets. Overall, the State's overseas exports are likely to record a further year of expansion in 2002-03, although perhaps not to the extent experienced in the late 1990s.

Labour Market and Prices

After no change in employment levels in 1998-99 and declines in the previous two years, employment rebounded by 1.8 per cent in 1999-00 and 1.0 per cent in 2000-01. Based on current trends, Treasury expects that employment will ease by 1.2 per cent in 2001-02 as a result of negative external influences on the State's economy, but is forecasting growth of 0.6 per cent for 2002-03.

There are a number of specific developments that Treasury has taken into account in formulating its employment forecast for 2002-03. These include:

- the impact of the State Government's fiscal stimulus from the 2001-02 and 2002-03 Budgets;
- continued investment in the Natural Gas Project;
- further expansion in the State's call centre industry, including the employment of 450 people by the Commonwealth Bank in two call centres and continued growth at Qantas;
- establishment of a component assembly plant by Vestas as a by-product of Hydro Tasmania's wind generation projects;
- boosts to employment and investment arising from the decision to deregulate shop trading hours; and
- a number of tourism developments, ahead of the anticipated rise in visitor numbers following the commencement of two monohull vessels across Bass Strait.

The Government's policy of no inner-Budget redundancy programs and the increase in General Government expenditure in 2002-03 will also underpin public sector employment levels.

Against this backdrop of modest improvement in the labour market in 2002-03, the State's participation rate is forecast to average 58.2 per cent for the year, unchanged from the anticipated level for 2001-02 but below the 59.1 per cent recorded in 2000-01.

The projected growth in employment will therefore limit the improvement in unemployment by encouraging some job seekers to return to the labour market. As a result, the unemployment rate is expected to average 8.4 per cent in 2002-03, compared to an estimated 8.6 per cent for 2001-02. Although still above the national average, this would be the lowest annual unemployment rate in Tasmania since 1989-90.

Consistent with this improvement in the labour market, it is expected that the State's population will grow over the coming year. The greatest population decline occurred in 1997-98 with a fall of 0.35 per cent. There was an improvement in each of the subsequent three years, such that positive population growth was recorded through the year to September 2001. Treasury expects this improvement to continue such that positive, though small, growth will be recorded in 2001-02 and 2002-03.

In terms of the outlook for prices, Tasmania's CPI is forecast to increase by 2.7 per cent in 2002-03, following an anticipated rise of around 1.9 per cent in 2001-02 – a return to more normal rates of inflation following the impact of the Commonwealth's tax reform package on the CPI. On the basis of CPI data to date, the local inflation rate will be lower than that for the rest of Australia due, in part, to petrol prices in Tasmania not rising as much as for Australia as whole due to increased price competition following Liberty Oil's switch from the retail to the wholesale sector in the Tasmanian market. The impact of increased economic activity throughout Australia is expected to boost inflationary pressures over 2002-03.

Summary

The forecast economic growth rate of 1.9 per cent for 2002-03, following anticipated growth of 1.1 per cent in the current financial year, indicates that the Tasmanian economy is continuing on the path of solid growth after the downturn of the 1990s. With the uncertainty surrounding the external environment in 2001 extending into 2002, the State Government has delivered a further fiscal stimulus package designed to underpin the State's economic performance and maintain the positive momentum, in terms of output and employment growth, that has emerged over the past three years.

The package, coupled with the other developments outlined in this Chapter, notably the Natural Gas Project, will help support further growth in employment and a further decline in the State's unemployment rate to 8.4 per cent in 2002-03, which would be the lowest unemployment rate in Tasmania since 1989-90.

Both the Natural Gas Project and, further out, Basslink, have the potential to significantly boost the Tasmanian economy in the medium to longer term, such that the State's economic performance could again approach that of the national economy.

3 CONSOLIDATED FUND ESTIMATED OUTCOME, 2001-02

Features

- The Consolidated Fund Surplus (CFS) for 2001-02 is estimated to be $4.7 million, an increase of approximately $545 000 on the Budget estimate of $4.2 million.
- Total receipts are estimated to be $2 402.9 million, $77.5 million or 3.3 per cent above the Budget estimate of $2 325.4 million.
- Total expenditure is estimated to be $2 398.9 million, $76.9 million or 3.3 per cent above the Budget estimate of $2 322.0 million.

INTRODUCTION

The 2001-02 Consolidated Fund Estimated Outcome has been determined from agency assessments of their indicative additional funding requirements or potential savings, based on the latest available information prior to the finalisation of the 2002-03 Budget Papers. Revenue estimates are determined using information from a number of sources including the latest advice from the Commonwealth, Government Business Enterprises, State-owned Companies and agencies.

Detailed information on the final Consolidated Fund outcome for 2001-02 will be published in:

- the Quarterly Statement of the Consolidated Fund for the June quarter 2002, which will be tabled in Parliament by 31 July 2002;
- the Treasurer's Financial Statements, which will be published by 30 September 2002; and
- Agency Annual Reports, which will be tabled in Parliament by 30 November 2002.

CONSOLIDATED FUND SURPLUS

The Consolidated Fund Surplus (CFS) is the excess of Consolidated Fund receipts over the expenditure of these funds (net of loan repayments). A CFS represents funds that are available for the retirement of debt. A negative CFS is the same as the Net Financing Requirement (NFR). Table 3.1 provides details of the estimated CFS outcome for 2001-02 and expected variances from 2001-02 Budget estimates by major expenditure and receipt categories.

Table 3.1: Estimated Consolidated Fund Surplus, 2001-02

	2001-02 Budget	2001-02 Estimated Outcome	Variation
	$'000	$'000	%
Receipts			
Commonwealth Sources	**1 556 279**	**1 590 745**	**2.2**
State Sources	**769 117**	**812 131**	**5.6**
Total Receipts	**2 325 396**	**2 402 876**	**3.3**
Less Expenditure			
Recurrent Expenditure[1]	**2 155 897**	**2 193 041**	**1.7**
Capital Expenditure	**166 059**	**205 850**	**24.0**
Total Expenditure[2]	**2 321 956**	**2 398 891**	**3.3**
Gross Consolidated Fund Surplus/(Deficit)	**3 440**	**3 985**	**15.8**
Add Loan Repayments	**710**	**710**	**....**
Consolidated Fund Surplus/(Deficit)	**4 150**	**4 695**	**13.1**

Notes:

1. Recurrent Expenditure includes the amount of contribution payable to the Debt Retirement Reserve Trust Account of $710 000 (2001-02 Budget) and $710 000 (2001-02 estimated outcome).
2. Estimated expenditure includes the contributions to the new Social Infrastructure Fund of $30 million ($15.8 million recurrent expenditure and $14.2 million capital expenditure) and the contribution to the Major Projects Fund of $30 million (capital expenditure).

The budgeted CFS for 2001-02 was $4.2 million. The estimated CFS outcome for 2001-02 is $4.7 million.

RECEIPTS

Total Consolidated Fund receipts for 2001-02 are estimated to be $2 402.9 million compared with the Budget estimate of $2 325.4 million, an increase of $77.5 million or 3.3 per cent.

Table 3.2 provides information on estimated variances from the Budget estimate by major receipt category.

Table 3.2: Consolidated Fund - Estimated Total Receipts, 2001-02

	2001-02 Budget	2001-02 Estimated Outcome	Variation
	$'000	$'000	%
Recurrent Receipts			
Commonwealth Sources			
General Purpose Payments	**1 177 900**	**1 210 200**	**2.7**
Specific Purpose Payments	**327 510**	**336 687**	**2.8**
Total Commonwealth Sources	**1 505 410**	**1 546 887**	**2.8**
State Sources			
Taxation	**484 888**	**517 888**	**6.8**
Receipts from Government Business Enterprises, State-owned Companies and State Authorities	**155 708**	**161 734**	**3.9**
Departmental Fees and Recoveries	**77 408**	**76 323**	**(1.4)**
Recoveries of State Debt Charges	**7 018**	**6 701**	**(4.5)**
Sale and Rent of Government Property	**11 650**	**13 603**	**16.8**
Resource Rents and Royalties	**15 945**	**11 907**	**(25.3)**
Other Recurrent Receipts	**15 669**	**22 609**	**44.3**
Total State Sources	**768 286**	**810 765**	**5.5**
Total Recurrent Receipts	**2 273 696**	**2 357 652**	**3.7**
Capital Receipts			
Commonwealth Sources	**50 869**	**43 858**	**(13.8)**
State Sources	**831**	**1 366**	**64.4**
Total Capital Receipts	**51 700**	**45 224**	**(12.5)**
TOTAL RECEIPTS	**2 325 396**	**2 402 876**	**3.3**

Explanation of Estimated Major Receipt Variations

Recurrent Receipts

Recurrent receipts for 2001-02 are estimated to be $2 357.7 million, $84 million or 3.7 per cent above Budget. The major reasons for this expected variation are:

- estimated receipts from taxation are expected to be $33.0 million above Budget, primarily a result of:
  - stamp duty receipts are estimated to be $25.5 million above Budget due to large unanticipated one-off transactions, together with increased activity in the property and motor vehicle markets; and
  - payroll tax receipts are estimated to be $7.2 million above Budget due to the settlement of a few large outstanding liabilities and increases in wages paid in the payroll tax paying sector;
- the State's General Purpose Payments from the Commonwealth have been revised upwards by $11.5 million primarily due to changes in the national Consumer Price Index and Tasmania's share of the national population being greater than was estimated in the 2001-02 Budget;
- additional specific purpose Commonwealth funding for Home and Community Care ($1.2 million), Disabilities Services ($2.1 million), Primary and Secondary Education ($3.1 million) and Technical and Further Education ($2.8 million) is expected to be received in 2001-02, which is offset by additional expenditure in the Departments of Health and Human Services and Education;
- the level of compensation from the Commonwealth for the First Home Owners Scheme is estimated to be above Budget by $20.8 million, exactly offsetting increased expenditure on grants to first home owners;
- returns from Government Business Enterprises and State-owned Companies are expected to be approximately $6.0 million above Budget primarily reflecting an increase in estimated returns from Tascorp of $4.8 million due to higher returns on investments;
- estimated receipts from assets sales are expected to be above Budget by $2.0 million; and
- additional receipts in the Other Recurrent Receipts category primarily from interest on cash balances which are expected to be above Budget by $3.8 million.

The increase in recurrent receipts is partially offset by an estimated lower than Budget receipt of Mineral Royalties due to the downturn in base metal prices.

Capital Receipts

Capital receipts are estimated to total $45.2 million in 2001-02, compared to the budgeted amount of $51.7 million. The estimated variation in the level of receipts is primarily due to a decrease in the level of Commonwealth Roads funding of $7.0 million. This reduction in funding is offset by reduced expenditure in the Roads Program. An estimated increase in State Capital receipts of $0.5 million due to the early redemption and repayment of a number of the State’s Public Bodies Assistance Loans is expected to partially offset the reduction in Commonwealth Roads funding.

EXPENDITURE

Total Consolidated Fund expenditure in 2001-02 is estimated to be $2 398.9 million, which is $76.9 million or 3.3 per cent above the Budget estimate of $2 322 million. Table 3.3 below provides information on expected variances from original Budget estimates on a major category basis.

Table 3.3: Consolidated Fund - Estimated Total Expenditure, 2001-02

	2001-02 Budget	2001-02 Estimated Outcome	Variation
	$'000	$'000	%
Recurrent Services			
Appropriation Act[1]	1 995 057	2 042 521	2.4
Reserved by Law[2]	140 840	150 520	6.9
Treasurer's Reserve[3]	20 000	....	(100.0)
	2 155 897	2 193 041	1.7
Works and Services			
Capital Investment Program	146 059	141 650	(3.0)
2001-02 Infrastructure Fund[4]	20 000	20 000	....
Social Infrastructure Fund[5]	....	14 200	....
Major Projects Fund[6]	....	30 000	....
	166 059	205 850	24.0
TOTAL	2 321 956	2 398 891	3.3

Notes:
1. The Treasurer's Reserve is reported separately from Budget expenditure but is included as an expenditure saving in the estimated outcome.
2. Reserved by Law expenditure includes the amount of the contribution payable to the Debt Retirement Reserve Trust Account. This amount is $710 000 (2001-02 Budget and 2001-02 estimated outcome). The above Budget expenditure is due to an additional contribution to the Superannuation Provision Account.
3. Expenditure authorised from the Treasurer's Reserve is included in agency expenditure under the Appropriation Act. Net additional revenues and expenditure savings may be used to supplement the amount provided in the Budget for the Treasurer's Reserve.
4. The 2001-02 Infrastructure Fund totalled $60 million, funded by $40 million carried forward from 2000-01 to 2001-02 with a further $20 million appropriated in 2001-02.
5. The estimated additional expenditure represents the works and services component of the new $30 million Social Infrastructure Fund. The remaining $15.8 million contribution to the Social Infrastructure Fund is included in recurrent services.
6. The estimated additional expenditure is the contribution to the Major Projects Fund.

Table 3.4 below provides information on estimated Consolidated Fund expenditure for 2001-02 on an agency basis.

Table 3.4: Consolidated Fund - Estimated Total Expenditure by Agency, 2001-02

Agency	2001-02 Budget	2001-02 Estimated Outcome: Recurrent Services	Reserved by Law	Works and Services	Total	Variation
	$'000	$'000	$'000	$'000	$'000	%
Education	615 237	596 737	....	24 546	621 283	1.0
Finance-General[1]	415 212	251 100	136 170	64 200	451 470	8.7
Health and Human Services	680 907	686 357	....	22 230	708 587	4.1
House of Assembly	4 537	1 732	2 805	....	4 537	....
Infrastructure, Energy and Resources	171 576	91 805	52	73 341	165 198	(3.7)
Justice and Industrial Relations	55 705	48 499	8 548	1 322	58 369	4.8
Legislative Council	3 324	1 582	1 742	....	3 324	....
Legislature-General	3 514	3 514	....	....	3 514	....
Ministerial and Parliamentary Support	10 795	10 404	450	....	10 854	0.5
Office of the Governor	1 926	1 728	190	8	1 926	....
Police and Public Safety	112 523	111 497	....	1 026	112 523	....
Premier and Cabinet	20 325	21 284	....	300	21 584	6.2
Primary Industries, Water and Environment	93 904	90 951	123	2 890	93 964	0.1
State Development	92 108	92 016	148	8 511	100 675	9.3
Tasmanian Audit Office	292	....	292	....	292	....
Treasury and Finance	40 071	33 315	....	7 476	40 791	1.8
TOTAL EXPENDITURE	2 321 956	2 042 521	150 520	205 850	2 398 891	3.3

Note:

1. Reserved by Law expenditure for Finance-General includes the amount of contribution payable to the Debt Retirement Reserve Trust Account. This amount is $710 000 (2001-02 Budget and 2001-02 estimated outcome).

Explanation of Estimated Major Expenditure Variations

Expenditure

Expenditure, including Reserved by Law and works and services expenditure for 2001-02, is estimated to be $2 398.9 million, $76.9 million (3.3 per cent) above the original Budget estimate of $2 322 million. The primary reasons for this expected variation are detailed below on an agency basis.

Education

Expenditure for the Department of Education is expected to be above Budget by $6.0 million, primarily due to above Budget expenditure on Primary and Secondary Education and Technical and Further Education as a result of above Budget receipt of Commonwealth funding.

Finance-General

Total expenditure for Finance-General is expected to be in the order of $451.5 million, $36.3 million or 8.7 per cent above Budget.

Total expenditure for Finance-General is expected to be above Budget primarily due to the following:

- an estimated additional expenditure of $20.8 million due to an increase in the cost of the First Home Owners Scheme in 2001-02;
- additional expenditure of $12 million to the Superannuation Provision Account; and
- the additional expenditure of $60 million with the establishment of the $30 million Major Projects Fund and the new Social Infrastructure Fund of $30 million ($15.8 million recurrent and $14.2 million works and services).

Expenditure in Finance-General has been partly offset by:

- savings in Debt Servicing Costs of $15.8 million in 2001-02 due to higher than anticipated cash reserves being available to reduce borrowings;
- savings in the Provision for Wage Increases after providing additional funds to agencies for wage increases; and
- savings from allocating funds from the Treasurer's Reserve which is reflected in agency expenditure.

Health and Human Services

The estimated above Budget expenditure of $27.7 million for the Department of Health and Human Services is mainly due to the following:

- additional expenditure of $21.0 million to address service demand and cost pressure, primarily in the Hospitals and Disabilities areas;
- the transfer of responsibility and associated funding of $1.3 million for the administration of the Prison Hospital from the Department of Justice and Industrial Relations; and
- additional expenditure of $3.6 million associated with Home and Community Care and other programs offset by additional revenue to be received from the Commonwealth.

Infrastructure, Energy and Resources

Expenditure for the Department of Infrastructure, Energy and Resources is anticipated to be below Budget by $6.4 million primarily due to reduced capital expenditure in the Roads Program resulting from an estimated reduced level of Commonwealth Road funding.

Justice and Industrial Relations

The estimated above Budget expenditure of $2.7 million is mainly due to increased expenditure of $3.7 million in corrective services and court areas to meet service needs, partially offset by the funding transfer to the Department of Health and Human Services resulting from the change in responsibility for the administration of the Prison Hospital.

Premier and Cabinet

Expenditure for the Department of Premier and Cabinet is expected to be above Budget by $1.3 million, primarily due to additional expenditure associated with the administration of the Centenary of Federation Celebrations.

State Development

The estimated above Budget expenditure of $8.6 million is primarily due to the provision of additional funding for the Abt Railway, industry assistance and above Budget expenditure on the Tourism Industry Assistance Package following Ansett Airlines being placed in receivership.

4 CONSOLIDATED FUND BUDGET ESTIMATES, 2002-03

Features

- In 2002-03, it is estimated that the Consolidated Fund Surplus (CFS) will be $8.5 million. This compares to the budgeted CFS of $4.2 million for 2001-02.
- Total receipts are estimated to be $2 436.9 million in 2002-03, an increase of $111.5 million or 4.8 per cent on 2001-02 budgeted receipts of $2 325.4 million.
- Expenditure in 2002-03 is expected to be $2 428.8 million, an increase of $106.9 million or 4.6 per cent over 2001-02 budgeted expenditure of $2 322.0 million.

CONSOLIDATED FUND SURPLUS

In 2002-03, it is estimated that the Consolidated Fund Surplus will be $8.5 million.

Table 4.1: Consolidated Fund Surplus, 2002-03

	2001-02 Budget	2002-03 Budget
	$'000	$'000
Receipts		
Commonwealth Sources		
Recurrent Receipts	1 505 410	1 616 368
Capital Receipts	50 869	40 765
Total Commonwealth Sources	1 556 279	1 657 133
State Sources		
Recurrent Receipts	768 286	778 916
Capital Receipts	831	835
Total State Sources	769 117	779 751
Total Receipts	2 325 396	2 436 884
Less Expenditure		
Recurrent Services		
Expenditure on Outputs		
Appropriation Act	2 005 057	2 119 455
Reserved by Law	150 840	170 796
Total Recurrent Services	2 155 897	2 290 251
Works and Services		
Capital Investment Program	146 059	138 557
Infrastructure Fund	20 000	....
Total Works and Services	166 059	138 557
Total Expenditure	2 321 956	2 428 808
Gross Consolidated Fund Surplus/(Deficit)	3 440	8 076
Add Loan Repayments[1]	710	444
Consolidated Fund Surplus/(Deficit)	4 150	8 520

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.

Loan Repayments

The State is to repay $444 000 in 2002-03 to the Debt Retirement Reserve Trust Account in respect of borrowings in accordance with arrangements established under the *Financial Agreement Act 1994.*

RECEIPTS

Consolidated Fund receipts are estimated to be $2 436.9 million in 2002-03, an increase of $111.5 million or 4.8 per cent on the 2001-02 Budget estimate of $2 325.4 million.

Table 4.2 outlines the variations between the 2002-03 and the 2001-02 Budget estimates by major category.

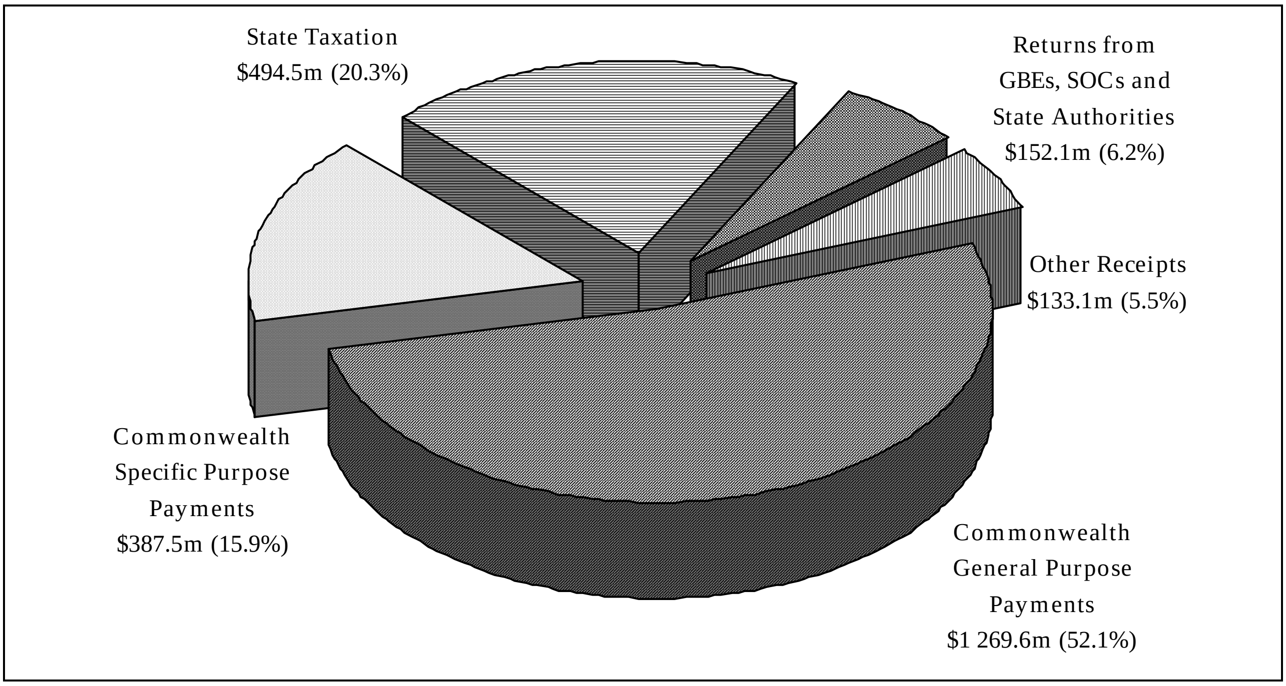
Table 4.2: Consolidated Fund - Total Receipts, 2002-03

	2001-02 Budget	2002-03 Budget	Variation
	$'000	$'000	%
Recurrent Receipts			
Commonwealth Sources	1 505 410	1 616 368	7.4
State Sources	768 286	778 916	1.4
	2 273 696	2 395 284	5.3
Capital Receipts			
Commonwealth Sources	50 869	40 765	(19.9)
State Sources	831	835	0.5
	51 700	41 600	(19.5)
Total Receipts	2 325 396	2 436 884	4.8

Complete details of receipts to the Consolidated Fund are provided in Table 4.4.

Chart 4.1 shows the estimated total sources of funds for the Consolidated Fund in 2002-03 and a percentage breakdown of the categories of the total sources of funds.

Chart 4.1: Consolidated Fund – Total Sources of Funds, 2002-03



Recurrent Receipts

Total recurrent receipts in 2002-03 are estimated to be $2 395.3 million. This is an increase of 5.3 per cent on 2001-02 budgeted receipts of $2 273.7 million.

The single most important source of recurrent revenue for the State is the Commonwealth Government, which, through a range of general and specific purpose grants, will provide the State with approximately 67.5 per cent of its recurrent revenue in 2002-03. The remainder of the State's recurrent revenue will be derived by the State from its own sources, the major elements being State taxation (20.6 per cent), returns from Government Business Enterprises, State-owned Companies and State Authorities (6.3 per cent) and departmental fees and other recoveries (5.5 per cent).

Chart 4.2 shows the estimated recurrent receipts for 2002-03 and a percentage breakdown of the categories of recurrent receipts.

Chart 4.2: Recurrent Receipts, 2002-03

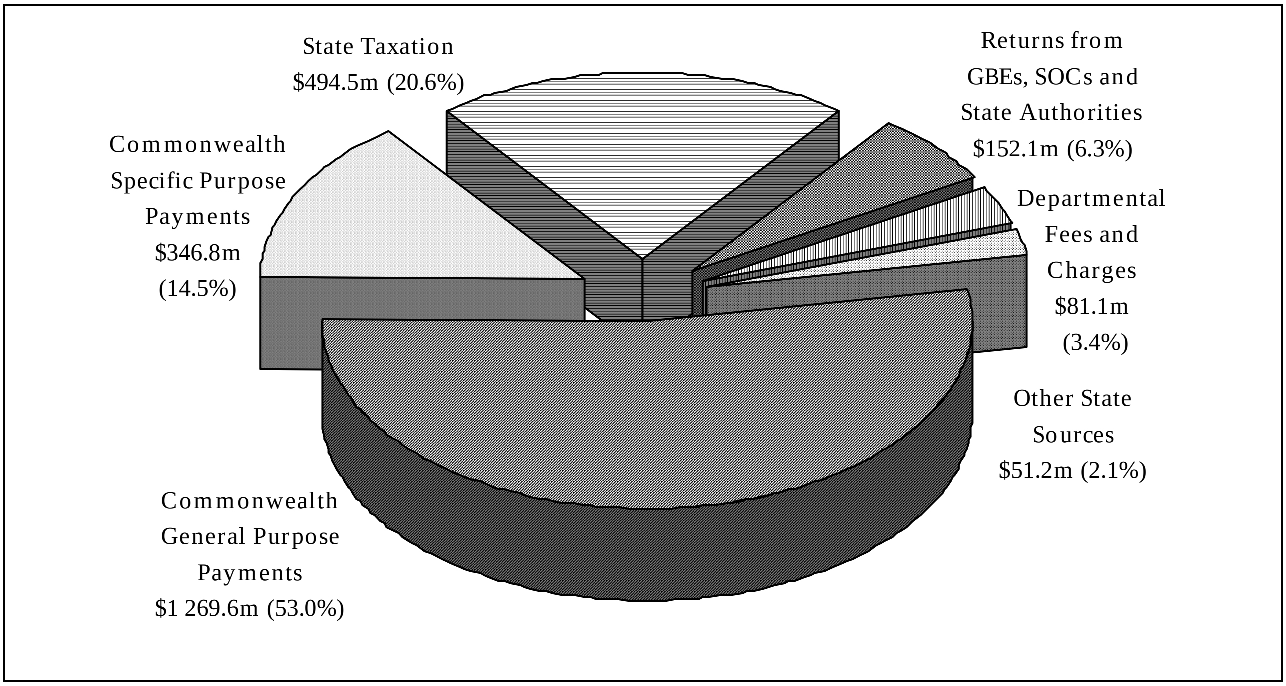
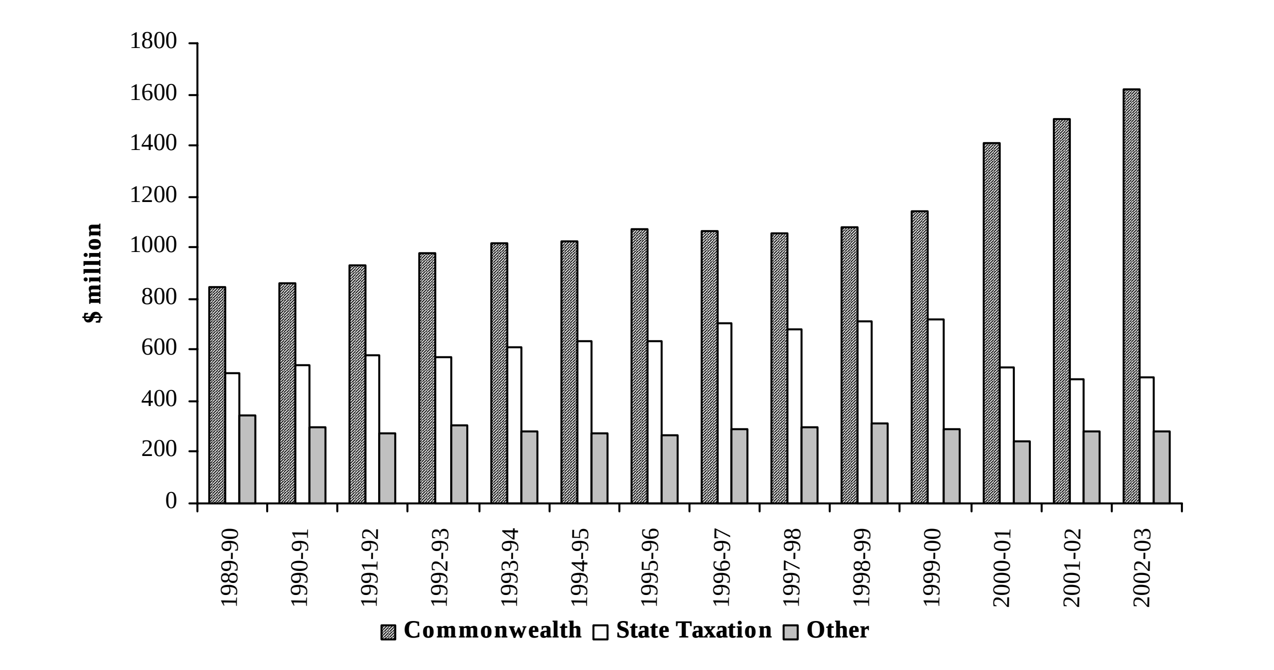


Chart 4.3 shows the estimated recurrent receipts in real terms, expressed in 2001-02 dollars, for the financial years 1989-90 to 2002-03.

Chart 4.3: Recurrent Receipts (in 2001-02 dollars)[1]



Note:

1. The variation in receipts from Commonwealth and State sources in 2000-01 is due to the initial impact of the implementation of national tax changes (including the GST) from 1 July 2000. The increase in Commonwealth funding in 2001-02 is largely due to an increase in the size of the pool of funds, an increase in Tasmania's relative need for Commonwealth financial assistance as assessed by the Commonwealth Grants Commission and the impact of the abolition of Financial Institutions Duty and stamp duty on the transfer of quoted marketable securities from 1 July 2001 under the *Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations*. The further increase in Commonwealth funding in 2002-03 is primarily due to an increase in the size of the pool of funds, an increase in Tasmania's relative need for Commonwealth financial assistance as assessed by the Commonwealth Grants Commission and an estimated increase in the rate of growth of Tasmania's population.

Commonwealth Sources

Revenue from Commonwealth sources for recurrent purposes is estimated to total $1 616.4 million, an increase of $111.0 million or 7.4 per cent over the 2001-02 Budget estimate of $1 505.4 million. This revenue consists of the GST Revenue, Budget Balancing Assistance, National Competition Payments, and specific purpose payments, which are tied to specific activities.

GST Revenue

GST Revenue is estimated to be $1199.5 million in 2002-03, an increase of $91.9 million over the 2001-02 Budget estimate of $1 107.6 million. This increase is primarily due to an increase in the size of the pool of funds, an increase in Tasmania's relative need for Commonwealth financial assistance as assessed by the Commonwealth Grants Commission and an estimated increase in the rate of growth of Tasmania's population.

Budget Balancing Assistance

Under the *Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations* (IGA), the Commonwealth has guaranteed that the budgetary position of each individual state or territory will be no worse off as a result of the national tax changes introduced in 2000-01. To meet this guarantee, the Commonwealth has agreed to make Budget Balancing Assistance (BBA) payments to each state or territory as necessary. It is estimated that, in 2002-03, Tasmania will receive a BBA of $52.7 million, a decrease of $400 000 on the 2001-02 Budget estimate of $53.1 million.

National Competition Payments

The *Agreement to Implement the National Competition Policy and Related Reforms* provides for the states and territories to receive general revenue grants, which reflect a share of the expected revenue gains to the Commonwealth arising from the implementation of National Competition Policy by the states and territories. It is estimated that, in 2002-03, Tasmania will receive $17.4 million for this purpose, an increase of $200 000 on the 2001-02 Budget estimate of $17.2 million.

Health Care Grant

The Health Care Grant is estimated to be $153.4 million in 2002-03, $7.8 million or 5.4 per cent greater than the budgeted amount of $145.6 million for 2001-02.

Other Specific Purpose Payments

Specific purpose payments from the Commonwealth that are paid to the Consolidated Fund will total $193.4 million (excluding the Health Care Grant) in 2002-03, an increase of $11.5 million or 6.3 per cent on budgeted receipts for 2001-02 of $181.9 million.

More detailed information in relation to Commonwealth payments to Tasmania is provided in Chapter 7 of this Budget Paper.

State Taxation

Total State taxation revenue for 2002-03 is estimated to be $494.5 million, an increase of $9.6 million or 2.0 per cent on the 2001-02 Budget estimate of $484.9 million. However, receipts for 2002-03 are estimated to be significantly less than the estimated outcome for 2001-02 of $517.9 million due to anticipated lower activity in the property market, tax relief initiatives announced in this Budget and the resolution of a number of large outstanding payroll tax issues in 2001-02.

A summary of the expected 2002-03 revenue from major tax sources is as follows:

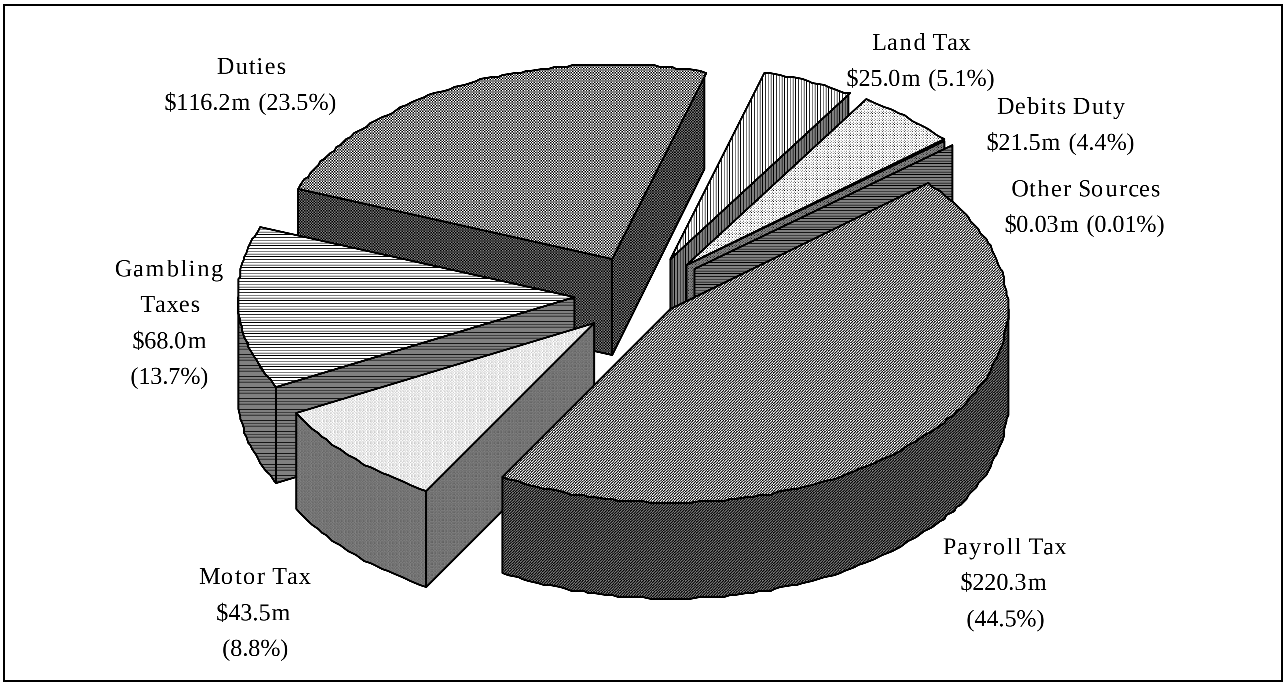
- Payroll Tax receipts in 2002-03 are estimated to be $220.3 million, an increase of $6.7 million or 3.1 per cent on the 2001-02 Budget estimate of $213.6 million. The expected increase in receipts is the result of anticipated growth in employment in the payroll tax paying sector and scheduled wage rises in the public sector, partially offset by the further rate reduction and increase in the exemption threshold that will take effect from 1 July 2002;

- Land Tax receipts in 2002-03 are estimated to be $25.0 million, a decrease of $4.4 million or 15.0 per cent over the 2001-02 Budget estimate of $29.4 million. The expected decrease in receipts is due in part to an over-estimation of receipts in 2001-02 and the result of the tax relief initiatives announced as part of the 2002-03 Budget;
- Motor Tax receipts in 2002-03 are estimated to be $43.5 million, an increase of $3.2 million or 8.0 per cent over the 2001-02 Budget estimate of $40.2 million. The anticipated increase in receipts, which offsets a decrease last year, is a result of the introduction of periodic registration for light vehicles from 1 July 2001. This produced a one-off negative adjustment in the timing of receipts in 2001-02;
- Duties receipts in 2002-03 are estimated to be $116.2 million, a decrease of $16.8 million or 12.6 per cent over the 2001-02 Budget estimate of $133.0 million. The decrease is a result of debits duty being listed as a separate head of tax and no longer being reported with the duties estimates from 1 July 2002 (in accordance with the legislative separation of debits duty from other duties);
- Debits duty receipts in 2002-03 are estimated to be $21.5 million, an increase of $900 000 or 4.3 per cent over the Budget estimate for 2001-02; and
- Gambling Tax receipts in 2002-03 are estimated to be $68.0 million, an increase of $3.4 million or 5.3 per cent. This is primarily due to an increase in Casino tax and Licence fees of $2.9 million or 6.5 per cent. Nevertheless, Gambling Tax receipts in 2002-03, as a percentage of total revenue, are less than they were in 1998-99.

More detailed information in relation to State taxation revenue is provided in Chapter 6 of this Budget Paper.

Chart 4.4 shows the estimated State taxation receipts for 2002-03 and a breakdown of the categories of State taxation.

Chart 4.4: State Taxation Revenue, 2002-03



Returns from Government Business Enterprises, State-owned Companies and State Authorities

Returns from Government businesses in 2002-03 are expected to be $152.0 million, slightly lower than the budgeted returns of $155.7 million in 2001-02. Dividends are estimated to be $99.1 million in 2002-03, an increase of $23.4 million or 30.9 per cent over the 2001-02 Budget estimate of $75.7 million.

In 2002-03, it is estimated that Hydro Tasmania will pay $61.0 million in dividends (including a special dividend of $40 million), $19.1 million in tax equivalent payments and $3.0 million in guarantee fees. Transend Networks Pty Ltd is expected to pay a dividend of $11.8 million and an estimated $6.1 million in tax equivalent payments. Aurora Energy Pty Ltd is expected to pay $12.1 million in dividends, $16.9 million in tax equivalent payments and $1.2 million in guarantee fees.

In 2002-03, the Tasmanian Public Finance Corporation is expected to pay a dividend of $5.8 million and an estimated $4.1 million in tax equivalent payments.

During 2002-03, Forestry Tasmania will contribute $5 million to the Consolidated Fund comprising $4.9 million by way of an ordinary dividend and guarantee fees of $100 000.

Further information concerning Government Business Enterprises, State-owned Companies and State Authorities is provided in Chapter 10 of this Budget Paper.

Departmental Fees and Other Recoveries

Revenue from fees and other charges levied for services provided by agencies in 2002-03 is estimated to be $81.1 million, an increase of 4.8 per cent over budgeted receipts of $77.4 million for 2001-02. The increase in revenue from these sources is largely attributable to an increase of $7.3 million in the receipts of the Department of Infrastructure, Energy and Resources primarily due to the timing of revenue associated with the introduction of periodic registration for light vehicles in 2001-02 and the fifth anniversary of the implementation of the five-year drivers licence in 1992-93. This increase is partially offset by a decrease of $2.3 million in the receipts of the Department of Police and Public Safety and $1.5 million in the receipts of the Department of Primary Industries, Water and Environment. These decreases are primarily due to an anticipated decrease in firearm licence receipts and abalone royalty receipts, respectively.

Recoveries of State Debt Charges

Interest and Sinking Fund Recoveries are estimated to be $6.2 million in 2002-03, a decline of $794 000 or 11.3 per cent from Budget estimates of $7.0 million for 2001-02. This decline reflects a decrease in the outstanding balances of some loans to statutory authorities, and is offset by reduced Financial Agreement debt repayments to the Commonwealth.

Resource Rents and Royalties

Revenue received from resource rents and royalties is estimated to be $12.9 million in 2002-03, a decline of $3.0 million from the 2001-02 Budget estimate of $15.9 million. This decline is due to an estimated decrease in mineral royalties from $13.0 million in 2001-02 to $10.0 million in 2002-03 as a result of the downturn in base metal prices.

Capital Receipts

In 2002-03, capital receipts are estimated to be $41.6 million, a decrease of $10.1 million or 19.5 per cent over the budgeted receipts of $51.7 million for 2001-02.

Table 4.3: Summary of Capital Receipts, 2002-03

	2001-02 Budget	2002-03 Budget	Variation
	$'000	$'000	%
Commonwealth Sources			
Specific Purpose Payments	**50 869**	**40 765**	**(19.9)**
Total Commonwealth Sources	**50 869**	**40 765**	**(19.9)**
State Sources			
Loan Repayments	**831**	**835**	**0.5**
Total State Sources	**831**	**835**	**0.5**
Total Capital Receipts	**51 700**	**41 600**	**(19.5)**

Commonwealth Specific Purpose Capital Payments

These payments are for specific projects nominated by the Commonwealth and are expected to total $40.8 million in 2002-03, representing a decrease of 19.9 per cent over the 2001-02 budgeted receipts of $50.9 million. This decrease is attributable in the main to a decrease of $12.2 million in funding for the National Highway System.

More detailed information in relation to Commonwealth payments to Tasmania is provided in Chapter 7 of this Budget Paper.

State Sources

The receipts from this source represent the repayment of advances financed from previous years' allocations to various community organisations. Receipts are estimated to increase from $831 000 in 2001-02 to $835 000 in 2002-03.

Details of capital receipts are provided in Table 4.4.

Financing Transactions

The budgeted 2002-03 Gross Consolidated Fund Surplus of $8.1 million includes a contribution payable to the Debt Retirement Reserve Trust Account. Adding back this contribution of $444 000 results in an estimated Consolidated Fund Surplus of $8.5 million for 2002-03.

Table 4.4: Consolidated Fund Receipts, 2001-02 and 2002-03

	2001-02 Budget	2002-03 Budget
	$'000	$'000
Commonwealth Sources		
Recurrent Receipts		
General Purpose Payments		
GST Revenue[1]	1 107 600	1 199 500
Budget Balancing Assistance[2]	53 100	52 700
Competition Payments	17 200	17 400
Total General Purpose Payments	1 177 900	1 269 600
Specific Purpose Payments		
Health and Human Services		
Blood Transfusion Service	1 600	1 855
Commonwealth-State Housing Agreement	17 741	17 741
Disability Services Grant	15 478	17 600
Health Care Grant	145 600	153 400
High Cost Drugs	4 850	4 850
Home and Community Care Program	14 630	15 860
National Child Care Strategy	203	217
Public Health Outcomes Funding Agreement	3 931	3 931
Supported Accommodation Assistance Program	6 574	6 798
Education		
Primary and Secondary Education	41 091	44 243
Technical and Further Education	19 650	22 235
Primary Industries, Water and Environment		
World Heritage Area	5 300	5 300
Police and Public Safety		
Natural Disasters Organisations	202	207
Finance General		
Assistance for Concessions	5 360	5 531
Grant to the State for Local Government	45 300	47 000
Total Specific Purpose Payments	327 510	346 768

Notes:

1. The increase in GST Revenue in 2002-03 is primarily due to an increase in the size of the pool of funds, an increase in Tasmania's relative need for Commonwealth financial assistance as assessed by the Commonwealth Grants Commission and an estimated increase in the rate of growth of Tasmania's population.
2. Under the *Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations* (IGA), the Commonwealth has guaranteed that the states are to be no worse off as a result of the introduction of national tax changes. To meet this guarantee, the Commonwealth has agreed to make Budget Balancing Assistance payments to each state and territory as necessary.

Table 4.4: Consolidated Fund Receipts, 2001-02 and 2002-03 (continued)

	2001-02 Budget	2002-03 Budget
	$'000	$'000
Capital Receipts		
Specific Purpose Payments		
Health and Human Services		
Housing	**10 389**	**9 982**
Education		
Primary and Secondary Education	**6 270**	**6 368**
Technical and Further Education	**3 855**	**6 075**
Infrastructure, Energy and Resources		
National Highway System	**30 355**	**18 340**
Total Specific Purpose Payments	**50 869**	**40 765**
Total Specific Purpose Payments	**378 379**	**387 533**
Total Commonwealth	**1 556 279**	**1 657 133**

State Sources

Taxation		
Land Tax[1]	**29 396**	**24 990**
Motor Taxation[2]	**40 239**	**43 466**
Payroll Tax[3]	**213 622**	**220 290**
Financial Transaction Taxes		
Debits Duties[4]	**....**	**21 512**
Financial Institutions Duty[5]	**2 126**	**....**
Duties[4]	**133 019**	**116 245**
Franchise Fees and Levies		
Electricity Entities Levy[6]	**1 942**	**....**

Notes:

1. The Budget estimate for land tax for 2002-03 reflects tax relief of $2.0 million and an estimated decrease in the aggregate land tax assessment from the 2001-02 Budget estimate.
2. The anticipated increase in receipts is a result of the introduction of periodic registration for light vehicles from 1 July 2001. This produced a one-off negative adjustment in the timing of receipts in 2001-02.
3. The increase in payroll tax receipts from 2001-02 to 2002-03 is due to an expected increase in employment in the payroll tax paying sector, together with wage increases. The increase is partially offset by the further rate reduction and increase in the exemption threshold that will take effect from 1 July 2002.
4. A separate debits duty estimate is now included, in line with the legislative separation of debits duties from other duties which took effect from 1 July 2001. In past Budgets, debits duties were included in the stamp duties estimate.
5. Financial Institutions Duty (FID) was abolished from 1 July 2001. Receipts in 2001-02 relate to FID levied on bank accounts prior to 1 July 2001.
6. The electricity entities levy was abolished from 1 July 2001. Receipts in 2001-02 relate to electricity consumed prior to 1 July 2001, but billed after that date.

Table 4.4: Consolidated Fund Receipts, 2001-02 and 2002-03 (continued)

	2001-02 Budget	2002-03 Budget
	$'000	$'000
Gambling Taxes		
Casino Tax and Licence Fees[1]	44 159	47 031
Lottery Tax	19 992	20 490
Racing and Gaming Taxes	363	438
Other		
Sundry Licences	30	30
Total Taxation	484 888	494 492
Receipts from Government Business Enterprises, State-owned Companies and State Authorities		
Dividends		
Aurora Energy Pty Ltd[2]	8 926	12 100
Civil Construction Services Corporation	....	203
Forestry Tasmania[2]	2 538	4 907
Hobart Ports Corporation Pty Ltd	505	577
Hydro Tasmania[2]	7 081	21 034
Motor Accidents Insurance Board[2]	....	1 101
Port of Devonport Corporation Pty Ltd	736	....
Port of Launceston Pty Ltd	315	630
Printing Authority of Tasmania	60	115
Southern Regional Cemetery Trust	70	....
Stanley Cool Stores Board	54	41
TOTE Tasmania Pty Ltd	440	606
Tasmanian Grain Elevators Board	32	49
Tasmanian Public Finance Corporation[2]	4 072	5 837
The Public Trustee	100	100
Transend Networks Pty Ltd[2]	10 794	11 790
Sub-total	35 723	59 090
Special Dividends		
Hydro Tasmania	40 000	40 000
Sub-total	40 000	40 000

Notes:

1. The expected increase in casino tax revenue is primarily due to increased receipts from video gaming machines due to the increases in the allowable number of machines in venues, from 1 July 2002, in accordance with the 1993 Deed of Agreement between the Crown and Australian National Hotels Limited.
2. The expected increase in estimated dividends from the three electricity businesses, Forestry Tasmania, the Motor Accidents Insurance Board and the Tasmanian Public Finance Corporation, is a result of increased profit outcomes in 2001-02 compared to the previous year.

Table 4.4: Consolidated Fund Receipts, 2001-02 and 2002-03 (continued)

	2001-02 Budget	2002-03 Budget
	$'000	$'000
Tax Equivalents		
Aurora Energy Pty Ltd[1]	19 314	16 874
Civil Construction Services Corporation	....	174
Forestry Tasmania	1 229	....
Hobart Ports Corporation Pty Ltd	438	1 244
Hydro Tasmania[2]	37 950	19 067
Port of Devonport Corporation Pty Ltd	497	301
Southern Regional Cemetery Trust	61	....
Stanley Cool Stores Board	40	24
TOTE Tasmania Pty Ltd	702	339
Tasmanian Grain Elevators Board	71	42
Tasmanian Public Finance Corporation[3]	3 189	4 057
Transend Networks Pty Ltd[1]	11 221	6 120
Sub-total	74 712	48 242
Guarantee Fees		
Aurora Energy Pty Ltd	1 247	1 247
Burnie Port Corporation Pty Ltd	43	40
Civil Construction Services Corporation	....	16
Forestry Tasmania	240	92
Hobart Ports Corporation Pty Ltd	50	39
Hydro Tasmania	3 400	3 000
Metro Tasmania Pty Ltd	13	13
Port of Devonport Corporation Pty Ltd	32	43
Port of Launceston Pty Ltd	56	55
Rivers and Water Supply Commission	80	65
TOTE Tasmania Pty Ltd	12	11
Transend Networks Pty Ltd	100	100
Sub-total	5 273	4 721
Total Recoveries from GBEs, SOCs and State Authorities	155 708	152 053

Notes:

1. The decrease in the estimated tax equivalents for Aurora Energy Pty Ltd and Transend Networks Pty Ltd is principally due to a one-off increase in tax equivalents expected in the 2001-02 Budget as a result of the introduction of the Pay as You Go tax reforms.
2. The decrease in the estimated tax equivalents for Hydro Tasmania is largely due to the prepayment of tax equivalents in 2001-02 and the introduction of the Pay as You Go tax reforms.
3. The increase in the estimated tax equivalent payments for the Tasmanian Public Finance Corporation is a result of an expected increase in profit outcomes for 2002-03.

Table 4.4: Consolidated Fund Receipts, 2001-02 and 2002-03 (continued)

	2001-02 Budget	2002-03 Budget
	$'000	$'000
Departmental Fees and Recoveries		
Education	8 324	8 356
Health and Human Services	16	16
Infrastructure, Energy and Resources[1]	25 460	32 766
Justice and Industrial Relations	7 730	7 915
Police and Public Safety[2]	2 982	643
Premier and Cabinet	2	2
Primary Industries, Water and Environment	29 080	27 589
State Development	3 495	3 496
Treasury and Finance	319	329
Total Departmental Fees and Recoveries	77 408	81 112
Recoveries of State Debt Charges		
Interest	6 672	5 964
Sinking Fund Recoveries	346	260
Total Recoveries of State Debt Charges	7 018	6 224
Sale and Rent of Government Property		
Crown Lands Administration Fund	11 603	11 603
Rent of Police Quarters[3]	47	....
Total Sale and Rent of Government Property	11 650	11 603
Resource Rents and Royalties		
Mineral Royalties[4]	13 038	10 000
Rent and Fees from Mineral Lands	770	770
Storage of Explosives and Inflammable Liquids	226	226
Water Royalties	1 911	1 912
Total Resource Rents and Royalties	15 945	12 908

Notes:
1. This increase is primarily due to the timing of revenue associated with the introduction of periodic registration for light vehicles in 2001-02 and the fifth anniversary of the implementation of the five-year driver licence in 1992-93.
2. The estimated 2001-02 Fees and Recoveries for the Department of Police and Public Safety include revenue from the Firearms Licence renewals during 2001-02, the five-year anniversary of gun licensing and controls. The 2002-03 estimates reflect a reduction in receipts following the 2001-02 licence renewals.
3. In 1999-00, the State Government Rental Committee was abolished and the responsibility for employee housing assets was devolved to departments. Consequently, departments no longer pay the rental receipts into the Consolidated Fund.
4. This decline in mineral royalties is a result of the anticipated downturn in base metal prices.

Table 4.4: Consolidated Fund Receipts, 2001-02 and 2002-03 (continued)

	2001-02 Budget	2002-03 Budget
	$'000	**$'000**
Other Recurrent Receipts		
Fines - Infringement Notices	**5 500**	**5 500**
Fines and Fees	**3 000**	**3 000**
Interest on Investments - Rivers and Water Supply Commission	**19**	**19**
Interest on Investments - Treasury and Finance[1]	**3 500**	**7 932**
Miscellaneous	**625**	**813**
Prices Oversight and Electricity Regulation: Recoveries[2]	**650**	**....**
Recoveries from Departmental Business Units	**125**	**260**
Stamp Duties - Instalment Payments	**2 250**	**3 000**
Total Other Recurrent Receipts	**15 669**	**20 524**
Capital Repayments		
Midway Point Improvement Act 1975	**35**	**35**
Public Bodies Assistance Act 1971	**630**	**630**
State Loans and Loan Guarantees Act 1976	**56**	**60**
Tourism and Recreational Development Act 1977	**10**	**10**
Private Forests Loans	**100**	**100**
Total Capital Repayments	**831**	**835**
Total State	**769 117**	**779 751**
Total Receipts	**2 325 396**	**2 436 884**

Notes:

1. The increase in Interest on Investments is mainly due to the increased level of surplus cash available in the Public Account for investment purposes.
2. Commencing in 2002-03, all recoveries associated with the activities of the Government Prices Oversight Commission and the Office of the Tasmanian Energy Regulator will be managed through an account within the Special Deposits and Trust Fund.

EXPENDITURE

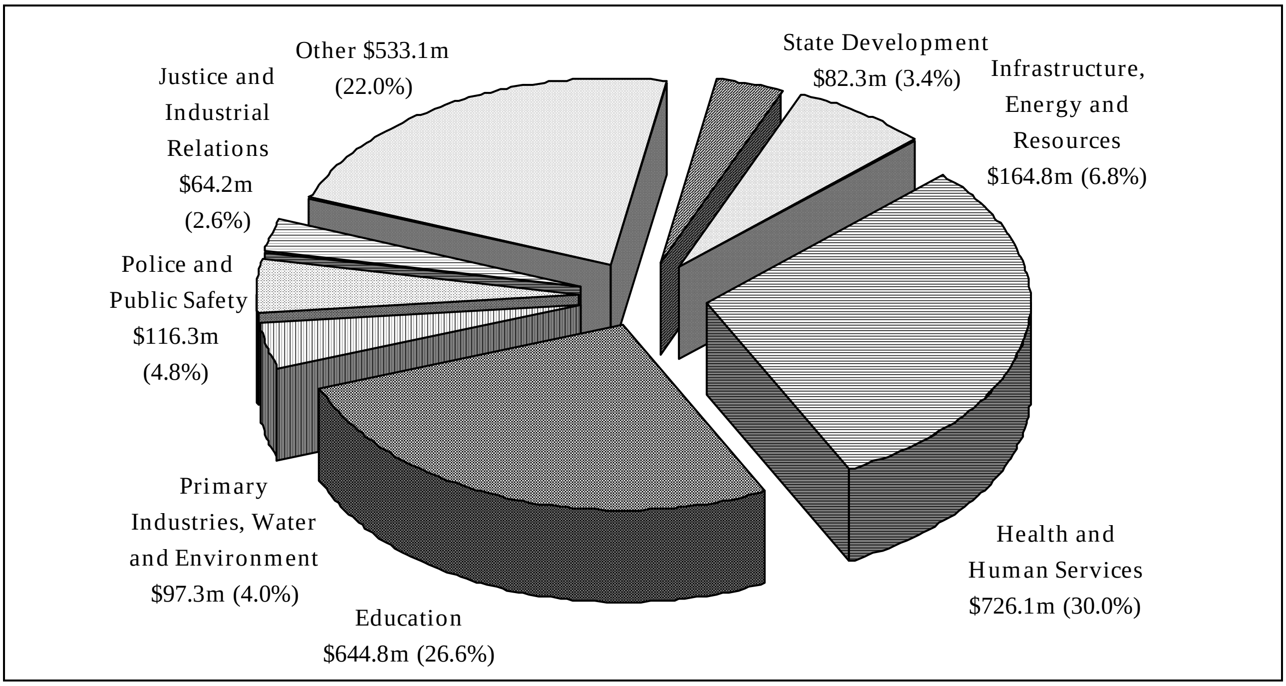
Expenditure in 2002-03 is expected to be $2 428.8 million, an increase of $106.9 million or 4.6 per cent over 2001-02 budgeted expenditure of $2 322.0 million.

Table 4.5: Consolidated Fund - Summary of Estimated Expenditure, 2002-03

	2001-02 Budget	2002-03 Budget	Variation
	$'000	$'000	%
Recurrent Services			
Appropriation Act	**2 005 057**	**2 119 455**	**5.7**
Reserved by Law	**150 840**	**170 796**	**13.2**
	2 155 897	**2 290 251**	**6.2**
Works and Services			
Appropriation Act	**166 059**	**138 557**	**(16.6)**
Total Expenditure	**2 321 956**	**2 428 808**	**4.6**

Chart 4.5 shows estimated total Consolidated Fund expenditure for 2002-03 and the percentage of the total expenditure for each major agency.

Chart 4.5: Consolidated Fund Expenditure, 2002-03



The 'Other' category includes expenditure on the Executive and Legislature, core Government services provided by the Department of Premier and Cabinet and the Department of Treasury and Finance, and Finance-General expenditure.

Further information on expenditure is provided in Table 4.6. A listing of all Reserved by Law items of expenditure is provided in Table 4.7. Descriptions of the activities of departments funded through the Consolidated Fund are provided in Budget Paper No 2 *Operations of Government Departments 2002-03.*

Recurrent Services

Total expenditure on Recurrent Services is estimated at $2 290.3 million in 2002-03. This is $134.4 million or 6.2 per cent higher than 2001-02 budgeted expenditure of $2 155.9 million.

The provision included in the Finance-General Division for unbudgeted wage increases which may occur during 2002-03 is $13 million. In addition, Finance-General expenditure includes a payment to the Commonwealth of $13.4 million for the administration costs of the goods and services tax.

An allocation of $20 million has been made to the Treasurer's Reserve to provide for unanticipated expenditures that may arise during 2002-03, the same level as in 2001-02. This reflects provision for unanticipated outlays which may impact on the 2002-03 Budget, and which cannot be included in specific expenditure items, and to provide a cushion in the event that revenue shortfalls occur.

Works and Services

Estimated expenditure on Works and Services for 2002-03 is $138.6 million. This represents a decrease of $27.5 million, or 16.6 per cent, against 2001-02 budgeted expenditure of $166.1 million.

The decrease in Works and Services expenditure is largely due to the one-off nature of the $20 million of funding provided in 2001-02 for the Infrastructure Fund and a decrease in Commonwealth funding for the National Highway System. It should be noted that the 2002-03 Budget includes a $30 million Social Infrastructure Fund and a $30 million Major Projects Fund, which is excluded from this comparison.

The emphasis of the Capital Investment Program in 2002-03 is on maintaining the State's asset stock. This approach will result in a significant amount of work being undertaken through smaller projects.

More detailed information in relation to the Capital Investment Program is provided in Chapter 5 of this Budget Paper.

Table 4.6: Total Consolidated Fund Expenditure, 2002-03

Agency	2001-02 Budget	2002-03 Budget Recurrent Services	Reserved by Law	Works and Services	Total	Variation
	$'000	$'000	$'000	$'000	$'000	%
Education	**615 237**	**619 590**	**....**	**25 189**	**644 779**	**4.8**
Finance-General	**415 212**	**291 484**	**154 470**	**....**	**445 954**	**7.4**
Health and Human Services	**680 907**	**700 410**	**....**	**25 664**	**726 074**	**6.6**
House of Assembly	**4 537**	**1 759**	**2 872**	**....**	**4 631**	**2.1**
Infrastructure, Energy and Resources	**171 576**	**95 363**	**52**	**69 360**	**164 775**	**(4.0)**
Justice and Industrial Relations	**55 705**	**49 372**	**10 537**	**4 309**	**64 218**	**15.3**
Legislative Council	**3 324**	**1 612**	**1 782**	**....**	**3 394**	**2.1**
Legislature-General	**3 514**	**3 545**	**....**	**....**	**3 545**	**0.9**
Ministerial and Parliamentary Support	**10 795**	**10 597**	**462**	**....**	**11 059**	**2.4**
Office of the Governor	**1 926**	**1 761**	**200**	**8**	**1 969**	**2.2**
Police and Public Safety	**112 523**	**114 716**	**....**	**1 562**	**116 278**	**3.3**
Premier and Cabinet	**20 325**	**20 899**	**....**	**....**	**20 899**	**2.8**
Primary Industries, Water and Environment	**93 904**	**94 749**	**123**	**2 432**	**97 304**	**3.6**
State Development	**92 108**	**80 268**	**....**	**2 011**	**82 279**	**(10.7)**
Tasmanian Audit Office	**292**	**....**	**298**	**....**	**298**	**2.1**
Treasury and Finance	**40 071**	**33 330**	**....**	**8 022**	**41 352**	**3.2**
TOTAL EXPENDITURE	**2 321 956**	**2 119 455**	**170 796**	**138 557**	**2 428 808**	**4.6**

Expenditure under Reserved by Law items is not included in the annual Appropriation Act. The authority to spend from these items is provided by the legislation under which the particular items are established.

Table 4.7: Estimated Expenditure on Reserved by Law Items

	2001-02 Budget	2002-03 Budget
	$'000	$'000
Finance-General		
Superannuation Benefits payable under the *Solicitor-General Act 1983*	778	1 002
Payment to the Parliamentary Superannuation Fund and Parliamentary Retirement Benefits Fund *(Parliamentary Superannuation Act 1973* and *Parliamentary Retiring Benefits Act 1985)*	1 780	2 348
Superannuation Benefits payable under the *Judges' Contributory Pensions Act 1968*	2 334	3 975
Interest Payable in Australia on Commonwealth Stock and Bonds raised on behalf of Tasmania *(Financial Agreement Act 1927)*	6 770	5 210
Refund to the Commonwealth of charges incurred in respect of Commonwealth Stock and Bonds raised or refinanced on behalf of Tasmania *(Financial Agreement Act 1927)*	35	15
Contribution payable to the Debt Retirement Reserve Trust Account *(Financial Agreement Act 1994)*	710	444
Payments to Municipalities under the *Local Government (Rates and Charges Remissions) Act 1991*	14 075	14 146
Appropriation to the Treasurer's Reserve *(Public Account Act 1986,* Section 11 (2)	10 000	10 000
Payments under the *Stamp Duties Act 1931* (Section 18c)	3 000	3 500
Payments under the *Beauty Point Landslip Act 1970*	20	20
Financial Assistance under the *Rosetta Landslip Act 1991*	50	50
Contribution to the Superannuation Provision Account *(Retirement Benefits Act 1993,* section 13)	93 058	109 288
Payments to the Tasmanian Community Fund	3 848	4 437
Superannuation Benefits payable under the *Governor of Tasmania Act 1982*	32	35
Total	136 490	154 470
House of Assembly		
Parliamentary Salaries and Allowances *(Parliamentary Salaries, Superannuation and Allowances Act 1973)*	2 665	2 732
Travelling Allowances *(Parliamentary Salaries, Superannuation and Allowances Act 1973)*	109	109
Members' Committee Fees and Allowances *(Parliamentary Salaries, Superannuation and Allowances Act 1973)*	31	31
Total	2 805	2 872

Table 4.7: Estimated Expenditure on Reserved by Law Items (continued)

	2001-02 Budget	2002-03 Budget
	$'000	$'000
Infrastructure, Energy and Resources		
Contribution towards Construction of Streets in Towns by Municipal Councils *(Local Government Act 1993)*	52	52
Justice and Industrial Relations		
Salary, Solicitor-General *(Solicitor-General Act 1983)*	245	251
Salary, Director of Public Prosecutions *(Director of Public Prosecutions Act 1993)*	263	269
Salaries of Magistrates *(Magistrates Court Act 1987)*	2 234	2 281
Salaries of Judges *(Supreme Court Act 1987)*	1 586	1 622
Salary and Travelling Allowance, Master of the Supreme Court *(Supreme Court Act 1959)*	221	226
Expenses of Parliamentary Elections and Referendums *(Electoral Act 1985* and *Referendum Procedures Act 1994)*	472	2 356
Criminal Injuries Compensation Act 1976 Section 11(4): Payments	3 512	3 512
Expenses under the *Legislative Council Electoral Boundaries Act 1995*	10	10
Expenses of Aboriginal Land Council of Tasmania Elections	5	10
Total	8 548	10 537
Legislative Council		
Parliamentary Salaries and Allowances *(Parliamentary Salaries, Superannuation and Allowances Act 1973)*	1 591	1 631
Travelling Allowances *(Parliamentary Salaries, Superannuation and Allowances Act 1973)*	111	111
Members' Committee Fees and Allowances *(Parliamentary Salaries, Superannuation and Allowances Act 1973)*	40	40
Total	1 742	1 782
Ministerial and Parliamentary Support		
Allowances of Ministers *(Parliamentary Salaries, Superannuation and Allowances Act 1973)*	450	462
Office of the Governor		
Salary, His Excellency the Governor *(Governor of Tasmania Act 1982)*	183	193
Salary, The Administrator *(Governor of Tasmania Act 1982,* Section 5(1))	7	7
Total	190	200
Primary Industries, Water and Environment		
Contribution to Cressy-Longford Reserve Fund (*Cressy-Longford Irrigation Act 1969* Section 3)	123	123

Table 4.7: Estimated Expenditure on Reserved by Law Items (continued)

	2001-02 Budget	2002-03 Budget
	$'000	$'000
State Development		
Contributions under the *Tasmanian Symphony Orchestra (Financial Assistance) Amendment Act 1993*	**148**	**....**
Tasmanian Audit Office		
Salary and Travelling Allowance, Auditor General (*Financial Management and Audit Act 1990*)	**292**	**298**
TOTAL ESTIMATED EXPENDITURE ON RESERVED BY LAW ITEMS	**150 840**	**170 796**

CONCESSIONS

The Government, through various agencies, provides eligible users of its goods or services with a variety of concessions. A State Government concession is defined as a reduction, discount, subsidy, rebate or waiver/exemption provided by a State Government agency on the value of goods or services (associated fees) to an individual, family or household based on one or more of the following eligibility criteria:

- low income;
- in recognition of age or service to the country or community; and
- special needs or disadvantages.

Eligibility for State Government concessions is usually, but not always, linked to the provision by the recipient of a specified concession card to indicate their inclusion in one of the above groups.

Table 4.8 lists, by agency, the value of State Government concessions to be provided in 2002-03. Details of specific departmental concessions are provided in Budget Paper No 2 *Operations of Government Departments 2002-03*.

Table 4.8: State Government Concessions, 2002-03

Agency	2001-02 Budget	2002-03 Budget
	$'000	$'000
Education	**5 337**	**6 337**
Finance-General	**29 200**	**31 024**
Health and Human Services	**42 566**	**39 981**
Infrastructure, Energy and Resources	**46 253**	**48 711**
Primary Industries, Water and Environment	**91**	**92**
Treasury and Finance	**6 836**	**6 836**
TOTAL CONCESSIONS	**130 283**	**132 981**

5 STATE CAPITAL PROGRAM

Features

- The planned level of the 2002-03 State Capital Program is \$443.0 million. In addition, in May 2002, TT-Line borrowed to purchase two new vessels for the Bass Strait service at a cost of approximately \$290 million. This expenditure will be offset by proceeds from the sale of *Spirit of Tasmania* and payments of \$44.0 million per annum over four years through a Finance-General appropriation from the Consolidated Fund.
- The 2002-03 Capital Program includes \$12.6 million from the new \$30 million Social Infrastructure Fund established for 2002-03.
- Funding is continuing for the redevelopment of correctional facilities at Risdon prison.
- The Capital Investment Program of agencies for 2002-03 is \$169.5 million, including a \$34.8 million Housing Program and a \$69.7 million Roads Program.
- The level of funding for the Capital Investment Program has decreased as a result of reduced Commonwealth funding but State Government funding has been increased in real terms.
- The 2002-03 Capital Investment Program, while including a number of longer term projects, continues the emphasis on the maintenance of the State's capital stock through smaller, labour intensive projects.
- The three year rolling Capital Investment Program provides greater certainty for agencies and the building industry.
- In 2002-03, \$7.2 million has been provided to fund Essential Maintenance projects for public assets and projects in Government office accommodation through the Essential Maintenance and Property Services Office Works allocations.
- Government Business Enterprises, State-owned Companies and State Authorities have an estimated capital expenditure program of \$247.9 million in 2002-03.
- Capital projects addressing Social Infrastructure include schools projects in 2002-03 totalling \$20.9 million; TAFE projects totalling \$9.1 million; Health projects that include a new Linear Accelerator for the Royal Hobart Hospital and upgrades of the George Town, Scottsdale and Smithton District Hospitals.

STATE CAPITAL PROGRAM

The State Capital Program comprises the capital programs of Government Business Enterprises (GBEs), State-owned Companies (SOCs) and State Authorities, the Capital Investment Program (CIP), the carry forward from the 2001-02 Infrastructure Fund (IF) and a component of the new Social Infrastructure Fund (SIF). The CIP includes major capital works of agencies, the Roads Program, expenditure for public housing and major maintenance projects.

The 2002-03 State Capital Program is a total of $443.0 million. Not included in this figure is approximately $290 million for the purchase of two new vessels for the TT-Line's Bass Strait service. The purchase was made in May 2002 and the expenditure will be offset by proceeds from the sale of *Spirit of Tasmania* and payments of $44.0 million per annum over four years through a Finance-General appropriation from the Consolidated Fund.

The 2002-03 State Capital Program includes $12.6 million from the new $30 million Social Infrastructure Fund established for 2002-03 and $15 million of continuing projects from the 2001-02 Infrastructure Fund. The 2001-02 Infrastructure Fund was established to assist in stimulating economic activity during an expected downturn in the last part of the 2001-02 year. By the end of the 2001-02 year, it is estimated that $45 million will have been expended, but when contracts let and completed works awaiting payment are taken into account, around $52 million of the $60 million will have been allocated to economic activity. Funding provided under the Infrastructure Funds is in addition to the current CIP, the State Government component of which is being increased in real terms.

The Prison Infrastructure Redevelopment Program is continuing, involving CIP funding of $53.3 million for redeveloping the Risdon site between 2001 and 2007. The staged construction will place the majority of prisoners in new accommodation by 2006-07.

The emphasis of the CIP in 2002-03 will continue to be on maintaining the State's asset stock including schools, hospitals and infrastructure projects. This approach will result in a significant amount of work being undertaken through small, labour intensive projects.

The 1999-00 Budget was the first year of publication of a rolling three year CIP. The three year rolling CIP provides greater certainty and a sound planning framework for agencies and the construction industry. Table 5.4 shows the funding commitments to specific projects over the next three years.

Although the State-funded component has increased, the total funding for the CIP in 2002-03 has decreased, reflecting a sharp reduction in Commonwealth roads funding, mainly as a result of the completion of major projects by the end of the 2002 calendar year.

Major projects in the CIP for agencies that were completed or progressed during 2001-02 include ongoing conservation works at the Port Arthur Historic Site, the upgrade of the Ambulance Fleet, redevelopment of the Intensive Mental Health Care Unit at the Royal Hobart Hospital, infrastructure improvements at Cradle Mountain and the redevelopment of existing facilities at the Ashley Youth Detention Centre. Major capital expenditure is planned for 2002-03 to complete rebuilding the Reece High School, upgrade TAFE buildings at Hobart and Clarence, redevelop sections of the Royal Hobart Hospital (RHH) and Campbell Town District Hospitals, acquire a new Linear Accelerator for the Radiology Division of the RHH, build a walking track and infrastructure services corridor at Cradle Mountain and continue work on the Prison Infrastructure Redevelopment.

In 2002-03, $7.2 million will be provided for Essential Maintenance projects for public assets and projects in Government office accommodation through the Essential Maintenance and Property Services Office Works allocations.

Funding for individual agencies and projects varies from year to year due to the size and construction timetable of the projects involved. This should be kept in mind when making inter-year comparisons.

In framing the overall Capital Investment Program, priority has been given to those projects which:

- meet essential community needs;
- are consistent with the Government's priorities, including Tasmania *Together*;
- provide economic benefit to the State; or
- lead to savings in operating costs.

Table 5.1 provides a summary of the sources and application of funds under the State Capital Program.

Table 5.1: State Capital Program - Summary

		2001-02 Budget	2002-03 Budget
		$'000	$'000
Sources of Funds			
Capital Investment Program			
State Funding	**- Brought Forward[1]**	**13 588**	**8 171**
	- Consolidated Fund[2]	**94 991**	**99 459**
	- Other	**21 030**	**22 779**
Commonwealth Funding[2]		**51 068**	**39 098**
		180 677	**169 507**
2001-02 Infrastructure Fund		**60 000**	**15 000**
Social Infrastructure Fund[3]		**....**	**12 600**
GBEs, SOCs and State Authorities[5]		**234 779**	**247 881**
Total Sources of Funds[4,5]		**475 456**	**442 988**
Application of Funds			
Capital Investment Program			
Capital Investment Program (Departments)[4,5]		**57 293**	**64 995**
Roads		**83 576**	**69 710**
Housing		**37 808**	**34 802**
Total Capital Investment Program		**178 677**	**169 507**
2001-02 Infrastructure Fund		**60 000**	**15 000**
2002-03 Social Infrastructure Fund		**...**	**12 600**
GBEs, SOCs and State Authorities[5,6]		**236 779**	**247 881**
Total Expenditure		**475 456**	**442 988**

Notes:

1. It is estimated that total funds of $8.2 million will be carried forward to 2002-03 within agencies' operating accounts in accordance with section 8A(2) of the *Public Account Act 1986*. These funds relate to the following projects:

	$'000
Department of Education	
Claremont High School Refurbishment	200
Claremont College Gym	200
East Ulverstone Primary School	100
Elizabeth College	450
King Island District High School	100
Norwood Primary School	100
Reece High School	800
Secondary School Refurbishments	200
Smithton High School	200
Sheffield District High School	600

TAFE Clarence Campus	370
Department of Health and Human Services	
Building Services Maintenance	10
Campbelltown District Hospital Redevelopment	441
Deloraine Hospital Redevelopment	778
Huon Valley Community and Health	150
New Norfolk District Hospital Redevelopment	613
Northwest Regional Hospital Accident and Emergency Entrance	40
Northwest Regional Hospital Day Surgery Extensions	460
Sorell Community Health Centre	156
Royal Hobart Hospital Redevelopment (DEM and DMI)	328
West Coast Multipurpose Centre	225
Department of Primary Industries, Water and Environment	
Cradle Mountain Infrastructure	1 500
King Solomon Cave	150
TOTAL	8 171

2. In 2002-03, the total Consolidated Fund Works and Services allocation is $138.6 million, including $39.1 million in Commonwealth funding.
3. Of the funding carried forward for the new Social Infrastructure Fund, the portion allocated for capital projects is $14.2 million, but only $12.6 million is budgeted for expenditure in 2002-03.
4. The total allocation for the Capital Investment Program (Departments) is sourced from a number of areas. These are:

	$'000
Consolidated Fund Appropriation	55 324
add State Funded Carried Forwards	8 171
add other funding	1 500
TOTAL	64 995

5. It should be noted that the capital expenditure expected to be incurred by the Port Arthur Historic Site Management Authority during 2002-03 is to be funded from the Consolidated Fund and will be appropriated to the Department of State Development.
6. The figure for GBEs, SOCs and State Authorities for 2001-02 does not include $290 million for the purchase, in May 2002, of the two new vessels for the TT-Line's Bass Strait service.

GOVERNMENT DEPARTMENTS

Sources of Funds

For the 2002-03 financial year, capital programs for departments will be funded from a combination of:

- Consolidated Fund appropriations;
- funds carried forward in accordance with section 8A(2) of the *Public Account Act 1986;*
- Commonwealth funding in relation to certain projects and programs. These funds are paid into the Consolidated Fund and are subsequently appropriated to the relevant departments; and
- direct financial assistance from the Commonwealth. These funds are paid into the Operating Accounts of the relevant department.

Details of the sources of capital funds for departments are shown in Table 5.2.

Table 5.2: Capital Investment Program - Summary of Sources of Funds (including Housing and Roads)

	2001-02 Budget			2002-03 Budget		
Department	**Common-wealth**	**State**	**Total**	**Common-wealth**	**State**	**Total**
	$'000	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Education	**10 125**	**17 863**	**27 988**	**10 943**	**19 066**	**30 009**
Health and Human Services	**10 388**	**39 103**	**49 491**	**9 815**	**39 979**	**49 794**
Infrastructure, Energy and Resources	**33 431**	**50 645**	**84 076**	**18 340**	**51 370**	**69 710**
Justice and Industrial Relations	**....**	**1 322**	**1 322**	**....**	**4 309**	**4 309**
Legislature-General	**....**	**39**	**39**	**....**	**....**	**....**
Office of the Governor	**....**	**8**	**8**	**....**	**8**	**8**
Police and Public Safety	**....**	**1 176**	**1 176**	**....**	**1 562**	**1 562**
Premier and Cabinet	**....**	**200**	**200**	**....**	**....**	**....**
Primary Industries, Water and Environment	**....**	**2 890**	**2 890**	**....**	**4 082**	**4 082**
State Development	**....**	**6 011**	**6 011**	**....**	**2 011**	**2 011**
Treasury and Finance	**....**	**7 476**	**7 476**	**....**	**8 022**	**8 022**
TOTAL[1]	**53 944**	**126 733**	**180 677**	**39 098**	**130 409**	**169 507**

Note:
1. The total Commonwealth component in 2001-02 included a carry forward of Commonwealth Roads funding of $2.9 million.

Application of Funds

Capital expenditure by departments provides for the development and maintenance of public facilities for the community and public infrastructure to facilitate economic and social activity.

A Project Initiation Process (PIP) is used to facilitate the evaluation of proposals for capital investment by departments. All proposed CIP projects must have a PIP completed to gauge the viability of the proposed project. The PIP includes a review of:

- service delivery;
- alternative asset solutions; and
- capital budgeting and risk.

The inherent benefits of the PIP are:

- that the Government receives the best value from its capital expenditure by requiring an analysis of needs, risk and cost of more than one development option before an investment is approved;
- the promotion of efficient and effective planning of service delivery strategies and resource allocation by departments;
- the clear definition and documentation of the criteria which are applied to determine project viability and to support project justification;
- the encouragement of innovative service delivery options; and
- the provision of an audit trail of the processes followed to arrive at the option proposed.

Before projects can be placed on the CIP, a number of criteria must be addressed by departments in the PIP. Departments must ensure that:

- non-build alternatives, which produce the same service delivery outcome, are considered;
- projects are specifically related to approved Outputs and show the extent and nature of the service that will be delivered as a result of developing the project;
- the project complements the Strategic Asset Management Plan of the relevant department;
- the relationship of the project to the Corporate Plan of the relevant department is identified;
- the relevant Local Government Council is consulted on major projects;
- the total project cost, including the life cycle costs such as maintenance and upgrade, is identified; and
- the project timetable is clearly established.

The total estimated expenditure for the CIP by departments in 2002-03, as summarised in Table 5.1, is $169.5 million.

Table 5.3 provides a comparison of the estimated expenditure for 2001-02 and estimated expenditure for 2002-03 by department. This table does not include details in relation to capital investment in roads and housing, the Social Infrastructure Fund or the 2001-02 Infrastructure Fund, which are detailed later in this chapter.

Table 5.3: Capital Investment Program (Departments) – Summary

Department	2001-02 Budget	2002-03 Budget
	$'000	$'000
Education	**27 988**	**30 009**
Health and Human Services	**11 683**	**14 992**
Infrastructure, Energy and Resources	**500**	**....**
Justice and Industrial Relations	**1 322**	**4 309**
Legislature-General	**39**	**....**
Office of the Governor	**8**	**8**
Police and Public Safety	**1 176**	**1 562**
Premier and Cabinet	**200**	**....**
Primary Industries, Water and Environment	**2 890**	**4 082**
State Development	**6 011**	**2 011**
Treasury and Finance	**7 476**	**8 022**
TOTAL	**59 293**	**64 995**

Details of departmental projects that are included in the CIP are contained in Table 5.4, which lists individual projects for each department and includes information on individual projects with respect to the estimated total cost and estimated expenditure for 2002-03, 2003-04 and 2004-05.

Table 5.4 reflects details of the estimated cost of projects at the time of the 2002-03 Budget. Costs will vary as projects proceed to tender and some re-scheduling of individual projects is likely to occur during the year. This may allow some expenditure to occur against projects which are programmed to go to tender late in the financial year and for which funds are not currently provided in 2002-03.

Table 5.4: Capital Investment Program (Departments) – Project Details

	Estimated Total Cost	2002-03 Estimate	2003-04 Estimate	2004-05 Estimate
	$'000	**$'000**	**$'000**	**$'000**
DEPARTMENT OF EDUCATION				
Brighton Primary School Completion Date: July 2002 Stage 2 redevelopment of general learning areas and some specialist facilities.	**950**	**188**	**....**	**....**
Building Services Maintenance – Education Essential and statutory maintenance on building mechanical services including fire, hydraulic, and lift equipment.	**ongoing**	**1 624**	**1 624**	**1 624**
Building Services Maintenance – TAFE Essential and statutory maintenance on building mechanical services including fire, hydraulic, and lift equipment.	**ongoing**	**492**	**492**	**492**
Claremont College Completion Date: July 2002 Construction of gymnasium and change rooms.	**950**	**200**	**....**	**....**
Claremont High School Completion Date: June 2003 Redevelopment of existing facilities to consolidate and upgrade specialist and general learning areas.	**1 984**	**1 567**	**....**	**....**
Clarence High School Completion Date: June 2003 Refurbishment of specialist and general learning areas.	**1 350**	**1 350**	**....**	**....**
East Ulverstone Primary School Completion Date: August 2002 Provision of multi-purpose room and upgrade of general learning areas. Provides for a new general purpose hall and refurbishment of the library.	**700**	**100**	**....**	**....**
Elizabeth College Completion Date: June 2003 Refurbishment of speech and drama facilities and upgrade of staff/student amenity area and food subject learning facility.	**1 701**	**1 435**	**....**	**....**

Table 5.4: Capital Investment Program (Departments) – Project Details (continued)

	Estimated Total Cost	2002-03 Estimate	2003-04 Estimate	2004-05 Estimate
	$'000	**$'000**	**$'000**	**$'000**
DEPARTMENT OF EDUCATION (continued)				
Evandale Primary School	**692**	**100**	**....**	**....**
Completion Date: September 2002				
This funding is for the provision of classrooms including the provision of a general purpose room and library.				
Hagley Primary School	**2 000**	**1 400**	**600**	**....**
Completion Date: October 2003				
Stage 2 redevelopment of general learning areas.				
Howrah Primary School	**935**	**555**	**....**	**....**
Completion Date: February 2003				
Construction of general purpose hall and redevelopment of general learning areas.				
King Island District High School	**460**	**100**	**....**	**....**
Completion Date: August 2002				
Redevelopment of home economics and art teaching areas.				
Kings Meadows High School	**800**	**400**	**400**	**....**
Completion Date: November 2003				
Upgrade of Materials Design Technology (MDT), administration, classrooms and speech and drama facilities.				
Kingston Library	**650**	**54**	**596**	**....**
Completion Date: March 2004				
Extension of facilities.				
Multi-Sites - Branch Library Strategy	**174**	**85**	**....**	**....**
Completion Date: June 2003				
To facilitate the establishment of joint school and community libraries to improve efficiency and effectiveness of service delivery.				
Multi-Sites - Risk Reduction	**1 296**	**648**	**....**	**....**
Completion Date: May 2003				
Funding has been provided for the purposes of risk reduction compliance and risk analysis.				

Table 5.4: Capital Investment Program (Departments) – Project Details (continued)

	Estimated Total Cost	2002-03 Estimate	2003-04 Estimate	2004-05 Estimate
	$'000	**$'000**	**$'000**	**$'000**
DEPARTMENT OF EDUCATION (continued)				
Norwood Primary School	**468**	**100**	**....**	**....**
Completion Date: January 2003				
Construction of new kindergarten and general purpose hall.				
Prospect High School	**1 400**	**750**	**650**	**....**
Completion Date: December 2003				
Upgrade of speech and drama facilities and general learning areas.				
Reece High School	**10 000**	**6 580**	**....**	**....**
Completion Date: October 2002				
Replacement of fire damaged school.				
Rosetta High School	**880**	**880**	**....**	**....**
Completion Date: June 2003				
Refurbishment of MDT, home economics, art, gymnasium and toilets.				
Rosny College	**560**	**250**	**310**	**....**
Completion Date: January 2004				
Refurbishment of MDT facilities.				
Sheffield District High School	**1 078**	**906**	**....**	**....**
Completion Date: June 2003				
Redevelopment of home economics and MDT areas and provision of a community library.				
Smithton High School	**634**	**200**	**....**	**....**
Completion Date: January 2003				
Relocation of MDT areas and the redevelopment of other specialist learning areas.				
South Arm Primary School	**360**	**360**	**....**	**....**
Completion Date: May 2003				
Redevelopment of general learning areas.				

Table 5.4: Capital Investment Program (Departments) – Project Details (continued)

	Estimated Total Cost	2002-03 Estimate	2003-04 Estimate	2004-05 Estimate
	$'000	**$'000**	**$'000**	**$'000**
DEPARTMENT OF EDUCATION (continued)				
TAFE - Hobart Campus	**15 000**	**5 225**	**....**	**....**
Completion Date: November 2003				
Refit of the Tasman Complex at the Hobart Campus.				
TAFE - Infrastructure Support	**ongoing**	**850**	**850**	**850**
General infrastructure support for delivery of vocational education and training.				
TAFE - Clarence Campus	**8 250**	**2 560**	**2 434**	**1 916**
Completion Date: December 2004				
Redevelopment to provide a modern learning environment.				
Taroona High School	**2 200**	**700**	**1 500**	**....**
Completion Date: June 2004				
Redevelopment of general learning areas.				
Tasman District High School	**650**	**350**	**300**	**....**
Completion Date: January 2004				
Redevelop early childhood and general learning areas.				
Cambridge Primary School	**720**	**....**	**720**	**....**
Completion Date: June 2004				
Redevelopment of classroom accommodation and external works.				
Mowbray Heights Primary School	**1 441**	**....**	**1 441**	**....**
Completion Date: June 2004				
Provision of new infant block and upgrade administration.				
Oatlands District High School	**800**	**....**	**800**	**....**
Completion Date: May 2004				
Redevelopment of library, technology centre and general learning areas.				
Rose Bay High School	**1 318**	**....**	**1 059**	**259**
Completion Date: October 2004				
Redevelopment of general learning areas.				

Table 5.4: Capital Investment Program (Departments) – Project Details (continued)

	Estimated Total Cost	2002-03 Estimate	2003-04 Estimate	2004-05 Estimate
	$'000	**$'000**	**$'000**	**$'000**
DEPARTMENT OF EDUCATION (continued)				
Scottsdale High School	**694**	**....**	**694**	**....**
Completion Date: June 2004				
Upgrade General Purpose Hall to facilitate speech and drama and performing arts.				
TAFE - Clarence Campus	**800**	**....**	**800**	**....**
Completion Date: May 2004				
Relocation of Building Trades A. Redevelopment to provide a modern learning environment.				
Bowen Road Primary School	**744**	**....**	**....**	**380**
Completion Date: November 2005				
Refurbishment of general learning areas.				
Devonport Primary School	**429**	**....**	**....**	**220**
Completion Date: August 2005				
Refurbishment of general learning areas.				
Mountain Heights School	**350**	**....**	**....**	**350**
Completion Date: May 2005				
Redevelopment of the adminstration area.				
Multisites- Library Capital Initiative	**350**	**....**	**....**	**350**
Completion Date: June 2005				
Provide for ongoing capital refurbishments.				
New Norfolk High School	**655**	**....**	**....**	**330**
Completion Date: September 2005				
Rectify structural problems and redevelop administration and metal work facilities.				
Ogilvie High School	**2 669**	**....**	**....**	**2 669**
Completion Date: June 2005				
Redevelopment of MDT and specialist learning areas for music and speech and drama.				

Table 5.4: Capital Investment Program (Departments) – Project Details (continued)

	Estimated Total Cost	2002-03 Estimate	2003-04 Estimate	2004-05 Estimate
	$'000	**$'000**	**$'000**	**$'000**
DEPARTMENT OF EDUCATION (continued)				
Rosetta High School	**1 554**	**....**	**....**	**800**
Completion Date: November 2005				
Redevelopment of general learning areas.				
Smithton High School	**1 943**	**....**	**....**	**1 000**
Completion Date: February 2006				
Refurbishment of general learning areas, library and sporting facilities.				
TAFE - Clarence Campus	**900**	**....**	**....**	**900**
Completion Date: June 2005				
Relocation of Building Trades B. Redevelopment to provide a modern learning environment.				
TAFE - Flexible IT Delivery	**900**	**....**	**....**	**450**
Completion Date: December 2005				
Information Technology flexible delivery project.				
Multi-Sites Infrastructura Upgrades	**1 130**	**....**	**....**	**685**
Completion Date: June 2006				
Upgrade essential services and building fabric.				
Ulverstone Primary School	**800**	**....**	**....**	**800**
Completion Date: May 2005				
Refurbishment of general learning areas in the northern building.				
Warrane Primary School	**794**	**....**	**....**	**400**
Completion Date: October 2005				
Upgrade general learning areas.				
Youngtown Primary School	**676**	**....**	**....**	**340**
Completion Date: October 2005				
Redevelopment of classrooms and provision of Multi-purpose room.				
TOTAL		**30 009**	**15 270**	**14 815**

Table 5.4: Capital Investment Program (Departments) – Project Details (continued)

	Estimated Total Cost	2002-03 Estimate	2003-04 Estimate	2004-05 Estimate
	$'000	**$'000**	**$'000**	**$'000**
DEPARTMENT OF HEALTH AND HUMAN SERVICES				
Building Services Maintenance Ongoing funding is provided to meet maintenance requirements including occupational health and safety issues and heritage requirements.	**ongoing**	**88**	**78**	**78**
Campbell Town District Hospital Redevelopment Completion Date: June 2003 This project is for the upgrading of the existing Campbell Town District Hospital facility to improve the overall efficiency of service delivery.	**2 950**	**2 841**	**....**	**....**
Deloraine Hospital Redevelopment Completion Date: June 2003 This project will provide for the eventual replacement of outdated site facilities.	**2 450**	**2 378**	**....**	**....**
Huon Valley Community and Health Completion Date: July 2003 This project involves the construction of a new Community and Health Centre in Huonville.	**1 500**	**1 150**	**300**	**....**
Linear Accelerator Completion Date: June 2004 This project replaces a High Energy Linear Accelerator in the Royal Hobart Hospital (RHH).	**3 500**	**1 800**	**1 700**	**....**
New Norfolk District Hospital Redevelopment Completion date: June 2004 This project involves the construction of a dedicated Health and Community Centre on the site of the existing New Norfolk District Hospital and the construction of a residential facility.	**1 850**	**1 313**	**250**	**....**
NWRH Accident and Emergency Entrance Completion date: October 2002 This project provides for the completion of a suitable all weather accident and emergency entrance to the North-West Regional Hospital.	**100**	**40**	**....**	**....**

Table 5.4: Capital Investment Program (Departments) – Project Details (continued)

	Estimated Total Cost	2002-03 Estimate	2003-04 Estimate	2004-05 Estimate
	$'000	**$'000**	**$'000**	**$'000**
DEPARTMENT OF HEALTH AND HUMAN SERVICES (continued)				
NWRH Day Surgery Extensions	**500**	**460**	**....**	**....**
Completion Date: October 2002				
This project provides for improvements to the North-West Regional Hospital's day surgery facility, allowing for increased day surgery capacity.				
RHH Redevelopment Stage 3	**8 339**	**3 020**	**5 079**	**516**
Completion Date: June 2005				
This project provides for an upgrade to the structure of the Department of Emergency Medicine (DEM) and the internal layout of the Department of Medical Imaging (DMI) at the Royal Hobart Hospital.				
Sorell Community Health Centre	**1 221**	**1 177**	**....**	**....**
Completion Date: June 2003				
This project is for a new Community and Health Centre to provide services to the Sorell Municipality.				
West Coast Multi Purpose Service Development	**3 900**	**725**	**500**	**1 870**
Completion date: June 2005				
This project is for the construction of a Community Health Centre in Queenstown, including residential aged and in-patient care services.				
George Town District Hospital	**2 300**	**....**	**....**	**200**
Completion Date: June 2007				
This redevelopment project includes the provision of 15 single room in-patient facilities, the development of a general use treatment room and office accommodation for community nurses.				
Hospital Information System	**6 500**	**....**	**....**	**1 500**
Completion Date: June 2006				
A project to replace the existing computer systems in the Royal Hobart Hospital, Launceston General Hospital and North-West Regional Hospital with a new single, statewide patient information system.				

Table 5.4: Capital Investment Program (Departments) – Project Details (continued)

	Estimated Total Cost	2002-03 Estimate	2003-04 Estimate	2004-05 Estimate
	$'000	**$'000**	**$'000**	**$'000**
DEPARTMENT OF HEALTH AND HUMAN SERVICES (continued)				
Scottsdale District Hospital	**2 900**	**....**	**....**	**1 300**
Completion Date: June 2006				
This project involves the redevelopment of the Hospital to provide a combined hospital / community health services site for the North-East District.				
Smithton District Hospital	**3 800**	**....**	**....**	**500**
Completion Date: June 2007				
This redevelopment will respond to the need to upgrade the Smithton District Hospital to contemporary standards and allow community health services, which are currently being delivered from various facilities in the Circular Head area, to be co located to meet the growing community need.				
Tasman Multi Purpose Centre	**829**	**....**	**....**	**829**
Completion Date: June 2005				
This project will involve building new offices and treatment rooms for community and health services provided on the Tasman Peninsula.				
TOTAL		**14 992**	**7 907**	**6 793**
DEPARTMENT OF JUSTICE AND INDUSTRIAL RELATIONS				
Building Services Maintenance	**ongoing**	**94**	**94**	**94**
Ongoing funding is provided to meet maintenance requirements including occupational health and safety issues and heritage requirements.				
Prisons Infrastructure Redevelopment Program	**53 344**	**3 815**	**13 705**	**11 996**
Completion Date: 2007				
This project provides for construction of new correctional facilities.				

Table 5.4: Capital Investment Program (Departments) – Project Details (continued)

	Estimated Total Cost	2002-03 Estimate	2003-04 Estimate	2004-05 Estimate
	$'000	**$'000**	**$'000**	**$'000**
DEPARTMENT OF JUSTICE AND INDUSTRIAL RELATIONS (continued)				
Measurement and Standards Branch	**400**	**400**	**....**	**....**
Completion Date: June 2003				
Purchase of specialised measuring equipment.				
TOTAL		**4 309**	**13 799**	**12 090**
OFFICE OF THE GOVERNOR				
Building Services Maintenance	**ongoing**	**8**	**8**	**8**
Ongoing funding is provided to agencies to meet maintenance requirements including occupational health and safety issues and heritage requirements.				
TOTAL		**8**	**8**	**8**
DEPARTMENT OF POLICE AND PUBLIC SAFETY				
Building Services Maintenance	**ongoing**	**376**	**376**	**376**
Ongoing funding is provided to agencies to meet maintenance requirements including occupational health and safety issues and heritage requirements.				
Breathalyser Replacement Program	**ongoing**	**150**	**150**	**150**
This funding provides for the replacement of breathalyser units. The replacement program will be completed in 2004-05.				
Launceston Police Station	**1500**	**500**	**....**	**....**
Completion Date: June 2003				
Refurbishment of Launceston Police Headquarters.				
Rokeby Police Academy	**3 531**	**536**	**1 395**	**....**
Completion Date: March 2004				
This funding is to be provided for the refurbishment and upgrade of accommodation and classrooms at the Rokeby Police Academy facility.				
TOTAL		**1 562**	**1 921**	**526**

Table 5.4: Capital Investment Program (Departments) – Project Details (continued)

	Estimated Total Cost	2002-03 Estimate	2003-04 Estimate	2004-05 Estimate
	$'000	**$'000**	**$'000**	**$'000**
DEPARTMENT OF PRIMARY INDUSTRIES, WATER AND ENVIRONMENT				
Building Services Maintenance Ongoing funding is provided to meet maintenance requirements including occupational health and safety issues and heritage requirements.	**ongoing**	**244**	**244**	**244**
Cradle Mountain Infrastructure Completion Date: June 2003 This project provides for the construction of a major new walking track, doubling as a services corridor, from the Cradle Mountain Visitor Centre to Waldaheim Junction as part of an overall upgrade of Cradle Mountain Tourism Infrastructure.	**4 100**	**3 600**	**....**	**....**
King Solomon Cave Completion Date: December 2002 This project provides for a through extension to King Solomon's Cave, a return surface Karst Walk and replacement of existing toilet facilities.	**180**	**150**	**....**	**....**
Theatre Royal Extension Completion Date: June 2006 This project provides for Theatre Royal extensions.	**1 600**	**....**	**....**	**800**
Wellington Park Pinnacle Zone Development Completion Date: June 2004 This project provides for the implementation of landscape planning actions as recommended in the Pinnacle Zone Site Development Plan (Wellington Park Management Trust).	**373**	**88**	**30**	**....**
TOTAL		**4 082**	**274**	**1 044**
DEPARTMENT OF STATE DEVELOPMENT				
Building Services Maintenance Ongoing funding is provided to meet maintenance requirements including occupational health and safety issues and heritage requirements.	**ongoing**	**11**	**11**	**11**

Table 5.4: Capital Investment Program (Departments) – Project Details (continued)

	Estimated Total Cost	2002-03 Estimate	2003-04 Estimate	2004-05 Estimate
	$'000	**$'000**	**$'000**	**$'000**
DEPARTMENT OF STATE DEVELOPMENT (continued)				
Port Arthur Historic Site - Conservation Program	**10 000**	**2 000**	**2 000**	**2 000**
Completion Date: June 2005 This project provides for essential conservation works at the Port Arthur Historic Site.				
TOTAL		**2 011**	**2 011**	**2 011**
DEPARTMENT OF TREASURY AND FINANCE				
Building Services Maintenance	**ongoing**	**834**	**828**	**828**
Ongoing funding is provided to meet maintenance requirements including occupational health and safety issues and heritage requirements.				
Essential Maintenance	**ongoing**	**6 050**	**6 655**	**7 320**
This funding is allocated to Departments to provide maintenance funding for urgent projects that arise outside the annual process of applying for funding from the Capital Investment Program.				
Property Services Office Works	**ongoing**	**1 138**	**1 138**	**1 138**
This funding provides for building consultancies and landlord works for Government owned and leased buildings.				
TOTAL		**8 022**	**8 621**	**9 286**
TOTAL CAPITAL INVESTMENT PROGRAM DEPARTMENTS		**64 995**	**49 811**	**46 573**

ROADS PROGRAM

The Roads Program consists of new works projects and the upgrade and maintenance of already established roads. It is funded by both the Commonwealth and State Governments. The Roads Program forms part of the CIP.

A summary of allocated funds is shown in Table 5.5, and a detailed allocation is presented in Table 5.6.

Table 5.5: Roads Program – Summary

Category of Project	2001-02 Budget	2002-03 Budget
	$'000	$'000
Commonwealth Funds[1]		
Infrastructure Development	**15 916**	**8 675**
Infrastructure Maintenance	**7 285**	**5 445**
Road Safety and Traffic Management	**7 370**	**1 440**
Environmental Management	**30**	**30**
Program Management	**1 400**	**1 400**
Asset Management	**950**	**1 150**
Strategic Planning and Policy	**480**	**200**
State Funds		
Infrastructure Development	**2 460**	**6 725**
Infrastructure Maintenance	**24 350**	**22 529**
Road Safety and Traffic Management	**5 805**	**2 355**
Environmental Management	**520**	**800**
Program Management	**3 370**	**3 120**
Asset Management	**3 650**	**4 800**
Strategic Planning and Policy	**2 290**	**2 390**
Sorell Causeway Upgrade	**7 700**	**8 651**
TOTAL	**83 576**	**69 710**

Note:
1. Commonwealth funding will decrease in 2002-03 as a result of the completion, by the end of the 2002 calendar year, of major road projects such as the Westbury-Hagley bypass, Powranna Railway overpass and Bass Highway (East Devonport to Port Sorell road). No other major project on the National Highway will achieve Commonwealth stage two approval in the next twelve months. The Bridgewater Bridge replacement is anticipated to be the next major project for which Commonwealth funding will be sought, but heritage issues have delayed the project.

Table 5.6 Roads Program – Project Details

Project	Estimated Total Cost	2002-03 Estimate
	$'000	$'000
NATIONAL HIGHWAY SYSTEM		
INFRASTRUCTURE DEVELOPMENT		
Road Upgrading		
Bass Highway-East Devonport to Port Sorell Road	17 000	5 325
Bass Highway-Westbury-Hagley	36 000	3 000
Bridge Upgrading	4 300	150
Bass Highway-Black River Bridge	2 300	200
INFRASTRUCTURE MAINTENANCE		
Road Routine Maintenance	2 475	2 475
Road Specific Maintenance	760	760
Miscellaneous Fees/Charges	200	200
Road Reinstatement	1 135	1 135
Bridge Maintenance	875	875
ROAD SAFETY AND TRAFFIC MANAGEMENT		
Safety Works	580	580
Traffic Management Works	9 927	740
Minor Improvements	120	120
ENVIRONMENTAL MANAGEMENT		
Roadside Rehabilitation	30	30
PROGRAM MANAGEMENT		
Corporate Management	1 100	1 100
Management Systems	300	300
ASSET MANAGEMENT	1 150	1 150
STRATEGIC POLICY AND PLANNING	200	200

Table 5.6: Roads Program - Project Details (continued)

	Estimated Total Cost	2002-03 Estimate
	$'000	$'000
STATE FUNDED PROJECTS		
INFRASTRUCTURE DEVELOPMENT		
Road Upgrading		
Cradle Mountain Tourist Road	2 700	2 000
West Tamar Highway Cormiston Creek to Legana Park Drive	7 000	350
Traffic Management-Fidler Street/Cam River Stage 2	14 000	100
Bridge Upgrading		
Black River Bridge	2 300	480
Detention River Bridge	4 020	3 520
Roads of National Importance		
North-East Tasmania Access	20 000	200
Rail Infrastructure	75	75
INFRASTRUCTURE MAINTENANCE		
Emergency and Flood Repairs	320	320
Road Routine Maintenance	15 470	15 470
Road Specific Maintenance	2 346	2 346
Western Explorer	500	500
Miscellaneous Fees/Charges	470	470
Road Reinstatement	1 042	1 042
Glen Huon Main Road	1 000	210
Bridge Maintenance	1 419	1 419
Bridge Reinstatement	259	200
Sorell Causeway Bridge Replacement	20 000	8 651
Assistance to Local Government	487	487
Maintenance of Other Infrastructure	65	65
ROAD SAFETY AND TRAFFIC MANAGEMENT		
Safer Roads		
Port Sorell Main Road-Wrights Lane to Appleby Road	635	135
General	415	415
Arthur River Road	1 350	450
Traffic Management Works		
Lyell Highway/Molesworth Road Junction	2 094	536
General	450	450
Tourism Infrastructure	349	349
Bicycle and Pedestrian Facilities	20	20

Table 5.6: Roads Program - Project Details (continued)

	Estimated Total Cost	2002-03 Estimate
	$'000	$'000
ENVIRONMENTAL MANAGEMENT		
Roadside Rehabilitation		
Highland Lakes Road-South of Miena	**1 050**	**650**
Quarry Rehabilitation, Environmental Hazard	**150**	**150**
Environmental Hazard Management		
PROGRAM MANAGEMENT		
Corporate Management	**2 130**	**2 130**
Provision for Third Party Claims	**140**	**140**
Management Systems	**850**	**850**
ASSET MANAGEMENT	**4 800**	**4 800**
STRATEGIC POLICY AND PLANNING	**2 390**	**2 390**
TOTAL ROADS PROGRAM		**69 710**

HOUSING PROGRAM

The Housing Program aims to ensure that disadvantaged Tasmanians have access to sustainable, affordable, appropriate and secure housing options. The Commonwealth and State Governments will jointly fund the 2002-03 Housing Program under the terms of the Commonwealth-State Housing Agreement (CSHA).

Total funding for the Program in 2002-03 is $34.8 million, which represents a continuation of the emphasis of the 2001-02 Housing Program as detailed in this chapter.

The Program has been developed within the framework of the strategic plans of the Department of Health and Human Services and Housing Tasmania. It is designed to continue the re-alignment of Housing Tasmania's portfolio through construction, upgrading and strategic purchases, with a specific focus on the provision of properties for clients with complex or special needs. This focus will provide greater integration of housing services with other services delivered by the Department and local communities to facilitate improved health and well being outcomes.

The major initiatives to be undertaken as part of the Housing Program in 2002-03 are focused on improving the outcomes from the portfolio and include:

- a capital program that supports Housing Tasmania's Strategic Asset Management Plan (SAMP) through plans developed at the local level;
- a construction program which will provide adaptable housing for a range of general purpose, multipurpose, elderly and disability units in high demand suburbs which are accessible to essential services;
- the commencement of site works for the redevelopment of the Windsor Court units in Hobart. This follows the demolition of the existing structures in 2001-02 and the successful completion of the architectural design competition within the same year;
- continuation of the strong commitment to people with disabilities, through acquisition of up to four homes specifically for people with severe or profound disabilities;
- the provision of a number of locally developed community housing solutions for clients with a diverse range of needs; and
- the provision of crisis accommodation for a range of client groups including youth, families in crisis and families and individuals escaping domestic violence.

Details of the sources of funds and allocations for the Housing Program are shown in Table 5.7.

Table 5.7: Housing Program - Source and Application of Funds

	2001-02 Budget	2002-03 Budget
	$'000	$'000
Sources of Funds		
Commonwealth-State Housing Agreement Grants[1]	**10 388**	**12 192**
Sale of Assets and Other Capital Receipts	**16 000**	**14 400**
Operating Revenue and Carry Forward Funds	**7 400**	**6 529**
State Matching Grants[2]	**4 020**	**1 681**
	37 808	**34 802**
Application of Funds		
Strategic Asset Management		
General Upgrading	**9 798**	**7 753**
Windsor Court	**2 500**	**2 500**
Community Development	**400**	**358**
Targeted Purchases	**7 500**	**6 826**
Construction/Redevelopment	**12 752**	**12 510**
Sundry Capital[3]	**4 858**	**4 855**
TOTAL	**37 808**	**34 802**

Notes:

1. Commonwealth funding under the CSHA includes the following:

	2001-02 Budget $'000	2002-03 Budget $'000
Base Funding (including GST Compensation)	7 104	8 989
Aboriginal Housing Rental Program	696	696
Crisis Accommodation Program	990	959
Community Housing Program	1 598	1 548
TOTAL	10 388	12 192

2. The reduction in State Matching Grants for 2002-03, reflects a change in the proportion of capital and recurrent funding directed at housing. Overall State funding for housing is being maintained.
3. Details of estimated expenditure of Sundry Capital in 2001-02 and 2002-03 are as follows:

	2001-02 Budget $'000	2002-03 Budget $'000
Loan Repayments	4 654	4 855
Computer Capital Costs	204	….
TOTAL	4 858	4 855

DEPARTMENT OF STATE DEVELOPMENT

The Department of State Development is continuing to focus on assisting business in sourcing finance from private sector providers, rather than providing routine commercial lending. Specialised finance facilitation resources are available to support this strategy.

The Tasmanian Development Board retains the capacity to lend and invest equity in special circumstances to support strategic developments for which private sector finance is not available.

The planned 2002-03 Lending Program will be totally internally funded, as shown in Table 5.8.

Table 5.8: 2002-03 Department of State Development Lending Program

	2001-02 Budget	2002-03 Budget
	$'000	**$'000**
Sources of Funds		
Internal Funds[1]	**28 750**	**9 800**
Total Sources of Funds	**28 750**	**9 800**
Application of Funds		
Advances		
Tasmanian Development Act 1983	**23 750**	**4 800**
Total Advances	**23 750**	**4 800**
Debt Repayment	**5 000**	**5 000**
Total Applications of Funds	**28 750**	**9 800**

Note:
1. The decreased funds in 2002-03 are due to lower scheduled client loan repayments.

Social Infrastructure Fund

One of the Government's key initiatives for 2002-03 is the establishment of a new $30 million Social Infrastructure Fund (SIF) which will be used to improve services to the community and address social infrastructure needs. Of the $30 million, $14.2 million has been allocated for capital expenditure, with $12.6 million to be expended in 2002-03. The balance of the Social Infrastructure Fund ($15.8 million) has been allocated to services projects over four years, the details of which are provided in Chapter 3 of Budget Paper No 2 *Operations of Government Departments 2002-03*.

The major thrust of the SIF is on technical and further education, community renewal and water development projects. A summary of the funding sources to the SIF and the anticipated total expenditure on projects is provided in Table 5.9.

Table 5.9: Social Infrastructure Fund

	2002-03 Budget
	$'000
Balance Bought Forward	**14 200**
Total Source of Funds	**14 200**
Less Estimated Expenditure	
Community Renewal	**8 000**
Water Developments	**4 500**
TAFE Flexible IT	**100**
Total Estimated Expenditure	**12 600**
Balance Carried Forward	**1 600**

Social Infrastructure Fund Projects

Community Renewal

$8.0 million of the Social Infrastructure Fund has been allocated for community renewal projects to improve rural infrastructure. It is anticipated that the entire amount will be spent in 2002-03.

Water Developments

$4.5 million has been allocated to water developments, with the total amount to be expended in 2002-03.

Education

$1.7 million of the Social Infrastructure Fund has been allocated to TAFE institutions for flexible information technology learning centres and Adult and Community Education facilities. Total expenditure in 2002-03 is estimated to be $100 000.

2001-02 INFRASTRUCTURE FUND

The Infrastructure Fund (IF) was introduced in the 2001-02 Budget as a major Government initiative to provide one-off funding for Tasmanian economic and social infrastructure. Of the funding allocated for economic infrastructure in 2001-02, $15 million remains to be carried forward into the 2002-03 Budget. IF funds are additional to the Government's ongoing Capital Investment Program.

The community has derived, and will continue to derive, significant benefits from the application of additional funding to infrastructure projects. The projects completed in 2001-02 have:

- provided infrastructure that supports private sector investment in development opportunities;
- addressed the rundown of infrastructure assets that are needed to support future expansion of existing service delivery;
- assisted in managing the backlog of maintenance of public infrastructure assets; and
- stimulated economic activity in the State in the order of $52 million for commitments made and contracts let, or completed works awaiting payment.

The projects to be completed in 2002-03 are summarised in Table 5.10.

Table 5.10: 2001-02 Infrastructure Fund

	2002-03 Budget
	$'000
Balance Brought Forward	**15 000**
Total Source of Funds	**15 000**
Less Estimated Expenditure	
Irrigation Schemes and Associated Water Developments	**7 000**
Strategic Transport and Other Projects	**8 000**
Total Estimated Expenditure	**15 000**

2001-02 Infrastructure Fund Projects

Irrigation Schemes and Associated Water Developments

$7.0 million brought forward from the 2001-02 Infrastructure Fund relates to the Meander Dam. This project will benefit the Tasmanian community by providing water to stimulate irrigation development in the Meander Valley region.

The environmental, engineering and economic feasibility studies for the project have been completed and released publicly. Permits for construction of the dam have been applied for under State and Commonwealth legislation and these approval processes are expected to be completed in August 2002. Financing arrangements for design and construction of the dam are currently being considered. Contracts for dam construction will be let and funds expended in 2002-03.

Strategic Transport and Other Projects

$8.0 million carried forward from the Infrastructure Fund relates to the Land Transport Infrastructure Investment Strategy and other development works. Contracts for the majority of the individual projects have been let and planning processes for the balance of the projects are nearing completion.

GBEs, State-owned Companies and State Authorities

Expenditure of Capital Funds

Budgeted total capital expenditure by Government Business Enterprises (GBEs), State-owned Companies (SOCs) and State Authorities in 2001-02 was $236.8 million. This compares with the Budget estimate for 2002-03 of $247.9 million, $263.3 million in 2003-04 and $242.3 million in 2004-05.

The expenditure of $290 million by the TT-Line for the purchase of the two new vessels for the Bass Strait service will occur in 2001-02.

Details of the total expenditure of capital funds by GBEs, SOCs and State Authorities are shown in Table 5.11.

Table 5.11: Expenditure of Capital Funds by GBEs, State-owned Companies and State Authorities

	2001-02 Budget	2002-03 Budget	2003-04 Budget	2004-05 Budget
	$'000	$'000	$'000	$'000
Aurora Energy Pty Ltd	55 200	56 702	49 156	50 782
Burnie Port Corporation Pty Ltd	325	2 090	1 725	530
Civil Construction Corporation	2 000	700	1 250	1 100
Forestry Tasmania	25 000	24 570	23 020	18 120
Hobart Ports Corporation Pty Ltd	3 007	6 436	3 810	3 155
Hydro Tasmania	65 100	77 500	106 100	91 700
Marine and Safety Tasmania	....	30	....	....
Metro Tasmania Pty Ltd	3 803	4 475	4 725	4 425
Motor Accidents Insurance Board	400	550	600	200
Port Arthur Historic Site Management Authority	2 400	617	400	400
Port of Devonport Corporation Pty Ltd	4 000	5 666	644	3 247
Port of Launceston Pty Ltd	1 600	1 550	990	990
Printing Authority of Tasmania	250	150	2 300	150
Private Forests Tasmania	30	30	34	40
The Public Trustee	....	120	120	120
Retirement Benefits Fund Board	2 370	2 090	3 270	4 002
Rivers and Water Supply Commission	600	....	....	....
Southern Regional Cemetery Trust	145	381	403	170
State Fire Commission	5 500	5 500	5 500	5 500
Tasmanian Grain Elevators Board	170	145	50	50
Tasmanian International Velodrome Management Authority	....	492	570	481
Tasmanian Public Finance Corporation	654	149	139	140
TOTE Tasmania Pty Ltd	5 825	6 988	6 782	3 143
Transend Networks Pty Ltd	57 400	50 000	51 250	52 531
TT-Line Company Pty Ltd[1]	1 000	950	500	1 340
	236 779	247 881	263 338	242 316

Note:

1. In addition to the budgeted expenditure by the TT-Line in 2001-02, expenditure of $290 million associated with TT-Line's purchase of the two new vessels for the Bass Strait service will also occur in 2001-02.

Major Capital Projects of GBEs, State-owned Companies and State Authorities - Summary

The information on estimated capital expenditure for GBEs, SOCs and State Authorities has been provided by each entity. Some of the major projects are detailed below.

Aurora Energy Pty Ltd

2002-03 estimated capital expenditure: $56.7 million.

During 2002-03, Aurora's capital expenditure program includes expenditure on:

- development and enhancement of Aurora's electricity distribution network ($41.1 million);
- East Hobart Substation upgrade ($6.7 million);
- information technology ($4.6 million); and
- fleet upgrades and replacement ($3.3 million).

Burnie Port Corporation Pty Ltd

2002-03 estimated capital expenditure: $2.1 million.

During 2002-03, the Corporation's capital expenditure program includes expenditure on:

- reclamation – Southern Port ($1.5 million);
- cold store plant upgrade ($165 000);
- reclamation – ex Old Jones Pier ($150 000);
- River Road property embankment works ($100 000); and
- mobile plant replacement ($60 000).

Forestry Tasmania

2002-03 estimated capital expenditure: $24.6 million.

During 2002-03, Forestry Tasmania's capital expenditure program includes expenditure on:

- plantation establishment and other forest management activities ($10.5 million);
- road construction ($9.7 million);
- the acquisition of property, plant and equipment ($2.7 million); and
- the development of tourism infrastructure projects and other property ($1.6 million).

Hobart Ports Corporation Pty Ltd

2002-03 estimated capital expenditure: $6.4 million.

The increase of $3.4 million in budgeted expenditure in 2002-03 from 2001-02 is primarily a result of the anticipated acquisition of new forklift trucks for the Corporation's stevedoring operations and upgrading of 1 Franklin Wharf.

During 2002-03, the Corporation's capital expenditure program includes expenditure on:

- maintenance of wharves, buildings, plant and equipment ($3.0 million);
- new forklift trucks ($1.6 million);
- Triabunna wharf upgrade ($800 000);
- air conditioning upgrade of 1 Franklin Wharf ($500 000); and
- upgrade of facilities at the Domain Slip Yard ($415 000).

Hydro Tasmania

2002-03 estimated capital expenditure: $77.5 million.

During 2002-03, Hydro Tasmania's capital expenditure program includes expenditure on:

- refurbishment, replacement and upgrade of generating assets ($28.5 million);
- renewable energy developments:
  - Tasmania Mini Hydros ($4.8 million);
  - South Australia Mini Hydro ($3.0 million);
  - windfarm developments ($7.2 million); and
  - integrated renewable energy developments – Flinders Island ($1.8 million);
- information technology ($11.0 million);
- corporate and other (includes fleet vehicles) ($10.9 million);
- land and buildings ($4.4 million);
- communication ($4.3 million); and
- wind monitoring towers ($1.6 million).

Metro Tasmania Pty Ltd

2002-03 estimated capital expenditure: $4.5 million.

During 2002-03, Metro Tasmania's capital expenditure program includes expenditure on:

- bus replacement strategy ($3.0 million);
- various bus stops, facilities, auxiliary vehicles, information technology and plant and equipment ($610 000); and
- ticketing system ($400 000).

Port of Devonport Corporation Pty Ltd

2002-03 estimated capital expenditure: $5.7 million.

During 2002-03, the Corporation's capital expenditure program includes expenditure on:

- coldstore development ($2.4 million); and
- No 1 East Berth alterations ($2.0 million).

Port of Launceston Pty Ltd

2002-03 estimated capital expenditure: $1.6 million.

During 2002-03, the Port of Launceston's capital expenditure program includes expenditure on:

- No 6 Berth marshalling area and lighting ($425 000);
- No 4 Berth fire fighting equipment upgrade ($220 000); and
- conveyor system control ($160 000).

Retirement Benefits Fund Board

2002-03 estimated capital expenditure: $2.1 million

During 2002-03, the Board will continue to develop its infrastructure to electronically provide members and staff with easier and more efficient access to information that will support member education and decision making. The major projects will be the:

- extension of the RBF's interactive web site to provide for the transfer of electronic member and payroll data between agencies and the RBF;
- updating and enhancement of backup facilities for computer systems; and
- further enhancements of RBF's superannuation administration system to enable compliance with new superannuation legislation.

State Fire Commission

2002-03 estimated capital expenditure: $5.5 million.

The capital expenditure for the Commission during 2002-03 continues with the station upgrades ($1.7 million) and vehicle replacement programs and includes:

- construction of a number of small to medium fire stations;
- redevelopment of the Cambridge Training Complex;
- redevelopment of the State Headquarters Melville Street wing; and
- fabrication of a number of heavy, medium and light tankers ($3.1 million).

TOTE Tasmania Pty Ltd

2002-03 estimated capital expenditure: $7.0 million.

During 2002-03, TOTE Tasmania's capital expenditure program will include:

- Elwick relocation ($3.0 million);

- computer hardware ($1.3 million);
- Mowbray lights ($1.2 million); and
- software and development ($698 000).

Transend Networks Pty Ltd

2002-03 estimated capital expenditure: $50.0 million.

During 2002-03, Transend's capital expenditure program includes expenditure on:

- Smithton substation redevelopment, including new switchgear and associated protection and remote control, monitoring and communication systems ($13.2 million);
- substation upgrades and replacements ($12.8 million);
- compliance program ($7.4 million);
- new office accommodation ($3.5 million);
- network operating and control system ($2.2 million);
- Waddamana substation upgrade, including replacement of circuit breakers and reconfiguring the switchyard and protection system ($2.2 million);
- production and control upgrade – George Town / TEMCO ($2.0 million); and
- Mowbray substation upgrade to supplement the Launceston supply capacity ($1.3 million).

6 State Taxation

Features

- Total taxation receipts for 2001-02 are expected to be $517.9 million.
- Estimated taxation receipts for 2002-03 are $494.5 million, which is $9.6 million, or 2.0 per cent, above the 2001-02 Budget estimate.
- Tax relief of $9.4 million is being provided in 2002-03.
- Duty relief of $7.4 million is being provided through the abolition of a range of duties from 1 July 2002.
- Lease duty, non-quoted marketable securities duty, hire of goods duty, several miscellaneous duties and public liability insurance premium duty are being abolished.
- Land tax relief of $2.0 million is being provided through a reduction in the rates of land tax and in the number of steps in the scale, effective 1 July 2002.
- A rebate is being made available to home owners in transitional circumstances who incur a land tax liability when moving from one principal place of residence to another.
- Tasmania has the second lowest tax severity of all states and territories.
- Tasmania has the most competitive payroll tax regime for small to medium sized businesses outside of the Australian Capital Terrority.

INTRODUCTION

State taxation is a vital source of revenue which assists the Government to provide essential services to Tasmanians, such as health, education and roads. The State is limited in the range of taxes that it is able to levy to pay for these services compared to the Commonwealth Government.

Government tax policy must, however, balance the need to raise revenue with the need to foster a competitive business environment.

The level of tax relief provided in this Budget, as in the last Budget, is consistent with a sustainable Budget position. While the mix of tax relief will provide both direct and indirect benefits to all sectors of the Tasmanian community, it has been selected to provide optimum benefit for businesses both in terms of reduced compliance costs and direct tax benefit. Small business in particular will benefit from these changes.

The purpose of this chapter is to provide information on the tax relief initiatives in this Budget, the relative competitiveness of Tasmania's tax regime, historical taxation collections, estimated aggregate receipts for 2001-02, and projected State taxation revenue estimates for 2002-03.

For each of the major tax areas, a description of the tax base and its operation is provided, including any concessions which may be available, along with an estimate of individual tax receipts for each head of tax for 2002-03. A summary of major legislative and other changes which occurred in 2001-02 is also included.

The charts and tables in this chapter generally refer to actual tax collections for 2000-01, while estimates for 2002-03 are compared with Budget estimates for 2001-02. A current estimate for the projected aggregate receipt of taxes in 2001-02 is also provided.

Year-on-year changes in taxation receipts are reported in nominal terms.

BUDGET INITIATIVES

The 2002-03 Budget incorporates several taxation relief initiatives that build upon the initiatives delivered in the 2001-02 Budget. The substantial amount of relief provided in 2001-02 through the abolition of the electricity entities levy and the reduction in payroll tax, together with the abolition of financial institutions duty (FID) and stamp duty on quoted marketable securities, has assisted in creating a strong economic climate for businesses to operate and expand. The aim of the taxation relief measures in this Budget is to continue to foster a competitive business environment in the State.

The initiatives in this Budget provide relief through a reduction in land tax and through the abolition of several duties. These initiatives are intended to specifically target small business through direct tax benefits and decreasing the cost of complying with State tax requirements by reducing the number of taxes. Other sectors of the wider business community and households also stand to benefit. Effectively, the Government has considerably reduced all the major State taxes that impact on businesses in Tasmania over two years.

The Government will reduce the overall burden of land tax by $2.0 million in 2002-03. This will be achieved by reducing the number of steps in the land tax scale and by raising the exemption threshold at which tax becomes payable from $1 000 to $15 000. Taxpayers currently paying land tax will benefit from a lower tax liability, with those with lower valued land receiving higher proportionate relief than the relatively few who own higher valued land.

A rebate will also be provided to home owners in transitional circumstances who incur a land tax liability when they are moving from one residence to another. The rebate will be paid to those home owners who have paid the land tax liability and have sold their former residence, provided no income is earned from the property during the transitional period.

The land tax relief will, in particular, assist small business owners in a wide range of industry sectors, including manufacturing, retailing, and financial and business services.

A number of duties currently levied under the *Duties Act 2001* will also be abolished with effect from 1 July 2002. These duties are:

- lease duty;
- a range of miscellaneous duties;
- non-quoted marketable securities duty;
- public liability insurance premium duty; and
- hire of goods duty.

The removal of these duties offers significantly reduced compliance costs for businesses.

Lease duty applies to commercial leases. The abolition of lease duty will provide relief to small businesses, particularly in the retail sector. While the incidence of lease duty is on the lessor, it is expected that the cost savings from the abolition of the duty will be passed on to lease holders through the rent payable. The abolition of lease duty will increase incentives for property developers to invest in Tasmania.

The abolition of miscellaneous duties under section 222 and section 223 of the Duties Act will predominantly save small businesses compliance costs and time. These duties are currently levied on items such as partnership agreements, property management agreements, deeds, performance guarantees, building agreements, loan agreements and consumer credit contracts. Households will also benefit from the removal of duty on loan agreements and consumer credit contracts.

Stamp duty on quoted marketable securities was abolished from 1 July 2001. The abolition of duty on non-quoted marketable securities will effectively remove duty on any form of marketable securities. Generally, unlisted private companies incorporated in Tasmania attract this duty, and these companies are often small to medium sized businesses.

The Government has recognised and responded to the problems faced in the community as a result of rising public liability insurance premiums by abolishing duty on this class of insurance. This relief will assist the many community and sporting organisations in the State which have encountered rises, as well as small businesses which have also been affected.

The abolition of duty on the hire of goods will provide significant relief to businesses which rely on the hire of goods to operate. These businesses include those relying on the hire of cars, plant and equipment (such as mining and forestry operators), telecommunications, information technology and office equipment.

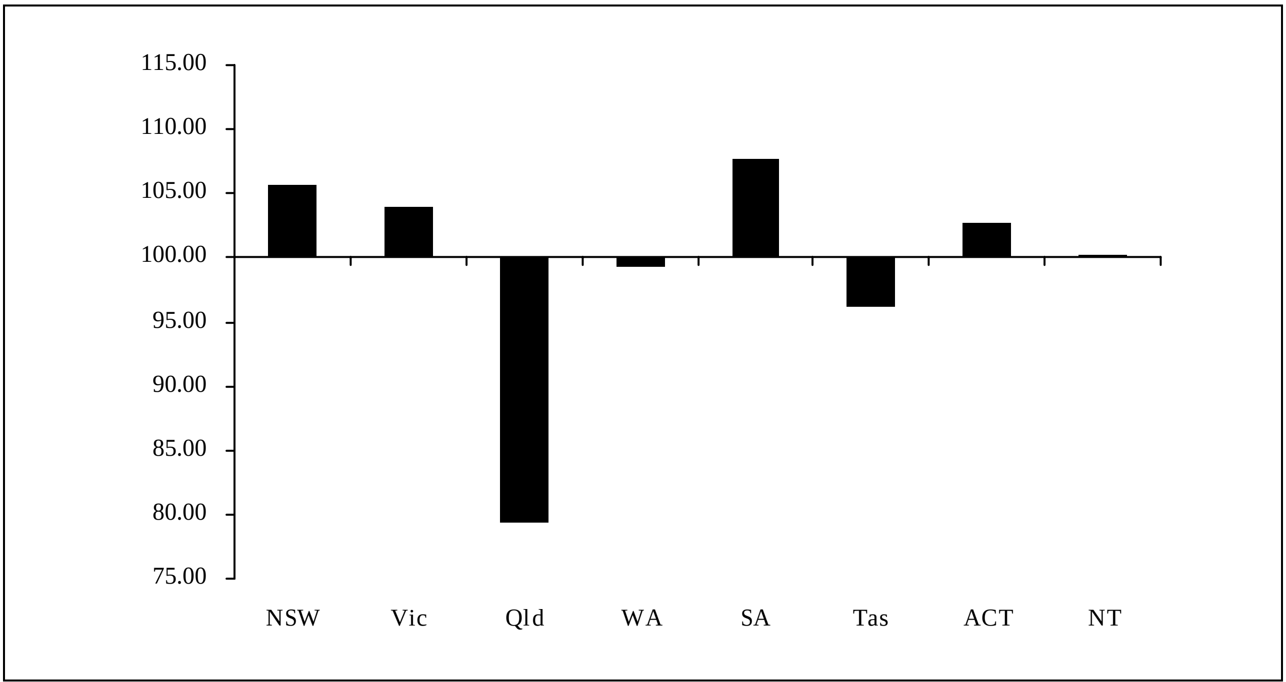
These Budget initiatives will result in savings to businesses and households of approximately $9.4 million in 2002-03.

TAX COMPETITIVENESS

Tax competitiveness plays a key role in creating a competitive business environment. The taxation relief initiatives in this Budget will consolidate Tasmania's competitive position. As a result of the initiatives in the 2001-02 Budget, the State has a very competitive payroll tax regime. This will be further enhanced with the changes to land tax and duties from 1 July 2002.

Taxation competitiveness is measured by the Commonwealth Grants Commission. The latest national comparison shows that Tasmania's tax severity is four per cent below the national average, and is the second lowest of all jurisdictions. This comparison is shown in Chart 6.1. Table 6.1 shows the trend in tax severity from 1996-97 to 2000-01. It should be noted that this data does not include the substantial relief delivered in the 2001-02 Budget or this Budget, and therefore Tasmania's current tax competitiveness is likely to be better than that shown.

Chart 6.1: Taxation Severity, 2000-01



Source: *Report on State Revenue Sharing Relatives 2002 Update*, Commonwealth Grants Commission

Table 6.1: Trend in Tax Severity

State	1996-97	1997-98	1998-99	1999-00	2000-01
NSW	**105.78**	**104.88**	**107.48**	**107.40**	**105.59**
Vic	**106.48**	**106.68**	**102.20**	**103.12**	**103.96**
Qld	**81.14**	**81.42**	**82.04**	**79.45**	**79.33**
WA	**93.10**	**91.01**	**94.88**	**94.29**	**99.26**
SA	**100.89**	**105.78**	**104.76**	**105.37**	**107.74**
Tas	**102.83**	**101.62**	**95.12**	**94.59**	**96.12**
ACT	**104.20**	**102.84**	**101.83**	**104.29**	**102.67**
NT	**106.23**	**107.41**	**102.17**	**108.65**	**100.18**

Source: *Report on State Revenue Sharing Relatives 2002 Update,* Commonwealth Grants Commission

One of the key components of tax competitiveness from a business perspective is payroll tax. The Budget initiatives in 2001-02 reduced the marginal rate of payroll tax from 6.53 per cent to 6.30 per cent and increased the general exemption threshold from $606 000 to $1.0 million from 1 July 2001. The initiatives also allowed for a further payroll tax rate reduction from 6.30 per cent to 6.24 per cent, and a further increase in the general exemption threshold from $1.0 million to $1.01 million, to take effect from 1 July 2002.

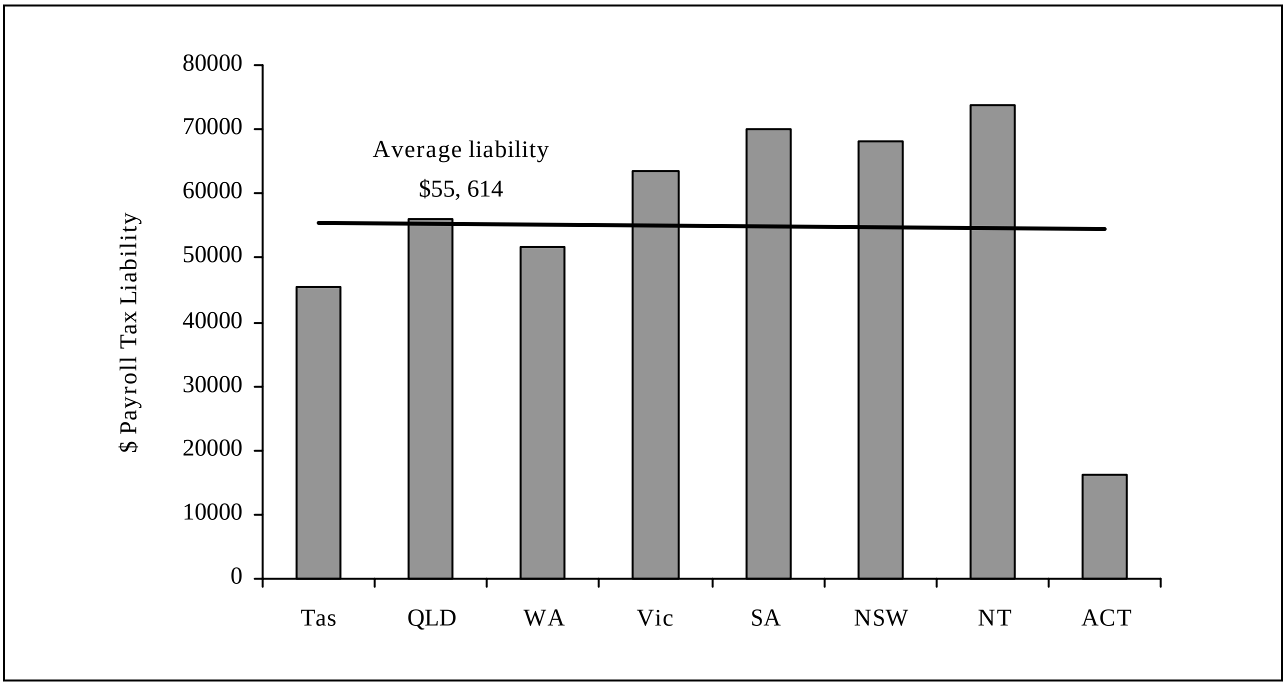
As a result of these changes, Tasmania has the most competitive payroll tax regime for small to medium sized businesses (ie businesses with up to 50 employees) outside of the ACT. Furthermore, the payroll tax liability faced by larger businesses is competitive with other jurisdictions. This comparison takes into account Tasmania's relatively high general exemption threshold, which results in a more accurate comparison of payroll tax competitiveness than simply comparing marginal payroll tax rates. Table 6.2 shows the effective payroll tax rates, which take into account general exemption thresholds, in all states and territories for a range of employee numbers. Chart 6.2 shows the payroll tax liability in all states and territories for a firm with 50 employees.

Table 6.2: Comparison of Effective Payroll Tax Rates, 2002-03[1]

No of Employees	TAS	QLD	WA	VIC	SA	NSW	NT	ACT	Average
	%	%	%	%	%	%	%	%	%
50	**2.61**	**3.40**	**2.98**	**3.66**	**4.02**	**3.93**	**4.25**	**0.93**	**3.22**
75	**3.82**	**4.49**	**3.61**	**4.22**	**4.57**	**4.62**	**5.00**	**2.91**	**4.16**
100	**4.43**	**4.75**	**4.18**	**4.50**	**4.85**	**4.96**	**5.38**	**3.89**	**4.62**
200	**5.33**	**4.75**	**6.00**	**4.93**	**5.26**	**5.48**	**5.94**	**5.37**	**5.38**
300	**5.64**	**4.75**	**6.00**	**5.07**	**5.40**	**5.65**	**6.13**	**5.86**	**5.56**
500	**5.88**	**4.75**	**6.00**	**5.18**	**5.51**	**5.79**	**6.28**	**6.26**	**5.70**

Note:
1. Payroll tax effective rates are calculated using the national average weekly earnings average for the four quarters to December 2001 as published by the Australian Bureau of Statistics (ABS). Rates and thresholds used in the calculations are those that will apply in each jurisdiction from 1 July 2002 as announced as at 1 May 2002.

Chart 6.2: Actual Payroll Tax Liability for an Employer with 50 Employees, 2002-03[1]



Note:

1. Payroll tax liabilities are calculated using the national average weekly earnings average for the four quarters to December 2001 as published by the Australian Bureau of Statistics (ABS). Rates and thresholds used in the calculations are those that will apply in each jurisdiction from 1 July 2002 as announced as at 1 May 2002.

EXPECTED TAXATION RECEIPTS FOR 2001-02

The capacity of Tasmania and the other states and territories to raise tax revenues is constrained by the Australian Constitution and by Australia's Commonwealth-state financial arrangements. This is reflected by the fact that, in 2000-01, the Commonwealth raised 72 per cent of total General Government revenue, while its own purpose expenses represented only 57 per cent of General Government expenses. On the other hand, the own source revenue of the states and territories comprised only 22 per cent of total General Government revenue, while own purpose expenses by the states and territories represented 37 per cent of total General Government expenses. This situation is described as 'vertical fiscal imbalance' (see Chapter 7 of this Budget Paper for further details).

Chart 6.3: Total State Taxation 1997-98 to 2002-03

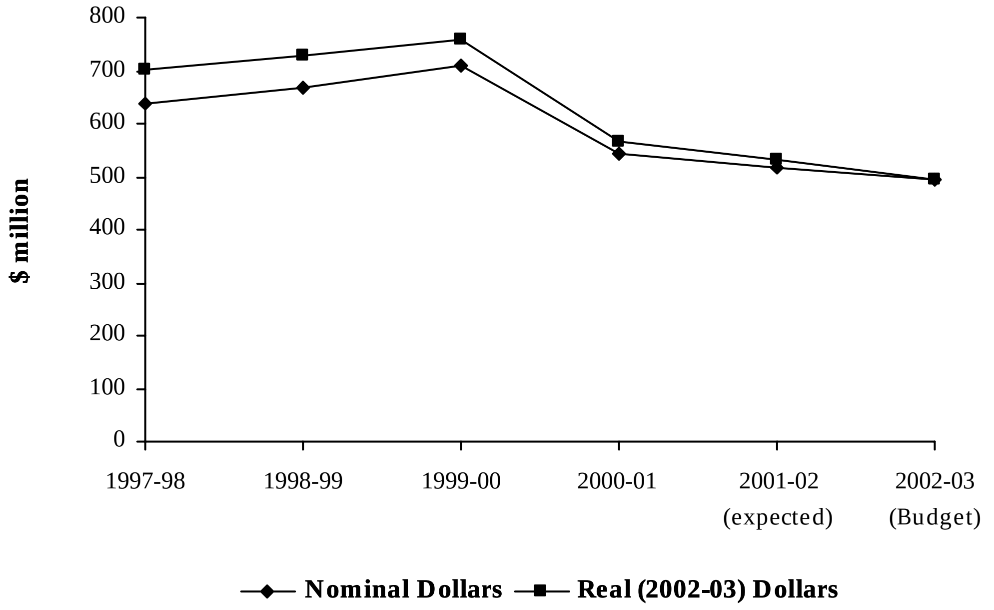


Chart 6.3 shows moderate growth in State taxation receipts in nominal terms to 1999-00, with a significant decrease in 2000-01 due to the introduction of the Commonwealth's GST and the associated changes to various State taxes required under the *Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations* (IGA). The decrease in expected receipts for 2001-02 reflects further change resulting from the IGA, namely the abolition of FID and stamp duty on the transfer of quoted marketable securities effective from 1 July 2001. In addition, the tax reductions introduced in the 2001-02 Budget in relation to payroll tax and the electricity entities levy have also had a significant negative impact on expected tax receipts for 2001-02. Receipts are budgeted to further decrease in 2002-03 due to the tax relief initiatives announced in this Budget and the expectation that the abnormally high level of activity in the property market during 2001-02 will not continue.

Table 6.3 sets out the estimates included in the 2001-02 Budget for collections for each State tax during 2001-02, the actual collections in each of the preceding three years and the Budget estimates for 2002-03. Chart 6.4 illustrates the contribution of each tax to total State taxation revenue in 2000-01.

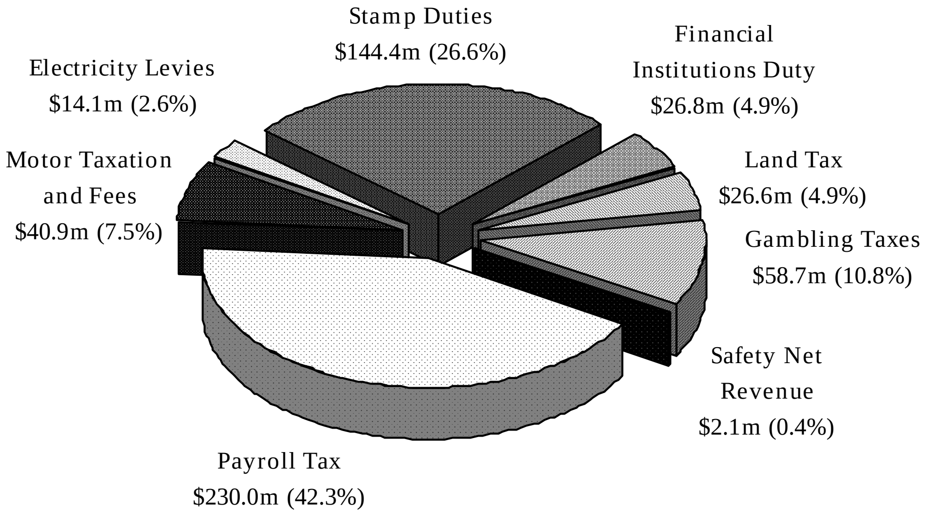
Table 6.3: State Taxation Collections[1]

	Actual			Budget	Expected[1]	Budget
	1998-99	1999-00	2000-01	2001-02	2001-02	2002-03
	$'000	$'000	$'000	$'000	$'000	$'000
Payroll tax[2]	206 420	216 045	230 033	213 622	220 822	220 290
Land tax[3]	27 261	27 522	26 612	29 396	27 396	24 990
Motor tax	39 275	38 322	40 944	40 239	41 239	43 466
Financial Transaction Taxes						
Stamp Duties[5]	124 361	136 279	144 444	133 019	158 519	116 245
Debits Duty[5]	....	....	....	....	....	21 512
Financial Institutions Duty[6]	22 471	23 692	26 835	2 126	2 626	....
Franchise Fees and Levies						
Electricity Entities Levy[7]	14 297	14 428	14 163	1 942	1 942	....
Tobacco Franchise Licence Fees[8]	18	1	....	....	....	....
Petroleum Products Licence Fees[8]	2	....	....	....	....	....
Safety Net Revenue[8]	165 747	175 432	2 109	....	....	....
Gambling Taxes						
Lottery Tax[4]	19 600	21 655	19 711	19 992	19 992	20 490
Minor Gaming Taxes[4, 9]	8 193	7 478	791	363	363	438
Casino Tax and Licence Fees	40 567	47 579	38 237	44 159	44 959	47 031
Soccer Football Pools Tax[4]	75	....	....	....	....	....
Other						
Sundry Licences	40	22	15	30	30	30
Total	668 327	708 455	543 894	484 888	517 888	494 492

Notes:

1. The estimated 2001-02 outcome is based on the trend in receipts as at 1 May 2002. There may be some variance between the estimated outcome and the actual outcome depending on receipts in the final two months of the financial year.
2. The expected decline in payroll tax receipts in 2001-02 is a result of the Budget initiatives in that year. The budget increase in payroll tax receipts from 2001-02 to 2002-03 is due to an expected increase in employment in the payroll tax paying sector, together with wage increases. The increase is offset somewhat by the further rate reduction and increase in the exemption threshold that will take effect from 1 July 2002.
3. The Budget estimate for land tax for 2002-03 reflects tax relief of $2.0 million and an estimated decrease in the aggregate land tax assessment from the 2001-02 Budget estimate.
4. Soccer Football Pools tax is now included under lottery tax. For 2000-01 lucky envelope receipts are included under lottery tax, whereas previously they were included as part of duties. From 2001-02, lucky envelope receipts are included in minor gaming taxes.
5. A separate debits duty estimate is now included in line with the legislative separation of debits duties from other duties which took effect from 1 July 2001. In past Budgets, debits duties were included in the stamp duties estimate.
6. FID was abolished from 1 July 2001. Receipts in 2001-02 relate to FID levied on bank accounts prior to 1 July 2001.
7. The electricity entities levy was abolished from 1 July 2001. Receipts in 2001-02 relate to electricity consumed prior to 1 July 2001, but billed after that date.
8. From 5 August 1997, the State's business franchise fees on tobacco, petroleum and liquor products were no longer collected. To replace the state and territory franchise fee revenue, the Commonwealth implemented a Safety Net Arrangement by increasing excises on tobacco and petroleum and wholesale sales tax on liquor and distributing the additional revenue raised to the states. The Commonwealth's Safety Net Arrangements were abolished on 1 July 2000 as part of national tax changes.
9. From 1 August 2000, TOTE Tasmania is no longer required to remit racing tax (see "Gambling Taxes" for detail).

Chart 6.4: State Taxation Collections, 2000-01 - Dollar Amounts and Percentage of Total



On current estimates, aggregate taxation receipts for 2001-02 are expected to total $517.9 million. This represents a nominal decrease of $26.0 million, or 4.8 per cent over, receipts for the 2000-01 year. Expected receipts are $33.0 million or 6.8 per cent over the 2001-02 Budget estimate. The expected increase over the Budget estimate is primarily the result of higher than expected duty receipts due to large unanticipated one-off transactions, together with increased activity in the property market and motor vehicle market. Expected duty receipts alone are $25.5 million above Budget. Payroll tax receipts are also above the Budget estimate due to the settlement of a few large outstanding liabilities, and an increase in wages paid in the payroll tax paying sector. The additional receipts are mostly a 'one-off' outcome resulting from abnormal activity and are not expected to continue into 2002-03.

ESTIMATED TAXATION RECEIPTS FOR 2002-03

Total taxation revenue for 2002-03 is estimated to be $494.5 million, an increase of $9.6 million or 2.0 per cent on the estimate for 2001-02 included in the 2001-02 Budget Papers. This expected outcome is primarily due to:

- an increase in payroll tax receipts as a result of the forecast improvement in employment numbers during 2002-03 in the payroll tax paying sector and scheduled wage rises in the public sector;
- increased motor tax receipts, which offsets a decrease in 2001-02, resulting from the introduction of periodic payments from 1 July 2001. This was a one-off adjustment relating to the change in timing of receipts; and
- increased casino tax receipts as a result of increases in the allowable number of video gaming machines in venues (including hotels and clubs). Nevertheless, gambling tax receipts as a percentage of total revenue are less than they were in 1998-99.

Receipts for 2002-03 are expected to be significantly less than the revised total for 2001-02 due to forecast lower activity in the property market, the tax relief initiatives announced in this Budget and the resolution of large outstanding payroll tax issues in 2001-02.

Payroll Tax

Description

Payroll tax is imposed under the *Pay-roll Tax Act 1971* and is levied on employees' wages and salaries, commissions, bonuses, fringe benefits and allowances, directors' remuneration and employer superannuation contributions. The tax also applies to contract payments (where an employer-employee relationship is deemed to exist) and to employment agencies.

Employers are required to submit returns, usually monthly, to the Commissioner of State Revenue. Frequency of lodgement may be varied where payrolls are close to the exemption level, or where seasonal employment occurs. Table 6.4 details payroll tax received in 2000-01 by tax liability range.

Table 6.4: Payroll Tax, 2000-01

Tax Liability Range			Number of Employers	Tax Paid
$				$'000
1	-	50 000	1 262	15 488
50 001	-	100 000	179	12 509
100 001	-	250 000	151	23 465
250 001	-	500 000	70	24 027
500 001	-	1 000 000	33	23 254
1 000 001		and over	42	131 290
Total			1 737	230 033

The rate of payroll tax was reduced from 6.53 per cent to 6.30 per cent, and the general exemption threshold increased from $606 000 to $1.0 million, from 1 July 2001 in accordance with the Government's tax relief initiatives in the 2001-02 Budget. A further rate reduction from 6.30 per cent to 6.24 per cent, and an increase in the threshold from $1.0 million to $1.01 million, will take effect from 1 July 2002.

Grouping provisions in the Pay-roll Tax Act were also amended to allow commonly controlled businesses to be de-grouped where the entities operate in different industry sectors. This provides an incentive for Tasmanian businesses to expand through diversification and invest in new and different activities.

The relief provided in the 2001-02 Budget builds on the Government's previous targeted payroll tax assistance, where assistance up to the full value of payroll tax liability is provided to Tasmanian businesses engaged in specified Information Technology (IT) activities. Payroll tax assistance is also available in respect of increased employment levels, on a case by case basis, to selected and significant new industries and activities which exhibit all of the following characteristics:

- will make a significant contribution to the Tasmanian economy on a long-term sustainable basis;
- have substantial employment growth potential;

- are involved in either exporting or import competing activities; and
- provide services or manufacture goods which do not otherwise currently exist in Tasmania.

Estimated Receipts for 2002-03

Receipts from payroll tax in 2002-03 are estimated to be $220.3 million, representing an increase of $6.7 million or 3.1 per cent over the 2001-02 Budget estimate. The expected increase in collections is the result of anticipated growth in employment in the payroll tax paying sector and scheduled wage rises in the public sector. The expected increase in receipts is partially offset by the reduction in the payroll tax rate and the increase in the general exemption threshold that will take effect from 1 July 2002.

Land Tax

Description

Land tax is imposed under the *Land Tax Act 2000*. It is levied on the basis of three land categories: general; primary production; and principal residence land. However, since 1 July 1996, the rate of tax on principal residence and primary production land has been set to zero, thereby effectively exempting such land from land tax. The land tax scales are currently fixed by the *Land Tax Rating Act 2000*.

The principal residence category applies to land on which there is a dwelling or stratum unit that is occupied as the principal residence of the owner, or a related person as defined by the Act. This category also includes retirement village units occupied as principal residences.

The primary production land category applies to land which is used substantially for the business of primary production. It also includes land that has been declared a private timber reserve under the *Forest Practices Act 1985*.

General land relates to any land which is not principal residence or primary production land. It includes commercial and industrial land, land used for the rental of residential housing and vacant land.

Land tax is calculated on the assessed land value and is payable by the owner of the land as at 1 July each year. The assessed land value is the land value adjusted by a valuation adjustment factor, as determined by the Valuer-General as at 31 March each year, to bring all properties in the State to a common valuation date each year. The valuation adjustment factor for a given municipality is determined for each land category within that municipality and represents an estimate of the general movement in land values since the last full revaluation was undertaken for that municipality.

Certain non-profit sporting organisations and bodies controlling or promoting horse racing, dog racing, athletic sports or motor racing are eligible for a concessional rate of land tax, equal to 0.4 per cent of the assessed land value. All land owned by persons who hold a Commonwealth Pensioner Concession Card is also exempt from land tax.

Table 6.5 shows the land tax scale that currently applies in Tasmania.

Table 6.5: Current Land Tax Scale, 2001-02

Assessed Land Value			Tax Rate
$			
below		**1 000**	**Nil**
1 000	**-**	**15 000**	**$25**
15 001	**-**	**40 000**	**$25 plus 0.75 cents per $1 above $15 000**
40 001	**-**	**68 750**	**$212.50 plus 1.0 cents per $1 above $40 000**
68 751	**-**	**100 000**	**$500**
100 001	**-**	**125 000**	**$500 plus 1.25 cents per $1 above $100 000**
125 001	**-**	**170 000**	**$812.50 plus 1.5 cents per $1 above $125 000**
170 001	**-**	**210 000**	**$1 487.50 plus 1.75 cents per $1 above $170 000**
210 001	**-**	**250 000**	**$2 187.50 plus 2.0 cents per $1 above $210 000**
250 001	**-**	**500 000**	**$2 987.50 plus 2.25 cents per $1 above $250 000**
500 001		**and over**	**$8 612.50 plus 2.5 cents per $1 above $500 000**

From 1 July 2002, the land tax scale under the *Land Tax Rating Act 2000* will be amended to reduce the number of steps in the scale and increase the general exemption threshold. This will reduce the land tax liability of all taxpayers, with the majority of those who own lower valued land receiving higher proportionate relief than the relatively few who own higher valued land. Table 6.6 shows the new land tax scale.

Table 6.6: Land Tax Scale from 1 July 2002

Assessed Land Value			Tax Rate
$			
below		**15 000**	**Nil**
15 000	**-**	**100 000**	**$25 plus 0.55 cents per $1 above $15 000**
100 001	**-**	**200 000**	**$492.50 plus 1.25 cents per $1 above $100 000**
200 001	**-**	**500 000**	**$1 742.50 plus 2.25 cents per $1 above $200 000**
500 001		**and above**	**$8 492.50 plus 2.5 cents per $1 above $500 000**

A rebate will also be available to home owners in transitional circumstances who incur a land tax liability when they are moving from one residence to another. The rebate will be paid to those home owners who have paid the land tax liability and have sold their former residence, provided no income is earned from the property during the transitional period.

These land tax initiatives will result in savings to taxpayers of approximately $2.0 million per annum compared to the tax that would have been paid without the initiatives. Table 6.7 compares the land tax liability for a range of land values under the existing rate and under the new rate commencing 1 July 2002.

Table 6.7: Comparison of Land Tax Liability, 2001-02 to 2002-03

Assessed Land Value	2001-02	2002-03
$	$	$
10 000	25	0
20 000	63	53
30 000	138	108
40 000	213	163
50 000	313	218
75 000	500	355
150 000	1 188	1 117
300 000	4 113	3 993
500 000	8 613	8 493

Table 6.8 provides details of the number of properties and the land tax assessed for each category of land in 2001-02. Assessed land tax differs from tax collected, as shown in Table 6.3, due to the timing of receipts.

Table 6.8: Land Tax Assessed, 2001-02

		Principal Residence		Primary Production		General	
Property Value		Number of Properties	Tax Payable	Number of Properties	Tax Payable	Number of Properties	Tax Payable
$			$		$		$
below	1 000	498	....	1	....	943	....
1 000 -	15 000	13 068	....	90	....	11 221	279 375
15 001 -	20 000	11 301	....	69	....	6 488	267 082
20 001 -	25 000	14 225	....	95	....	5 895	464 169
25 001 -	35 000	16 546	....	317	....	7 555	977 788
35 001 -	40 000	5 131	....	245	....	2 586	487 846
40 001 -	50 000	8 900	....	500	....	4 015	1 020 560
50 001 -	65 000	7 769	....	777	....	3 752	1 396 943
65 001 -	68 750	1 408	....	236	....	712	337 622
68 751 -	100 000	3 846	....	1 354	....	3 080	1 540 000
100 001 -	125 000	1 344	....	804	....	1 236	782 245
125 001 -	170 000	849	....	964	....	1 171	1 268 483
170 001 -	210 000	274	....	673	....	580	1 049 287
210 001 -	250 000	94	....	470	....	372	943 403
250 001 -	500 000	127	....	1 471	....	793	3 910 811
500 001 -	1 000 000	5	....	615	....	246	3 230 457
1 000 001	and over	1	....	196	....	160	8 299 826
Total		85 386	....	8 877	....	50 805	26 255 897

Estimated Receipts for 2002-03

It is expected that land tax collections in 2002-03 will be $25.0 million, which is $4.4 million or 14.9 per cent lower than the 2001-02 Budget estimate. The decrease in land tax receipts is principally the result of the tax relief initiatives announced in this Budget.

Motor Tax

Description

Motor tax is imposed under the *Vehicle and Traffic Act 1999* on the owners of motor vehicles or trailers, at the time of initial registration or annual renewal. Depending on the type of vehicle, the tax is determined by the number of cylinders and/or weight, seating capacity, or the number of axles and mass of each vehicle. The legislation specifies six classes of vehicles, each attracting its own scale of rates. A rebate of 40 per cent is available in certain cases to eligible pensioners owning commercial goods vehicles, provided they are not engaged in any trade or business, and commercial vehicles used predominantly for farming or horticultural purposes.

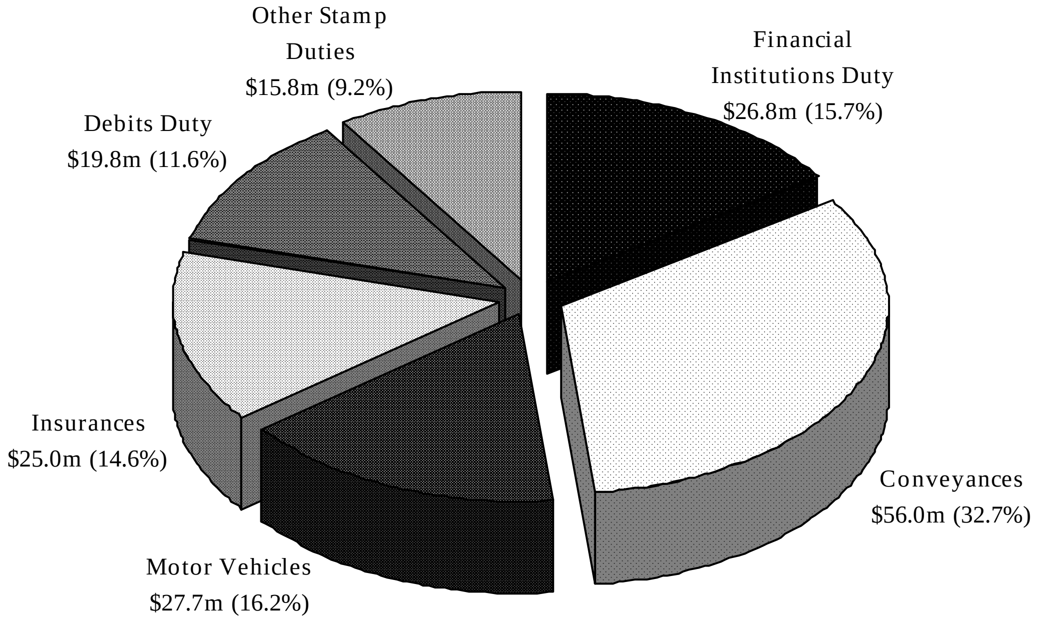
Estimated Receipts for 2002-03

Motor tax collections are estimated to be $43.5 million in 2002-03, an increase of $3.2 million or 8.0 per cent over the 2001-02 Budget estimate. The increase in motor tax revenue expected in 2002-03 reflects the introduction of periodic registration for light vehicles from 1 July 2001. This has enabled vehicle owners to register their vehicles at six monthly intervals, rather than annually. The introduction of periodic payments resulted in a one-off adjustment in the timing of receipts, which produced a decrease in receipts in 2001-02. Additional receipts will also be received as a result of the indexation rate applying to heavy vehicles, which is determined by the National Road Transport Commission (NRTC).

Financial Transaction Taxes

Taxes classed as financial transaction taxes are duties (including debits duty) and financial institutions duty. Chart 6.5 shows the actual collections of financial transaction taxes for 2000-01.

Chart 6.5: Financial Transaction Taxes, Actual Collections 2000-01 Dollar Amounts and Percentage of Total



Duties

Description

Duties (previously referred to as Stamp Duties) are imposed under the *Duties Act 2001*. The Act imposes duty on a range of instruments, transactions and arrangements which are generally of a commercial character. The Duties Act was the result of an inter-jurisdictional rewrite of stamp duties legislation which was aimed at reducing inter-jurisdictional differences in principles, definitions and structure of the legislation, which resulted in increased compliance costs for business.

All duties are collected by the Commissioner of State Revenue, except for duties on motor vehicle registrations and transfers, and third party insurance. These are collected by the Department of Infrastructure, Energy and Resources on behalf of the Commissioner.

The Duties Act provides for payments from the Consolidated Fund to certain first home buyers to meet the cost of stamp duty on the purchase of their first home. The payments are in the form of an interest-free loan, repayable over two years. Since 1995-96, the scheme has been available to first home buyers purchasing properties to a maximum value of $120 000.

In accordance with the IGA, stamp duty on transfers of marketable securities quoted on a recognised exchange ceased to apply to transactions entered into from 1 July 2001. This is expected to result in a loss of $0.7 million in stamp duty revenue in 2001-02. The 2002-03 Budget estimates for duty receipts are reported by category in Table 6.9.

The Duties Act will be amended with effect from 1 July 2002 to implement a number of duty relief measures announced by the Government in the 2002-03 Budget. The measures involve the abolition of:

- duty on leases;

- miscellaneous duties under section 222 and section 223 of the Act;
- duty on public liability insurance premiums;
- duty on unlisted marketable securities; and
- duty on the hire of goods.

The abolition and reduction of the above duties will provide tax relief with a total cost of $7.4 million in 2002-03.

Table 6.9: Duties

	Actual			Budget	Expected[6]	Budget
	1998-99	1999-00	2000-01	2001-02	2001-02	2002-03
	$'000	$'000	$'000	$'000	$'000	$'000
Conveyances[1]	38 062	47 318	56 031	48 727	68 127	49 929
Motor Vehicles	27 821	27 541	27 736	25 823	28 323	28 760
Insurances	21 010	22 312	25 008	24 807	26 807	29 726
Debits Duty[3]	16 796	19 129	19 845	20 605	20 605	....
Hire of Goods[2,5]	3 109	3 531	3 554	3 603	3 603	341
Mortgages[1]	5 887	5 993	7 260	6 257	7 557	6 357
Sundry Legal Documents[1]	5 251	5 571	1 776	2 553	2 553	1 070
Lucky Envelopes[4]	621	546	321	....	....	....
Credit Cards[3]	2 155	....	....	....	....	....
Marketable Securities[5]	2 564	3 297	1 903	89	389	16
Hire Purchase and Related Agreements[2]	639	542	538	....	....	....
Leases[5]	446	499	472	555	555	46
Total	124 361	136 279	144 444	133 019	158 519	116 245

Notes:

1. Prior to 2000-01, sundry legal documents included bank returns which also included some conveyance and mortgage duty. From 2000-01, new systems have allowed disaggregation of these receipts. The expected decline in duty on sundry legal documents for 2002-03 is the result of the tax initiatives in this Budget.
2. From 2001-02, duty on hire purchase and related agreements are included in hire of goods duty.
3. From 1999-00, figures for debits duty includes duty on credit card transactions. From 2002-03, debits duty is no longer reported as being included with other duties.
4. Lucky envelope receipts were included in minor gaming tax from 2001-02.
5. Expected receipts for lease duty, marketable securities duty and hire of goods duty for 2002-03 relate to transactions made prior to 1 July 2002 (the date of abolition for these duties), but not receipted until after this date.
6. The estimated 2001-02 outcome is based on the trend in receipts as at 1 May 2002. There may be some variance between the estimated outcome and the actual outcome depending on receipts in the final two months of the financial year.

Estimated Receipts for 2002-03

Duty receipts for 2002-03 are estimated to be $116.2 million, a decrease of $16.8 million or 12.6 per cent over the Budget estimate for 2001-02. The decrease is a result of debits duty being listed as a separate head of tax and no longer being included under duties estimates from 1 July 2002. This change is in line with the separation of debits duty from other duties which occurred when the *Duties Act 2001* and *Debits Duty Act 2001* replaced the *Stamp Duties Act 1931* from 1 July 2001.

Debits Duty

Description

Debits duty is imposed on taxable debits to taxable accounts kept in Tasmania. Debits duty also includes credit card duty which applies to the number of debits made to an account kept with a credit card provider during the billing period of the preceding month. The rate of duty is 15 cents per taxable debit, except in the case of accounts with cheque access where a sliding scale also applies according to the amount of the taxable debit. Holders of a Commonwealth Pensioner Concession or Health Care Card are eligible for exemptions from debits duty. Only accounts to which at least a portion of the Commonwealth payment is credited can be exempted.

Estimated Receipts for 2002-03

Debits duty receipts for 2002-03 are estimated to be $21.5 million (see Table 6.3), an increase of $0.9 million or 4.4 per cent over the Budget estimate for 2001-02.

Financial Institutions Duty

Description

The *Financial Institutions Duty Act 1986* provided for the imposition of financial institutions duty at the rate of 0.06 per cent on the taxable receipts of registered financial institutions, subject to a maximum of $1 200 for any single receipt. In accordance with the IGA, financial institutions duty ceased to apply from 1 July 2001. However, there were some receipts received in 2001-02 relating to taxable receipts prior to 1 July 2001.

Electricity Entities Levy

Description

The levy on electricity sales under the *Electricity Entities (Contributions) Act 1997* was abolished from 1 July 2001 as part of the tax relief initiatives announced in the 2001-02 Budget. This initiative has reduced electricity bills for residential, commercial and industrial consumers. Although the levy ceased to apply from 1 July 2001, there were some receipts received during 2001-02 which related to the consumption of electricity prior to 1 July 2001, but billed after that date.

Gambling Taxes

Sources of gambling revenue in Tasmania include lotteries, casinos, keno and video gaming machines in hotels and clubs, TOTE Tasmania, bookmakers and minor gaming activities.

The Tasmanian Gaming Commission, together with the Revenue, Gaming and Licensing Division of the Department of Treasury and Finance, is responsible for the supervision of gambling activities at Tasmanian casinos, gambling on board the *Spirit of Tasmania,* Keno and gaming machine operations in hotels and clubs, and minor gaming activities such as raffles and bingo. Regulation of racing is the responsibility of the Director of Racing.

From 1 July 2001, minor gaming activities that were previously regulated under the *Racing and Gaming Act 1952* were transferred to the *Gaming Control Act 1993.* In addition, lucky envelope provisions previously included in the *Stamp Duties Act 1931* were transferred to the Gaming Control Act. The Gaming Control Act provides the legislative framework within which Tasmanian casinos operate. It also covers the operation of Keno and video gaming machines, and the regulation of fixed odds wagering, sports betting, major lotteries, Internet gaming and other gaming activities which may be prescribed. The *TT-Line Gaming Act 1993* governs gaming operations aboard the *Spirit of Tasmania.*

As a result of the corporatisation of TOTE Tasmania Pty Ltd, racing tax is no longer collected. From 1 August 2000, TOTE Tasmania is instead required to make a payment to the Consolidated Fund (although the first payment has been deferred until 1 July 2003).

Casino and gaming machine tax rates were reduced from 1 July 2001 in accordance with the requirements of the IGA. The reduced tax rates replaced the tax credit system which operated under an interim arrangement from 1 July 2000. This system provided a refund to casino operators for GST paid on casino gaming and gaming machine gross profits. Other adjustments were made to lottery taxes and racing taxes for the impact of the GST. The reduction in tax was to 'make room' for the Commonwealth's GST on gambling operator's margins. The estimated loss of taxation revenue as a result of these changes is expected to be $21.5 million in 2001-02 and $22.0 million in 2002-03 (although the State is compensated for this through higher general purpose payments from the Commonwealth during the guarantee arrangements – see chapter 7 of this Budget paper). Table 6.10 disaggregates these figures into the individual gambling activities.

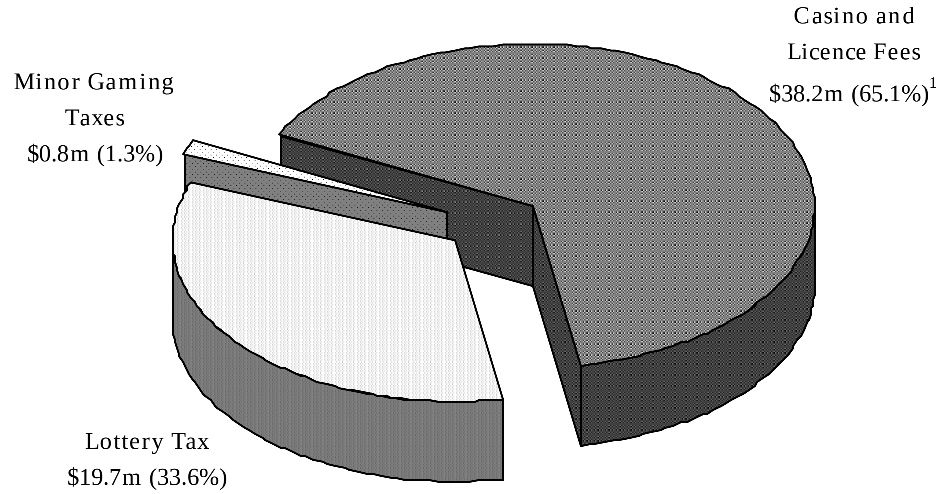
Table 6.10: Gambling Tax Revenue Foregone

	Revised Estimate[1] 2001-02	Budget 2002-03
	$m	**$m**
Racing	**3.4**	**3.4**
Lottery	**2.5**	**2.5**
Casino	**15.6**	**16.1**
Total	**21.5**	**22.0**

Note:
1. Latest estimates available are shown. For Budget to Budget comparison, see Table 7.3.

Chart 6.6 provides details of actual gambling receipts for 2000-01.

Chart 6.6: Gambling Revenue, 2000-01 - Dollar Amounts and Percentage of Total



Note:
1. Casino and licence fees includes receipts from gaming machines in hotels and clubs.

Lottery Tax

Description

Since 1960, there have been in place successive agreements between the Governments of Tasmania and Victoria regarding the sale of lottery tickets in Tasmania and the sharing of duty attributable to Tasmanian subscriptions. The arrangements under the agreement between Victoria and Tasmania have been varied from time to time. The current agreement was renewed in September 2001 to conform with the requirements of the *Public Lotteries Act 2000* (Victoria). The new agreement retains the same terms and conditions as the previous agreement.

Under the agreement, Victoria remits to Tasmania 100 per cent of the duty paid on all Tattersall's products sold in Tasmania, together with a proportionate share of unclaimed prizes. The agreement is not time limited although under the Gaming Control Act, Tattersall's is authorised to sell lottery tickets in Tasmania until 30 June 2010. All lottery tax is collected by the Victorian Government, which remits the required payment to Tasmania each month.

Tattersall's also has permission to sell tickets to a soccer football pools and an Australian Rules Football tipping competition. Tattersall's exclusive arrangements to sell lottery tickets in Tasmania ended on 31 January 2002.

Estimated Receipts for 2002-03

It is expected that revenue in relation to Tasmanian lottery and soccer pools subscriptions will be $20.5 million in 2002-03, representing an increase of $0.5 million or 0.2 per cent on the Budget estimate for 2001-02.

Minor Gaming Tax (formerly Racing and Gaming Tax)

Description

As a result of the corporatisation of TOTE Tasmania, racing tax is no longer remitted to the Consolidated Fund. Consequently, from 1 August 2000 to 1 July 2001, receipts from racing and gaming taxes only included minor gaming activities.

Minor gaming provisions previously operating under the *Racing and Gaming Act 1952* were transferred to the *Gaming Control Act 1993* from 1 July 2001 in accordance with the new tax regime. In addition, lucky envelope provisions previously included in the *Stamp Duties Act 1931* have also been transferred to the Gaming Control Act.

Estimated Receipts for 2002-03

The estimated revenue from minor gaming activities for 2002-03 is $0.4 million.

Casino Tax

Description

The *Gaming Control Act 1993* provides for the payment of licence fees by Tasmania's two casinos and a tax on the gross profit from casino operations. The tax rate for Keno and table gaming is 5.88 per cent and, for gaming machines, a sliding scale as follows:

- 15.88 per cent of annual gross profits that do not exceed $30 million;
- 20.88 per cent of annual gross profits that exceed $30 million but do not exceed $35 million; and
- 25.88 per cent of annual gross profits that exceed $35 million.

The licence fee payable by the casino operator in respect of each casino is indexed by movements in the Consumer Price Index. In 2000-01, the fees paid by the two casinos totalled $1.8 million.

A Deed of Agreement, which is a schedule to the Gaming Control Act, grants exclusive rights to Australian National Hotels Limited (ANH) to conduct casino operations and operate gaming machines in Tasmania until 31 December 2008.

The Act also provides for the payment of a community support levy, calculated at two per cent and four per cent of the gross profit derived from gaming machines in licensed clubs and hotels respectively. It is estimated that the levy will raise $2.8 million in 2001-02, which is available as follows:

- 25 per cent for the benefit of sport and recreation clubs;
- 25 per cent for the benefit of charitable organisations; and
- 50 per cent for the provision of:
  - research into gambling;
  - services for the prevention of compulsive gambling;
  - the treatment or rehabilitation of compulsive gamblers;

- community education concerning gambling; and
- other health services.

To date, two Internet gaming licences have been issued. However, the two operators have had their activities restricted by the introduction of the Commonwealth's *Interactive Gambling Act 2001*. This followed the 12 month moratorium imposed by the Commonwealth on new interactive gambling services which ended on 18 May 2001.

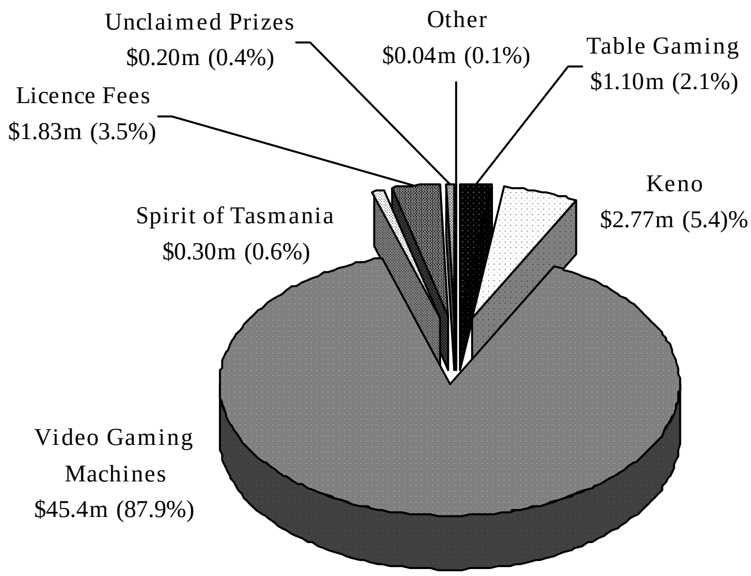
The Interactive Gambling Act prohibits interactive gambling being offered to persons located in Australia by Internet gaming operators located in Australia or overseas. In general, the ban aims to protect Australian gamblers from highly repetitive and addictive interactive betting games over the Internet. The Act allows operators to offer interactive gaming services to overseas players only, although this is subject to further conditions.

Wagering over the Internet, such as racing and sports betting, is not prohibited from being offered to persons located in Australia as the characteristics of this type of betting are not deemed under the Act to be interactive nor highly repetitive. However, micro wagering, such as a wager on the number of runs per over in a cricket match and instant lotteries (scratchies) are prohibited for this reason.

The *TT-Line Gaming Act 1993* provides for the payment of licence fees and tax on gross profits from gaming operations on board the *Spirit of Tasmania*. The Act also provides for the Treasurer to enter into an agreement for revenue sharing arrangements in respect of the tax on gaming operations aboard the *Spirit of Tasmania*. Under the agreement 25 per cent of the tax received is paid to the Victorian Government in order to ensure gaming operations continue when the ship is in Victorian waters.

Chart 6.7 details the components of total casino revenue for 2000-01.

Chart 6.7: Casino Receipts, 2000-01[1] - Dollar Amounts and Percentage of Total



Note:

1. The amounts shown are the gross tax liability for each component. Under the interim tax credit system that operated during 2000-01, a total of $13.4 million was claimed back off the total of the sum of the components shown in the chart by Casino operators.

Estimated Receipts for 2002-03

Taxation revenue from casino operations for 2002-03 is estimated to be $47.0 million, representing an increase of $2.9 million or 6.5 per cent above the 2001-02 Budget estimate. The expected increase in casino tax revenue is primarily due to increased receipts from video gaming machines due to the increases in the allowable number of machines in venues which is provided for under the 1993 Deed of Agreement between the Crown and ANH.

Sundry Licences

Sundry licences include revenue from minor licences, primarily from those issued under the *Commercial and Inquiry Agents Act 1974* and the *Firearms Act 1996*.

Budgeted revenue receipts for 2001-02 are expected to be $30 000. The same amount is expected to be collected in 2002-03.

Petroleum and Liquor Subsidies

Description

For 2001-02, the following subsidies were provided:

- 15 per cent of the pre-tax wholesale value of Tasmanian wine cellar door sales;
- 15 per cent of the pre-tax wholesale value of Tasmanian produced cider with an alcoholic content not exceeding 6.5 per cent;
- 13 per cent of the pre-tax wholesale value of 'low alcohol' beer, with an alcoholic content not exceeding 3.5 per cent;
- 1.95 cents per litre (cpl) for petrol; and
- 1.99 cpl for on-road diesel.

The subsidy for low alcohol beer will be replaced from 1 July 2002 with the commencement of the national excise concession scheme for this product. The Commonwealth will administer the scheme and the State will make a financial contribution commensurate with its current subsidy. For 2002-03, this will be $1.7 million. See Chapter 7 of this Budget Paper from more information in this regard.

The aggregate cost of providing these subsidies in 2002-03 is expected to be $14.5 million.

MAJOR LEGISLATIVE AND OTHER CHANGES

A summary of legislative and other changes made during 2001-02 and tax reforms relating to specific taxes is provided in this section.

Duties Amendment Act 2001

The *Duties Amendment Act 2001* received Royal Assent on 17 December 2001. This Act introduced a number of minor amendments to the *Duties Act 2001*, most of which were of a clarifying nature. However, the following dutiable transactions became exempt from duty:

- transfers of matrimonial property pursuant to "financial agreements" made under sections 90B, 90C and 90D of the Commonwealth Family Law Act;
- margin lending schemes; and
- securitisation structures (mortgage backed and loan backed securities).

A change was also made to the assessment of duty on the registration of a new motor vehicle that attracts a fleet discount.

Taxation Law (Miscellaneous Amendments) Bill 2002

The *Taxation Law (Miscellaneous Amendments) Bill 2002* contains a number of minor amendments to the *Land Tax Act 2000* and the *Taxation Administration Act 1997*. The amendments are generally of a clarifying nature to ensure that the legislation coincides with the original policy intent and existing practice. The amendments do not have a detrimental impact on taxpayers.

Revenue Legislation (Miscellaneous Amendments) Bill 2002

The *Revenue Legislation (Miscellaneous Amendments) Bill 2002* is to be introduced into the Budget session of Parliament to give effect to the tax relief measures announced in this Budget. Specifically, the Bill will provide for an Act to amend the *Duties Act 2001* to abolish duty on leases, non-quoted marketable securities, public liability insurance premiums, hire of goods and a range of miscellaneous duties. In addition, changes will be made to the tax scale in the *Land Tax Rating Act 2000*, along with an amendment to the *Land Tax Act 2000* to implement the rebate for home owners in transitional circumstances who attract a land tax liability.

Other Changes

In addition to the above legislative changes, the imposition of Commonwealth mirror taxes was completed in February 2002 with the signing of an agreement between the Commonwealth and the State.

The agreement puts into operation mirror tax legislation implemented by the Commonwealth following the High Court decision in 1996, in the case of *Alders International Pty Ltd vs Commissioner of State Revenue*, which determined that state taxes could not be imposed on businesses operating on Commonwealth places. The legislation essentially mirrors state taxes which are applied to businesses on Commonwealth places. The revenue is collected by the State on behalf of the Commonwealth. However, the agreement reached between the Commonwealth and the State results in the State retaining all the revenue. As a result, businesses will be treated equally whether they are located on Commonwealth land or not. For 2002-03, the amount of revenue collected on behalf of the Commonwealth is estimated to be $3.3 million.

7 COMMONWEALTH-STATE FINANCIAL ARRANGEMENTS

Features

- Commonwealth payments to Tasmania in 2002-03 will total $1 766.5 million.
- In 2002-03, Tasmania's share of Goods and Services Tax (GST) revenue of $1 199.5 million will again be insufficient to meet the Commonwealth's commitment under the *Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations* (IGA) that Tasmania will be no worse-off under these new arrangements than under pre-IGA arrangements.
- Under the terms of the IGA, the Commonwealth will therefore again be required to provide Budget Balancing Assistance to Tasmania. In 2002-03, this assistance is estimated to be $52.7 million.
- In 2002-03 Specific Purpose Payments (SPPs), including the Health Care Grant, are expected to total $496.9 million.
- Three major SPP agreements, the Commonwealth-State Housing Agreement, Commonwealth-State Disability Agreement and Australian Health Care Agreement are required to be renegotiated with the Commonwealth prior to 1 July 2003. The successful renegotiation of these agreements with the Commonwealth is vital to the sustainable provision of a range of ongoing services to the Tasmanian community.

INTRODUCTION

Commonwealth payments to the states and territories (states) are a vital source of revenue for all jurisdictions. These payments are required to address the imbalance between the revenue raising powers and functional responsibilities of Commonwealth and state governments. In 2000-01, the Commonwealth raised 72 per cent of total (General Government) revenue but had direct responsibility for approximately 57 per cent of total General Government outlays. As a result of the reforms implemented, from 1 July 2000, under the *Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations* (IGA), the level of this imbalance has increased further from the level which existed prior to the implementation of the IGA.

In 2002-03, it is expected that Commonwealth payments to Tasmania through the Consolidated Fund will comprise 68 per cent of total Consolidated Fund receipts.

There are many different factors which influence the level of payments made by the Commonwealth to Tasmania and the other jurisdictions. Foremost amongst these factors are the provisions of the IGA, the level of funds Tasmania would have received under pre-IGA arrangements, action taken by the Commonwealth in relation to the IGA (such as its recent decision to cease indexation in relation to Petroleum Revenue Replacement Payments foregone) and the determinations of the Commonwealth Grants Commission (CGC).

The purpose of this Chapter is to provide information on the following:

- the importance of Commonwealth payments to the State Budget;
- current major issues in Commonwealth-State financial arrangements; and
- the magnitude and nature of Commonwealth payments to Tasmania for 2002-03.

Background information is also provided in the appendixes to this Chapter on why Commonwealth payments to the states are essential and the role of the CGC.

SUMMARY OF COMMONWEALTH PAYMENTS

The following table provides a summary of the estimated magnitude and nature of Commonwealth payments to be received by Tasmania in 2002-03.

Table 7.1: Summary of Commonwealth Payments, 2002-03

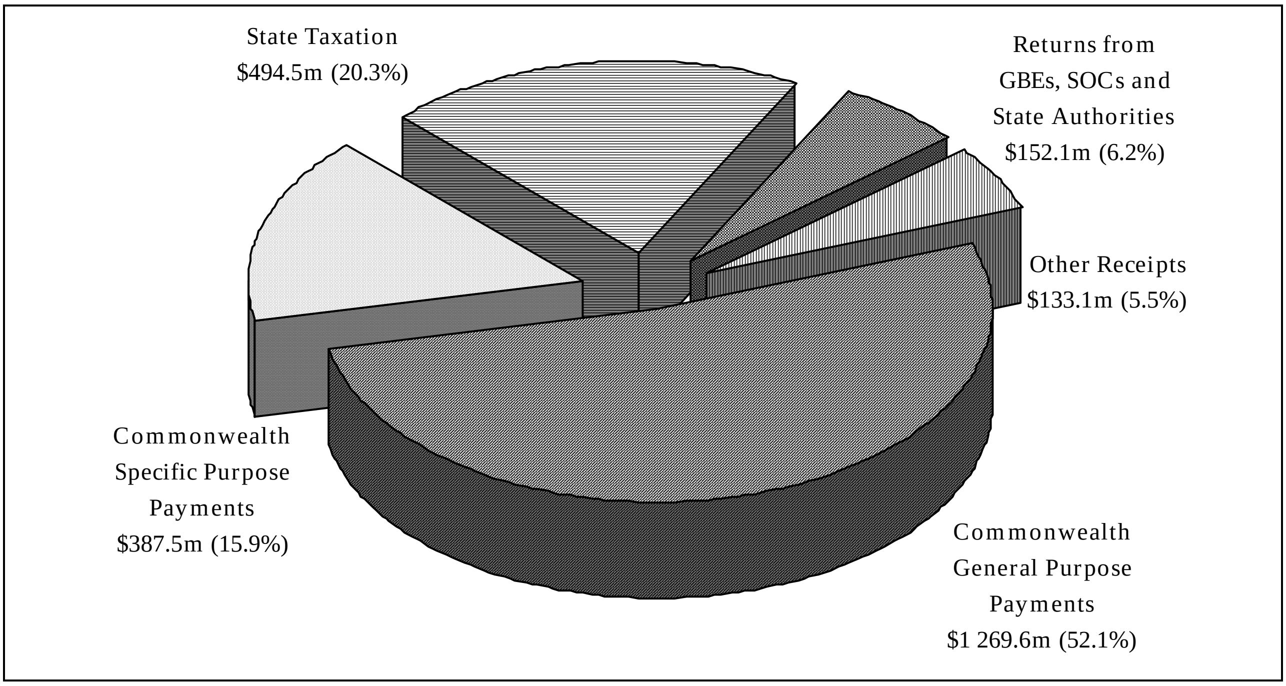
	2001-02 Budget	2002-03 Budget
	$m	**$m**
General Purpose Payments (GPPs)		
GST Revenue	**1107.6**	**1199.5**
Budget Balancing Assistance	**53.1**	**52.7**
Total GPPs (Equivalent to the Guaranteed Minimum Amount)	**1160.7**	**1252.2**
Other Commonwealth Payments to Tasmania		
Competition Payments	**17.2**	**17.4**
Specific Purpose Payments	**357.9**	**343.5**
Health Care Grant	**145.6**	**153.4**
Total Other	**520.7**	**514.3**
Total Commonwealth Payments to Tasmania	**1681.4**	**1766.5**

Source: *Commonwealth Statements of Estimated Payments* March 2001 and March 2002 Treasurers' Conferences.

The table above shows that Tasmania's share of the GST pool of revenue now comprises approximately 68 per cent of total Commonwealth payments to Tasmania. The second largest individual source of Commonwealth payments to Tasmania is the Health Care Grant which comprises 8.7 per cent of total Commonwealth payments estimated to be received in 2002-03. Total payments from the Commonwealth for 2002-03 are estimated to increase by 5.1 per cent on the 2001-02 level. Reasons for this increase and further information on the calculation of the various Commonwealth payment amounts is provided later in this Chapter.

Chart 7.1 highlights the significance of Commonwealth payments to the State Budget. In 2002-03, it is estimated that total Commonwealth payments through the Consolidated Fund will comprise approximately 68 per cent of total Consolidated Fund receipts. This is more than three times the level of funding which the State generates from its own taxation revenue sources.

Chart 7.1: Commonwealth Payments as a Proportion of Total Consolidated Fund Receipts, 2002-03[1]



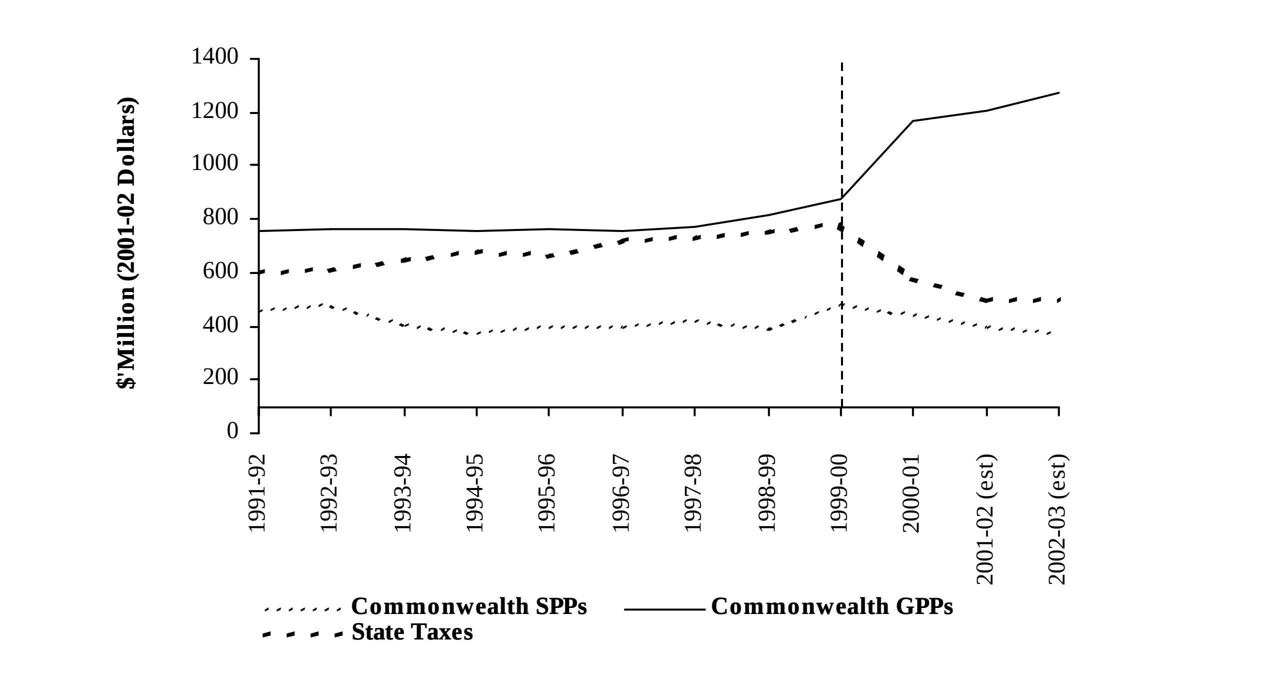
Note:

5. The figure for Commonwealth payments detailed in the above chart varies from the figures included in Table 7.1 above due to the fact that not all Commonwealth payments are paid into the Consolidated Fund. Further information on this issue is provided later in this Chapter.

Chart 7.2 summarises the major trends which have occurred in Commonwealth payments to Tasmania over the past decade. Major points to be made in relation to Chart 7.2 are:

- in aggregate, the trend in total Commonwealth payments has been one of gradual increase over time;
- a major change in the composition of Commonwealth payments occurred from 2000-01 as a result of the implementation of the IGA. This change saw a significant increase in the level of GPPs;
- the trend in State tax receipts has been included in the chart to emphasise the fact that, while GPPs increased as a consequence of the IGA, this increase has been offset by related decreases in State taxes which were required under the IGA. In addition, the increase in GPPs also offset significantly increased expenditure required of the State under the national tax reform arrangements; and
- when both Commonwealth payments and State tax receipts are taken into account, total receipts to Tasmania from these sources have changed little under the IGA arrangements.

Chart 7.2: Major Sources of Budget Revenue (Real Terms)



Sources: *Commonwealth Budget Paper Number 3* (numerous years); *Commonwealth Statement of Estimated Payments,* March 2002 Treasurers' Conference; Department of Treasury and Finance, Tasmanian Budget Paper No 1 *Budget Overview* (numerous years).

MAJOR ISSUES IN COMMONWEALTH-STATE FINANCIAL RELATIONS

The following sections highlight a number of major issues which currently exist in the area of Commonwealth-State financial relations.

Commonwealth Grants Commission's 2002 Update Report

As with its 2001 Report, the Commonwealth Grants Commission's (CGC) 2002 Update Report provides information on GST and Financial Assistance Grant (FAG) relativities.

In 2002-03, based on available information, the level of general purpose funding to all states will be determined by the GMA.

As a result, the FAG relativity will again have the greatest impact on overall funding in determining the level of FAGs foregone by each state in the calculation of the GMA. The GST relativity will determine the mix of GST revenue and Budget Balancing Assistance (BBA) received by each state to make up the GMA.

In relation to Tasmania's FAG relativity for 2002-03, the CGC has calculated that this has increased from the level calculated for 2001-02. This change in the FAG relativity for Tasmania, together with the change in Tasmania's population share, will result in an increase in Tasmania's share of FAG revenue foregone by $31.9 million in 2002-03.

The CGC identified Tasmania's fall in its relative revenue raising capacity as the major cause for the increase in the State's relativity. The reason for the fall was the substantial increases in revenue capacity in the larger states, particularly New South Wales and Victoria. This increase occurred across many state taxes. Other factors impacting on the calculation of Tasmania's FAG relativity include changes in the treatment of some SPPs and a change in the determination of the superannuation standard. The CGC also identified that Tasmania incurred increases in service delivery costs. However, these increases were offset by the Commission's assessment of below average wage increases in the State.

Impact of the Intergovernmental Agreement on Commonwealth Payments

Background

Under the IGA signed by the States and the Commonwealth in June 1999, all parties agreed to a range of important commitments. These commitments are outlined in detail on pages 157 and 158 of Budget Paper No 1 *Budget Overview 2001-02*.

The most significant commitment provided by the Commonwealth under the IGA was the guarantee that the budgetary position of each individual state would be no worse off under the new arrangements than it would have been had the reforms not been implemented. This commitment was a clear recognition of the fact that it would be some years before the magnitude of receipts generated by the GST would be equal to or exceed the level of Commonwealth payments to the states prior to the implementation of the reforms on 1 July 2000, together with the State tax revenues required to be foregone and the increased expenditures required to be incurred under the IGA arrangements. In the years until GST revenues are sufficient to cover the states' IGA commitments, Commonwealth payments are to be determined by the calculation of a GMA and the making of BBA payments to the states to 'top-up' the GST revenue during this period.

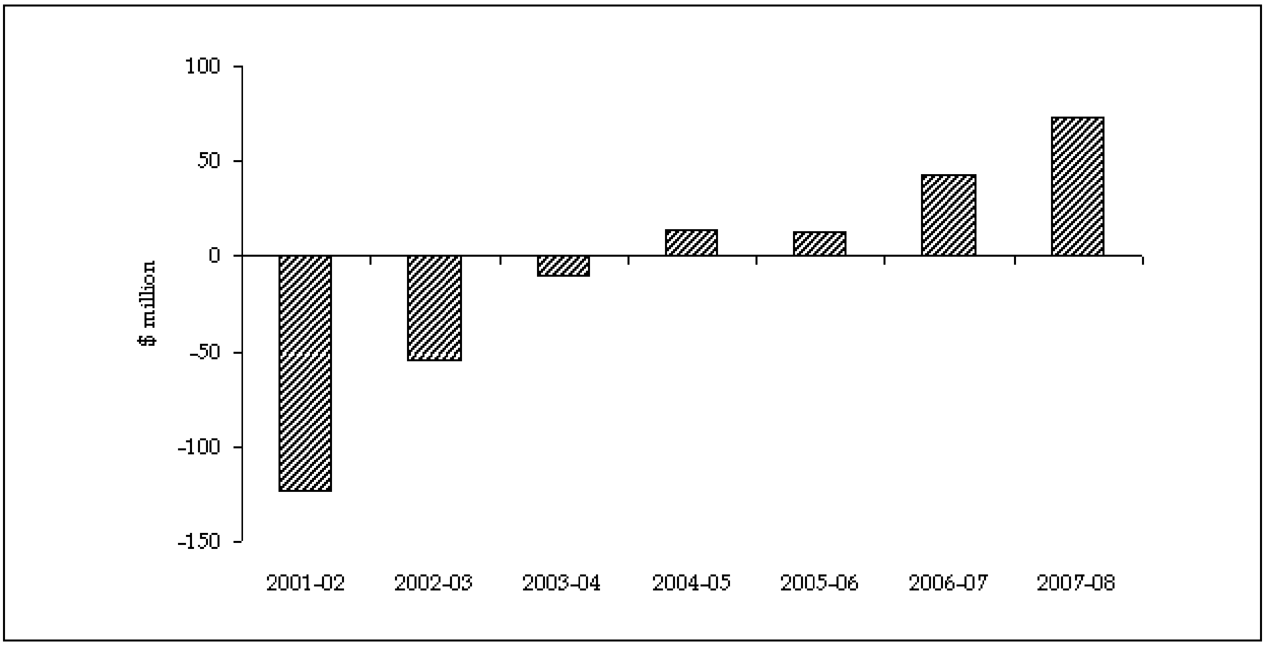
Impact of IGA Changes on Commonwealth Payments to Tasmania

Due to the nature of the commitments included in the IGA and the level of revenue generated by the GST, Tasmania has not yet financially benefited from the revised Commonwealth-State financial arrangements. Furthermore, Tasmania is not currently expected to receive any significant financial benefit from these arrangements until 2006-07, some six years after the implementation of the IGA. This fact is graphically demonstrated by Chart 7.3 below.

Chart 7.3 shows that, based on current estimates, Tasmania may marginally benefit from the implementation of the IGA in 2004-05 with a slight reduction in this estimated benefit in 2005-06. It is emphasised that these are estimates only and relatively small changes in a number of factors, including calculated GST relativities, the level of GST revenues and the basis for the calculation of the GMA, could result in the need for BBA payments in these years. In regard to the last of these factors, it is noted that the Commonwealth's action in unilaterally altering the methodology for the determination of the GMA at the March 2002 Treasurers' Conference by changing indexation arrangements for calculating petrol revenue replacement payments foregone has had the impact of reducing Tasmania's GMA. This has in turn resulted in a reduction in the amount of any BBA previously calculated as being required in 2002-03 and subsequent years.

It is only from 2006-07 that Tasmania's share of GST revenue is estimated to be sufficient to have a degree of confidence that the State will be better off in that year than under pre-IGA arrangements.

Chart 7.3 Estimated Impact of the IGA on Tasmania in the Absence of BBA, 2001-02 to 2007-08



Source: Treasurers' Conference, Commonwealth Treasurer's Press Release March 2002.

Table 7.2 provides indicative forward estimates of when each state is expected to be out of the 'guarantee period' and no longer in need of BBA payments. The level of Commonwealth funds for states will then be determined by their share of GST revenue, rather than the GMAs. These estimates were provided by the Commonwealth at the March 2002 Treasurers' Conference.

Table 7.2: Year when States are out of the Guarantee Period

State/Territory	Year Out of Guarantee Period
Queensland	**2003-04**
Northern Territory	**2004-05**
Western Australia	**2004-05**
Tasmania	**2004-05**
Australian Capital Territory	**2005-06**
South Australia	**2005-06**
New South Wales	**2006-07**
Victoria	**2007-08**

Source: Treasurers' Conference, Commonwealth Treasurer's Press Release, March 2002.

A significant implication of the information detailed above is that, during the guarantee period, any increase in the level of GST revenue collected by the Commonwealth will not result in the provision of additional funding to the states. Instead, it will purely reduce the level of BBA payments required to be made by the Commonwealth to the states to ensure that they are not financially disadvantaged.

2002 Treasurers' Conference

The IGA established the Treasurers' Conference comprising the Commonwealth Treasurer and the Treasurers of the states and territories.

The major functions of the Treasurers' Conference are to:

- oversight the operation of the GST;
- oversight and coordinate the implementation of the IGA;
- discuss the CGC recommendations prior to the Commonwealth Treasurer making a determination; and
- make recommendations to the Commonwealth Treasurer on the GMA applying to each state under the transitional arrangements.

The Treasurers' Conference last met on 22 March 2002. At this meeting a number of important issues arose and these are outlined in detail below.

Commonwealth Decision in Relation to the Treatment of Petrol Revenue Replacement Payments Foregone

At the 2002 Treasurers' Conference the Commonwealth advised that future payments of BBAs to the states would be based on a methodology different to that previously agreed by the Commonwealth and the states and included in the IGA. The changed methodology relates to the indexation arrangements for calculating petrol revenue replacement payments foregone.

All states were of the view that the changed methodology adopted by the Commonwealth clearly breached the IGA (i.e. that no state would be worse off as a result of the implementation of the new funding arrangements). Tasmania will be vigilant in pursuing this and other issues relating to the Commonwealth's interpretation of the provisions of the IGA.

Australian Taxation Office Performance Agreement

An important element of the IGA is the establishment of accountability and performance arrangements between the Australian Taxation Office (ATO), which is administering and collecting the GST, and the states. Under the terms of the IGA, these arrangements are required to be included in a Performance Agreement to be finalised by June 2002. It was intended that this Agreement establish the working relationships between the ATO and the states, the resources to be made available to the ATO to administer the GST and the expectations of the states in relation to the ATO's services.

A draft of the proposed Performance Agreement was presented to the March 2002 Treasurers' Conference for consideration by its members. Following discussions, all jurisdictions agreed to sign the proposed ATO Performance Agreement and the Agreement will be implemented from 1 July 2002.

National Excise Concession Scheme for Low Alcohol Beer

A national excise concession scheme was proposed by the Commonwealth Treasurer in correspondence to state Treasurers dated 22 December 2000. All Treasurers agreed, at the March 2001 Treasurers' Conference, to Treasury officials participating in a working party to develop arrangements for such a scheme. A proposal for the establishment of a national excise concession scheme for low alcohol beer was presented to the 2002 Conference and subsequently endorsed by participants.

The major elements of the new national scheme are:

- the national scheme will be limited to beer;
- a concession for beer with a 3.0 per cent alcohol / volume content or less;
- a rate of concession of 12 per cent; and
- the scheme will commence on 1 July 2002.

The main benefits of the new national scheme are that:

- it will replace the existing eight different subsidy arrangements with a single consistent national scheme; and
- it will be administratively simpler than current arrangements, which will lead to benefits both for industry as well as the states.

The states will make a financial contribution to the national scheme which is commensurate with the current level of state subsidies and the Commonwealth will fund the shortfall. The scheme is estimated to cost around $68 million nationally in 2002-03.

Commonwealth Grants Commission 2004 Major Review

Every five years, the CGC undertakes a review of the methodology it uses to assess the relative needs of each state. The most recent major CGC Review was completed in 1999 and the current Review is to be completed by 2004. The methodology determined through the 2004 Review will be used by the CGC for the following five years to determine states' needs and ultimately the level of Commonwealth payments to be received by Tasmania.

During the Review process, states are given the opportunity to put forward views on:

- the disabilities faced by states in the delivery of services and the collection of revenue;
- the appropriate methodology to measure those disabilities; and
- issues and proposals from other states.

Tasmania provided its major review submission to the CGC in early May 2002. Workplace discussions, which involve the members of the CGC visiting Tasmania and inspecting various facilities and services, will be held in August 2002.

Major Specific Purpose Payment Issues

As indicated earlier in this Chapter, Specific Purpose Payments (SPPs) made by the Commonwealth are a significant source of funds for Tasmania. Detailed information on SPPs is provided later in this Chapter. This section highlights some major issues currently existing in relation to SPPs.

Renegotiation of Three Major SPPs

Three major SPP agreements are due to expire by 30 June 2003 and, as such, require renegotiation with the Commonwealth. These agreements are:

- the Australian Health Care Agreement (AHCA), which expires on 30 June 2003. The AHCA governs the provision of approximately $153 million in Commonwealth payments provided in the form of the Health Care Grant. Funding provided under this agreement primarily facilitates the provision of hospital services;
- the Commonwealth-State Disability Agreement (CSDA), which expires on 30 June 2002. The CSDA facilitated the provision of almost $18 million in payments from the Commonwealth to Tasmania in 2001-02, and represents a national framework for the provision of specialist disability services in Australia; and
- the Commonwealth-State Housing Agreement (CSHA), which expires on 30 June 2003. Commonwealth funding provided under the CSHA to Tasmania totals approximately $24 million per annum and is provided to assist with meeting the cost of the provision of low cost housing to the community.

The renegotiation of each of these agreements requires the resolution of a number of important general issues such as the level of funding to be provided by the Commonwealth, the level of any matching state funding requirements, the nature and level of services to be provided under the agreements and required performance information. Each agreement also clearly requires the resolution of specific issues. For example, in relation to the CSDA, recent indications have been that the Commonwealth will be withdrawing from commitments previously made in relation to the provision of funding to assist in addressing unmet need which exists in the disabilities sector. If the Commonwealth does take such action, it will have significant implications for the funding of disability services in Tasmania.

Cabinet Guidelines for Negotiating Commonwealth-State Agreements

In the 2001-02 Budget Papers, it was noted that a working group of Commonwealth and state officials had developed a set of best practice principles designed to provide practical advice to officers in all jurisdictions on the desirable features of SPP agreements.

To complement these principles, Cabinet has now endorsed a set of guidelines for the negotiation of Commonwealth-State agreements. The aim of these guidelines is to:

- establish a process which will maximise information flows and facilitate cooperation across agencies when negotiating new agreements or variations to existing agreements;
- ensure consistent statements and negotiating positions are adopted in relation to negotiations;
- ensure that all relevant issues are taken into account in any negotiation process; and
- improve the outcomes for Tasmania from Commonwealth-State agreements.

A copy of these Cabinet Guidelines and the Best Practice Principles have been distributed to all agencies for use by those officers involved in negotiation of Commonwealth agreements.

Monitoring of Commonwealth SPP Commitments

The terms of the IGA include the commitment that 'The Commonwealth will continue to provide Specific Purpose Payments (SPPs) to the States and Territories and has no intention of cutting aggregate SPPs as part of the reform process set out in this Agreement, consistent with the objective of the State and Territory Governments being financially better off under the new arrangements.'

This commitment, provided by the Commonwealth in relation to the maintenance of the level of aggregate SPP payments to the states, was a crucial factor in reaching agreement on the IGA. It was included in the IGA to address the concern held by the states that, when the states ultimately started to benefit from the increase in GST revenue, the Commonwealth would use this situation as an opportunity to reduce its funding contribution to state services which are the subject of SPP agreements.

In the light of the importance of this issue to the states, the states have established a monitoring process to assess whether the Commonwealth is meeting its commitment in relation to the level of SPPs. While the Commonwealth has refused to endorse these monitoring arrangements, the monitoring has shown that it has met its commitments in relation to 2000-01 and, based on its 2001-02 Mid-Year Economic and Fiscal Outlook, is expected to meet its commitments in relation to 2001-02 and 2002-03.

The Commonwealth commitment in relation to SPPs has been assessed by comparing the level of SPPs made in 2000-01, and estimated to be made in 2001-02 and 2002-03, with the level that would have been necessary to maintain the level of SPPs in 1999-00 in real per capita terms. While this comparison shows that Commonwealth funding of SPPs has been maintained in real per capita terms compared with 1999-00, there is estimated to be a reduction, in real per capita terms, in the level of payments in 2002-03 compared with 2001-02.

Notwithstanding the results of the SPP monitoring undertaken to date, the ongoing importance of this monitoring is emphasised by continued suggestions from Commonwealth agencies that consideration is being given to reducing funding provided under SPP agreements on the basis that states have access to additional revenue through the GST. This notion is totally contrary to the spirit and letter of the IGA commitment in relation to SPPs. The IGA, unlike other agreements, is enshrined in Commonwealth legislation and Tasmania will be constantly vigilant in keeping the Commonwealth to its commitment in the IGA not to cut the aggregate level of SPPs as part of the reform process.

COMMONWEALTH PAYMENTS – DETAILED INFORMATION

The following sections provide detailed information on Commonwealth payments to Tasmania and the estimated level of those payments in 2002-03. The different sources of Commonwealth payments identified are:

- General Purpose Payments (GPPs);
- Competition Payments;
- the Health Care Grant (HCG); and
- Specific Purpose Payments (SPPs).

General Purpose Payments

Description

GPPs can be applied at the State's discretion, whereas SPPs must be spent in accordance with purposes agreed between the Commonwealth and the State (or as prescribed by the Commonwealth). Prior to the IGA (i.e. prior to 1 July 2000), the largest component of Commonwealth payments and GPPs was the FAG. However, since the implementation of the IGA, FAGs and a number of other revenue items have been replaced by Tasmania's share of GST revenue and BBA, both of which are also classified as GPPs.

Tasmania's share of the GST revenue is equal to its weighted population share of the national population. State populations are weighted by per capita relativity factors. The relativity factors are recommended by the CGC, which calculates them in accordance with the principle of HFE. The principle of HFE, the CGC, and its most recent recommendations are discussed in the appendixes to this Chapter.

The amount of BBA required in any financial year is determined by calculating the GMA. The GMA is the sum of:

- revenue foregone by a state;
- additional expenditure responsibilities incurred as a result of the reforms agreed to under the IGA; and
- savings in expenditure and increased receipts as a result of national tax changes.

The difference between the GMA and the state's share of GST revenue is the amount of BBA which is to be paid to that state.

Other grants classified as GPPs in this document are Competition Payments. It should also be noted that the HCG, by convention, is identified as an SPP in Commonwealth and State Budget Papers, but it is applied as if it were general purpose funding because of its link with the GST revenue distribution. There are no general purpose capital grant programs currently in place.

Calculation of the GMA

Table 7.3 provides details of the amounts used to calculate the GMA for Tasmania, in 2001-02 and 2002-03.

Table 7.3: Guaranteed Minimum Amount - Tasmania, 2001-02 and 2002-03

	2001-02 Budget	2002-03 Budget
	$m	$m
State Revenue Foregone		
Financial Assistance Grants	884.6	963.9
Revenue Replacement Payments[1]	209.2	210.7
Reduced Gambling Taxes	23.0	22.0
Financial Institutions Duty	21.1	23.6
Stamp Duty on Marketable Securities	0.7	0.7
Wholesale Sales Tax Equivalent Payments	13.0	13.0
	1151.4	1233.9
Plus Taxation Needs Adjustment[2]		
Relating to Marketable Securities	1.8	2.4
	1.8	2.4
Plus Additional State Expenditures		
First Home Owners Scheme	12.0	21.2
GST Administration	12.5	13.4
Interest Costs	0.5	0.6
	25.0	35.2
Less Expected Savings to State Governments		
Off-road Diesel Subsidies	(2.2)	(2.2)
Tax Reform Savings	(13.0)	(13.9)
	(15.2)	(16.1)
Less Growth Dividend		
Relating to Remaining State Taxes	(2.3)	(3.2)
	(2.3)	(3.2)
Guaranteed Minimum Amount	1160.7	1252.2

Source: Budget Paper No 1 *Budget Overview 2001-02*, *Commonwealth Statement of Estimated Payments*, March 2002 Treasurers' Conference.

Notes:

1. Adjusted for subsequent 2002 Treasurers' Conference agreement on the treatment of low alcohol beer subsidies.
2. The Commonwealth agreed to provide states with the additional funds associated with the CGC needs assessment of Stamp Duty on Marketable Securities. As the duty has been abolished, the CGC no longer makes an assessment of each state's capacity to raise taxation revenue through this source.

Reconciliation of the Increase in the GMA for Tasmania

Table 7.4 provides a reconciliation of the estimated GPPs from the Commonwealth to Tasmania between 2001-02 and 2002-03.

Table 7.4: Reconciliation of the Guaranteed Minimum Amount from 2001-02 to 2002-03

		Amount
	$m	**$m**
GMA 2001-02 – Budget Estimate		**1160.7**
Plus Changes in FAGs and HCGs		
Reduction due to population share decline	**(7.0)**	
Increase due to increase in relativity factor	**38.9**	
Increases due to national indexation and population adjustment	**47.4**	
		79.3
Plus increase in State revenue foregone		
Safety net payments	**1.6**	
Financial institutions duty	**2.6**	
Gambling taxes	**(1.0)**	
Stamp duty on marketable securities (including needs adjustment)	**0.6**	
		3.8
Plus changes in costs incurred		
Increased interest costs	**0.1**	
Increased First Home Owners Scheme expenditure	**9.2**	
Increased GST administration costs	**0.9**	
		10.2
Less changes in expected savings which are clawed back by the Commonwealth		
Increased savings from tax reform	**(0.9)**	
		(0.9)
Less the accelerated growth of remaining state taxes which are clawed back by the Commonwealth	**(0.9)**	
		(0.9)
GMA 2002-03		**1252.2**

Sources: Budget Paper No 1 *Budget Overview 2001-02*; *Commonwealth Statement of Estimated Payments,* March 2002 Treasurers' Conference; *Report on General Revenue Grant Relativities 2002 Update*, Commonwealth Grants Commission; Department of Treasury and Finance.

It is estimated that the GMA for Tasmania for 2002-03 will be $1 252.2 million. The major factor in the GMA is the level of FAGs revenue foregone by the State. The level of FAGs is determined by the size of the national pool (which is indexed in real per capita terms), Tasmania's population share and its FAG relativity. While the Commonwealth's estimate of Tasmania's population share declined for 2002-03, the State's FAG relativity increased from 1.68695 for 2001-02 to 1.75186 for 2002-03. The combined effect has meant that Tasmania's share of the FAG / HCG pool has increased from 4.06 per cent to 4.19 per cent. This increased share, when applied to the increased pool of FAG / HCGs, accounts for $79.3 million or 87 per cent of the increase in the GMA. The other significant factor in the increase in the GMA is the increased expenditure of $9.2 million associated with the First Home Owners Scheme.

Total General Purpose Payments (Excluding Competition Payments)

For 2002-03, it is estimated that Tasmania's share of the GST revenue pool will be less than the GMA. The level of Commonwealth funding to Tasmania in 2002-03 will therefore be determined by the GMA and not the GST revenue.

Table 7.5 provides an estimate of the amount to be received by Tasmania in 2002-03, in respect of GST revenue and the BBA payment.

Table 7.5: Total Estimated General Purpose Payments (Excluding Competition Payments), 2001-02 and 2002-03

	2001-02 Budget $m	2002-03 Budget $m
GST Revenue	**1107.6**	**1199.5**
Budget Balancing Assistance	**53.1**	**52.7**
Total GPPs (excluding Competition Payments)	**1160.7**	**1252.2**

Sources: Budget Paper No 1 *Budget Overview 2001-02*; *Commonwealth Statement of Estimated Payments,* March 2002 Treasurers' Conference.

Competition Payments

The *Agreement to Implement the National Competition Policy and Related Reforms* signed by the Commonwealth and all states in 1995 provides for the states to receive general revenue grants from the Commonwealth which reflect a share of the expected revenue gains to the Commonwealth arising from states' implementation of the National Competition Policy reform agenda. The Commonwealth acknowledged that the benefits to the states from the expanded economic activity arising from economic reform would, as a result of the states' limited own-source revenue measures, not otherwise be fully available to them. It is these circumstances which gave rise to competition payments, rather than compensation for complying with the process requirements of the NCP. These competition payments are being made in three tranches according to a schedule agreed between the Commonwealth and the states at the 1995 Premiers' Conference.

The National Competition Council (NCC) has been charged with the task of assessing the compliance by each state with the conditions governing the making of competition payments. Tasmania received the 1997-98 component of the first tranche payment in June 1997, totalling $12.3 million including FAG payments. By June 1999, the State received the 1998-99 component of Tasmania's first tranche assessment which comprised $5.4 million in competition payments and $14.6 million in FAG payments.

Tasmania has received all of its competition payments to date with second tranche payments of $10.8 million received in 1999-00 and $11.2 million in 2000-01. For 2000-01, this component did not include a FAG payment as these payments were abolished under the IGA arrangements and replaced by the allocation of GST revenues. Tasmania has been advised that it will receive around $17.4 million in 2001-02 and subsequent years for third tranche payments.

Table 7.6: Competition Payments

Year	National Total	Tasmanian Share[1,2]
	$m	$m
1997-98 actual	**213.0**	**5.4**
1998-99 actual	**216.1**	**5.4**
1999-00 actual	**439.2**	**10.8**
2000-01 actual	**448.0**	**11.2**
2001-02 estimate	**733.3**	**17.4**
2002-03	**731.2**	**17.4**
2003-04	**731.2**	**17.4**
2004-05	**731.2**	**17.4**
2005-06	**731.2**	**17.4**
2006-07	**731.2**	**17.4**

Source: *Commonwealth Statement of Estimated Payments,* March 2002
Notes:
1. Based on the following assumptions: a continuation of current state population shares and the achievement of NCP targets.
2. Pre 2001-02 amounts are in nominal terms. Other amounts are in 2002-03 prices.

Health Care Grant

The Australian Health Care Agreements (AHCAs) provide for HCGs to be paid to states for the five years ending 2002-03. The HCG is the single largest Commonwealth payment to the states after GST revenue.

The AHCA funding consists of three main elements:

- a base grant to assist states in providing the full range of hospital services and to assist with public hospital quality improvement and the provision of palliative care;
- payments to assist with implementing the National Mental Health Strategy; and
- a grant from the National Health Development Fund (NHDF) to help finance significant health system restructuring (as agreed between Tasmania and the Commonwealth) as one means of improving the performance of the system. The amount of the grant for 2002-03 is not known at this stage as it is dependant upon the approval of specific projects.

It is important to note that, apart from the mental health and NHDF components, the HCG is not specifically earmarked for expenditure on hospitals and there are no matching funding obligations, although all states are required to provide free public hospital services under the AHCA.

Table 7.7 provides details of the estimated HCG payments for 2001-02 and 2002-03.

Table 7.7: Health Care Grant – Tasmania, 2001-02 and 2002-03

Components	2001-02 Budget	2002-03 Budget
	$m	$m
Base Grant	**144.3**	**152.1**
Other Payments	**1.3**	**1.3**
TOTAL	**145.6**	**153.4**
Real terms percentage change (2002-03 over 2001-02)		**2.7%**

Sources: *Commonwealth Statement of Estimated Payments*, March 2002 Treasurers' Conference; Estimates provided by the Department of Health and Human Services.

Specific Purpose Payments

Description

SPPs are grants provided for specific purposes, either agreed between the state and the Commonwealth, or as prescribed by the Commonwealth.

SPPs are usually determined through the Commonwealth Budget. Recurrent SPPs normally result from specific fixed term funding agreements, usually of three or five years duration. Often the State has to commit to matching these grants dollar for dollar in order to receive the funds made available. Conditions such as this reduce the State's control over its own budget priorities by limiting discretion as to how its financial resources can be applied. Consequently, all states are continually looking to remove such conditions from new or renegotiated inter-government agreements.

The largest SPPs are for public hospitals (the HCG which was discussed separately earlier in this section), roads, housing and education. Other SPPs such as the Home and Community Care (HACC), Supported Accommodation Assistance (SAAP) and Disability Services programs also constitute substantial tied funding.

As discussed earlier in this Chapter, the Commonwealth has guaranteed that funding for SPPs will not be reduced as a result of the reform of Commonwealth-State financial arrangements. This guarantee is being monitored by the Treasurers' Conference.

Total Specific Purpose Payments

Total SPPs to Tasmania, including the HCG, are estimated to be $496.9 million in 2002-03, representing a real terms decrease of 3.8 per cent over the 2001-02 estimate of $503.5 million.

Table 7.8 presents estimates for the major SPPs for 2002-03 compared with estimates for 2001-02.

Table 7.8: Specific Purpose Payments - Tasmania 2001-02 and 2002-03[1]

Program	2001-02 Budget	2002-03 Budget	Real Terms Change Over 2001-02
	$m	$m	%
Health Care Grants[2]	**145.6**	**153.4**	**2.7**
CSHA Block Assistance[3]	**24.6**	**24.4**	**(3.4)**
Government Schools	**44.4**	**47.7**	**4.7**
Roads	**23.8**	**18.6**	**(23.9)**
HACC and SAAP	**22.9**	**24.0**	**2.1**
Disability Services	**17.6**	**14.4**	**(20.3)**
Local Government General Purpose Payments	**45.3**	**47.0**	**1.1**
Other[4]	**179.3**	**167.4**	**(9.0)**
TOTAL	**503.5**	**496.9**	**(3.8)**

Sources: *Statement of Estimated Payments,* March 2002 Treasurers' Conference; Department of Health and Human Services; Department of Treasury and Finance.

Notes:

1. Payments do not necessarily correspond with items in the Consolidated Fund estimates because some payments are for on passing to non-State organisations and others are paid into the Special Deposits and Trust Fund. It should also be noted that all amounts for the Budget year are estimates and subject to further revision by the Commonwealth.
2. Comprises grants under the AHCA.
3. Excludes special housing programs.
4. Comprises all remaining SPPs from the Commonwealth to Tasmania.

SPPs 'To' the State and 'Through' the State

It is important to note that the amounts in Table 7.8 represent the total capital and recurrent SPPs to be made to Tasmania. There are two categories of SPPs:

- those involving payments directly to a state government that assist in meeting its expenditure responsibilities. These are referred to as SPPs 'to' the state; and
- those involving payments to a state government for on-passing to other bodies such as Local Government and non-government organisations. These are referred to as SPPs 'through' the state.

It should be noted that the estimates for SPPs in this Chapter will not necessarily correspond to the estimates used for the purposes of presenting the State's Consolidated Fund estimates in Chapter 4 of this Budget Paper. This is because of the transfer of some SPPs payments through the Special Deposits and Trust Fund.

Table 7.9: Classification of Specific Purpose Payments by Destination, 2001-02 and 2002-03

Destination	2001-02 Budget	2002-03 Budget	Real Terms Change Over 2001-02
	$m	$m	%
Consolidated Fund:			
'Through' the State (to Local Government)	45.3	47.0	1.1
'To' the State	333.1	340.5	(0.4)
Total	378.4	387.5	(0.2)
Special Deposits and Trust Fund:			
'Through' the State (to other organisations)	69.4	77.9	9.4
'To' the State	55.7	31.5	(45.0)
Total	125.1	109.4	(14.8)
TOTAL SPECIFIC PURPOSE PAYMENTS	503.5	496.9	(3.8)
Total 'To' the State	388.8	371.9	(6.8)
Total 'Through' the State	114.7	124.9	6.1

Sources: *Commonwealth Statement of Estimated Payments,* March 2002 Treasurers' Conference; Department of Treasury and Finance.

Total Commonwealth Payments

The reforms to Commonwealth-State financial relations significantly increased the level of Commonwealth payments to the states from 2000-01. However, as has been emphasised previously, this increase only compensates the states for the revenue foregone and the additional expenditure incurred by all states, as a result of the implementation of the IGA. There is no revenue benefit to the states under the revised arrangements until such time as a state has moved out of the guarantee period.

Table 7.10 shows the (nominal) amounts and shares that Tasmania has received in general purpose, specific purpose and total Commonwealth payments over the period 1975-76 to 2002-03. The last column of the table shows the decline in Tasmania's population as a proportion of Australia's population.

Table 7.10 also shows that there has been no increase in Tasmania's share of Commonwealth payments as a consequence of the reform of Commonwealth-State financial relations under the IGA. For GPPs, levels of funding for 2000-01 and subsequent years cannot be directly compared with earlier years because of the change in funding arrangements under the IGA.

Table 7.10: Commonwealth Payments to Tasmania

Year	General Purpose Grants	Tasmania's Grant Share	Specific Purpose Grants	Tasmania's Grant Share	Total Grants	Tasmania's Grant Share	Tasmania's Population Share
	$m	%	$m	%	$m	%	%
1975-76	**187.2**	**5.3**	**168.5**	**4.1**	**355.7**	**4.6**	**3.0**
1976-77	**218.2**	**5.2**	**149.4**	**3.7**	**367.6**	**4.5**	**2.9**
1977-78	**247.6**	**5.1**	**164.5**	**3.7**	**412.1**	**4.4**	**2.9**
1978-79	**274.2**	**5.2**	**156.1**	**3.5**	**430.4**	**4.4**	**2.9**
1979-80	**301.8**	**5.2**	**163.0**	**3.5**	**464.8**	**4.3**	**2.9**
1980-81	**329.1**	**4.8**	**189.6**	**3.5**	**518.8**	**4.2**	**2.9**
1981-82	**357.3**	**4.1**	**202.7**	**4.3**	**560.0**	**4.2**	**2.9**
1982-83	**400.1**	**3.7**	**244.2**	**4.1**	**644.3**	**4.1**	**2.8**
1983-84	**465.8**	**3.9**	**307.7**	**4.3**	**773.5**	**4.3**	**2.8**
1984-85	**512.7**	**4.0**	**308.0**	**3.8**	**820.6**	**4.2**	**2.8**
1985-86	**532.7**	**3.9**	**287.5**	**3.4**	**820.1**	**3.9**	**2.8**
1986-87	**548.7**	**3.8**	**302.2**	**3.4**	**851.0**	**3.8**	**2.8**
1987-88	**547.3**	**3.7**	**314.8**	**3.4**	**862.1**	**3.6**	**2.8**
1988-89	**516.4**	**3.8**	**367.2**	**3.2**	**883.7**	**3.6**	**2.7**
1989-90	**528.8**	**3.9**	**483.8**	**3.9**	**1 012.6**	**3.8**	**2.7**
1990-91	**549.4**	**4.1**	**433.8**	**3.0**	**983.3**	**3.5**	**2.7**
1991-92	**592.0**	**4.3**	**496.2**	**3.3**	**1 088.2**	**3.7**	**2.7**
1992-93	**605.8**	**4.3**	**537.8**	**3.1**	**1 143.6**	**3.6**	**2.7**
1993-94	**615.7**	**4.2**	**498.8**	**3.0**	**1 114.6**	**3.5**	**2.7**
1994-95	**628.8**	**4.2**	**497.6**	**2.8**	**1 126.4**	**3.5**	**2.6**
1995-96	**661.9**	**4.2**	**538.2**	**2.9**	**1 200.1**	**3.5**	**2.6**
1996-97[1]	**662.8**	**4.2**	**552.4**	**2.9**	**1 215.2**	**3.5**	**2.6**
1997-98	**677.7**	**4.2**	**480.1**	**3.3**	**1 157.8**	**3.7**	**2.5**
1998-99	**726.1**	**4.3**	**498.0**	**3.2**	**1 224.1**	**3.6**	**2.5**
1999-00	**796.6**	**4.5**	**539.6**	**3.0**	**1 336.2**	**3.8**	**2.5**
2000-01	**1 098.4**	**4.0**	**522.7**	**2.7**	**1 621.1**	**3.5**	**2.4**
2001-02 (estimate)[2,3]	**1 177.9**	**3.9**	**503.5**	**2.6**	**1 681.4**	**3.4**	**2.4**
2002-03 (estimate)[2,3]	**1 269.6**	**4.0**	**496.9**	**2.4**	**1 766.5**	**3.3**	**2.4**

Sources: *Commonwealth Budget Paper Number 3* (numerous years); *Commonwealth Statement of Estimated Payments*, March 2002 Treasurers' Conference; Department of Treasury and Finance; and program specific information.

Notes:

1. GPPs for 1996-97 to 1998-99 are net of State Fiscal Contributions and include Competition Payments from 1997-98 onwards.
2. GPPs include GST revenue, BBA and Competition Payments.
3. As a result of the changes to Commonwealth-State financial arrangements, Commonwealth payments to the states from 2000-01 onwards are not directly comparable with previous years. The amount to be received is the same as that which would have been received under the previous Commonwealth-State financial arrangements, after adjustment for the revenue to be foregone and the additional expenditure to be incurred by the states. See discussion under the section 'General Purpose Payments' above.

Appendix 1

Why Commonwealth Payments are Essential

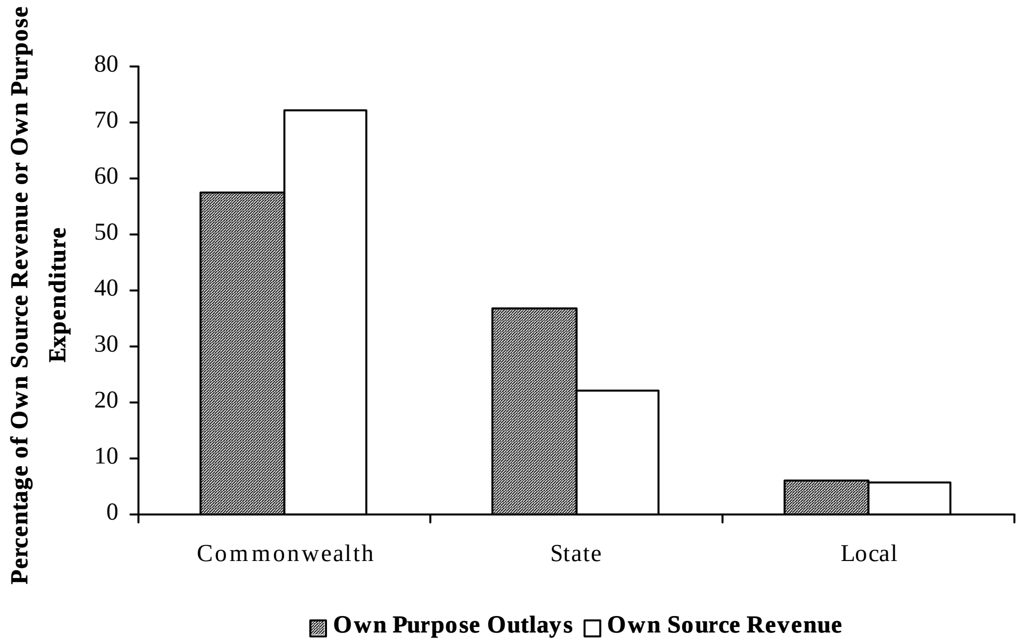
The making of payments by the Commonwealth to the states is an essential part of the financial relations which exist between the different levels of government in Australia. These payments are fundamentally linked to the nature of the Australian Federation and the way in which that Federation has developed over the past 100 years. In particular, the payments reflect the differing powers and responsibilities provided to the different levels of government and the fundamental desire to achieve a level of equity across the different states. The reasons for the making of payments to the states are outlined in further detail in the following sections on Vertical Fiscal Imbalance (VFI) and Horizontal Fiscal Equalisation (HFE).

Vertical Fiscal Imbalance

Since Federation, a financial relationship between the Commonwealth and state governments has evolved in which the dominant characteristic is the fundamental imbalance between the revenue raising powers and functional responsibilities of each level of government. While the seeds of the present vertical fiscal imbalance lie in the original Constitution agreed at Federation, it has since been reinforced by Constitutional amendments and by High Court interpretations of the Constitution.

The term VFI refers to the difference between own source revenue and own purpose expenditure commitments for a level of government. This is illustrated in Chart 7.4, which compares the percentage shares of revenue and expenditure on a consolidated basis for the Commonwealth, state and local governments. It shows that, in 2000-01, the Commonwealth raised 72 per cent of total (General Government) revenue, whereas its own purpose (General Government) spending was only 57 per cent of total General Government outlays. In contrast, the states' share of this revenue was only 22 per cent, while combined state General Government outlays represented 37 per cent of the national total. Revenues and expenditures for local government are estimated to be broadly in balance.

Chart 7.4: Vertical Fiscal Imbalance as at 2000-01



Source: *Government Finance Statistics, Australia, 2000-01,* Cat. No 5512.0 Australian Bureau of Statistics.

As a result of VFI, there is a requirement for significant Commonwealth financial transfers to the states on an ongoing basis. As detailed in this Chapter, Commonwealth financial assistance to the states is provided in a variety of ways. It comprises GPPs or recurrent untied grants, and tied grants, known as SPPs, for both recurrent and capital purposes.

The reforms to Commonwealth-State financial relations, which commenced under the IGA on 1 July 2000, resulted in a substantial increase in VFI. The states have foregone FAGs, revenue replacement payments and financial institutions duty, and will cease to collect debits tax and a range of stamp duties in return for receiving all the revenues collected under GST, which is a Commonwealth tax. While VFI will be increased, the intention is that these arrangements will actually provide the states with a greater level of certainty in relation to Commonwealth payments. This is because they will, in principle, sever the link between Commonwealth general revenue grants to the states and the fiscal policy decisions of the Commonwealth.

Horizontal Fiscal Equalisation

In addition to the differences which exist between the powers and responsibilities of the Commonwealth and state governments, another fundamental characteristic of financial relations in the Australian Federation is the degree to which the fiscal capacities of the states differ. This refers to the difference, in per capita terms, between the cost to a state of providing a range of services common to all states and the financial resources available to it, including own source revenues and certain grant monies paid from the Commonwealth (apart from GPPs). The causes of such horizontal fiscal imbalance are complex and varied (demographic, geographic and economic to name a few). Those causes over which a state has no control are the explicit focus of the HFE process.

In the absence of an arrangement whereby Commonwealth GPPs and HCGs are distributed in accordance with HFE, those states which face unduly high costs and/or a lesser ability to raise revenues, through no fault of their own, would be required to deprive their communities of the opportunity to access similar levels and standards of service than those offered elsewhere in Australia. The principle of HFE is therefore an integral element of Commonwealth-State financial transfers.

The HFE framework which is now used takes, as its starting point, the scope of state transactions and functions, including all related recurrent expenditures and revenues, which are considered the normal responsibility of state governments. The actual expenditures and revenues for each state are taken to differ from the experience of all states on average, due to influences beyond the state's control (disabilities) as well as differences in policy, practice and operating efficiency. The Commonwealth Grants Commission makes adjustments to the average expenditure and revenue for individual states to reflect their disabilities relative to the situation faced by other states, but it does not 'compensate' for differences attributable to policy, practice and relative efficiency. In this way the smaller states such as South Australia, Tasmania and the Northern Territory, which on the whole face higher than average per capita costs and lower than average revenue raising abilities, are granted a greater than proportional share of general revenue assistance to enable them to discharge their standard functions without necessarily having to impose above average revenue raising measures on their communities.

The IGA requires the GST revenue to be distributed to the states using the principle of HFE. As the IGA is attached to Commonwealth legislation and to legislation in each of the states, HFE is now effectively given the force of the law. This is a significant benefit to Tasmania, given the importance of the distribution of revenues on an HFE basis for the State.

APPENDIX 2

The Commonwealth Grants Commission

The CGC is an independent Commonwealth Government statutory body, which was established in 1933. It is charged with the task of making recommendations, in the form of per capita relativity factors, to the Commonwealth Treasurer each year on how GST revenue and the HCGs should be distributed between the states.

The basis for its recommendations (since 1981) is an assessment of the relative fiscal capacities of the states. These assessments are carried out in accordance with the principle of HFE which is discussed in the previous section. As a result of this assessment, it is estimated that Tasmania will receive approximately $480 million more in 2002-03 than it would have received if Commonwealth GPPs and the HCGs were distributed between the states on a per capita basis.

The CGC's assessments provide the states with an important source of comparable data on which to assess their relative performance in the areas of expenditure efficiency and revenue raising effort.

The revenue raising effort in each state can be measured by comparing own-source revenue actually raised with the states' revenue raising capacity as assessed by the CGC. This measure includes state taxation, income from interest earnings, property and mining royalties, and contributions to government from public trading enterprises. A revenue raising effort index has been calculated for each state and is shown for the five years to 2000-01 in Table 7.11. Chart 7.5 shows the revenue raising effort ratio of each state for the 2000-01 financial year, the most recent year for which Commission data are available.

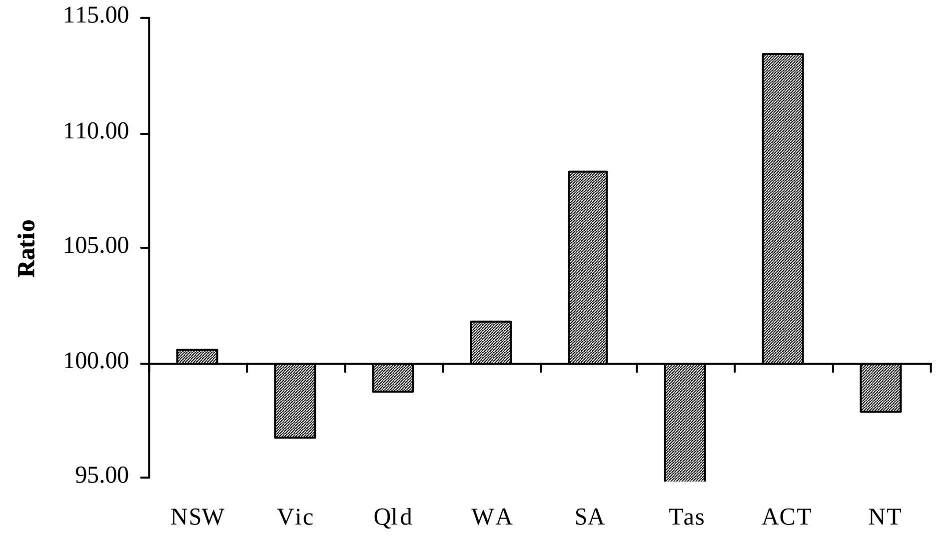
In both Table 7.11 and Chart 7.5 the average revenue raising effort of all states is represented by 100.

Table 7.11: Trends in State Revenue Raising Effort Ratios

State/Territory	1996-97	1997-98	1998-99	1999-00	2000-01
New South Wales	**104.11**	**102.96**	**98.20**	**101.34**	**100.54**
Victoria	**105.51**	**105.39**	**107.63**	**93.86**	**96.76**
Queensland	**87.51**	**87.08**	**97.64**	**107.08**	**98.73**
Western Australia	**91.07**	**89.45**	**91.04**	**93.19**	**101.78**
South Australia	**106.00**	**115.49**	**108.03**	**108.55**	**108.33**
Tasmania	**96.99**	**102.35**	**93.34**	**90.29**	**94.21**
Australian Capital Territory	**97.63**	**93.60**	**93.26**	**107.44**	**113.42**
Northern Territory	**106.06**	**103.08**	**91.14**	**98.33**	**97.90**

Source: *Report on General Revenue Grant Relativities 2002 Update*, Commonwealth Grants Commission.

Chart 7.5: State Revenue Raising Effort Ratios, 2000-01



Source: *Report on General Revenue Grant Relativities 2002 Update*, Commonwealth Grants Commission.

It should be noted that the indices for 1996-97 to 1999-00 in Table 7.11 are not directly comparable with those published last year in Budget Paper No 1 *Budget Overview 2001-02*. This is because the Commission updates the data used to assess revenue raising effort each year.

An index has also been calculated that shows the relative level of service provision for each state. This index for the five years to 2000-01 is presented in Table 7.12. The ratio indicates a state's actual outlays as a proportion of the CGC's assessment of standardised expenditure. Standardised expenditure is simply the average expenditure by all states adjusted for each state to reflect its assessed disabilities.

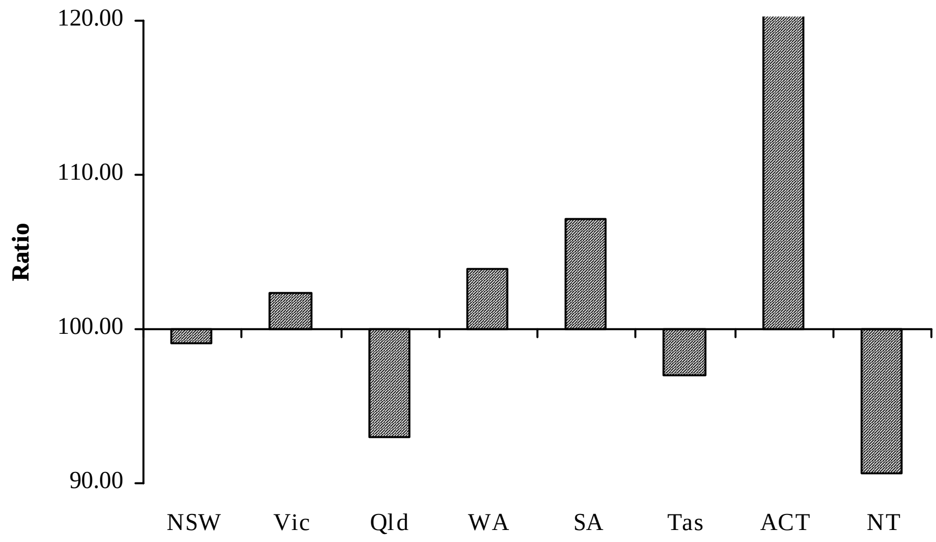
The index incorporates an adjustment to exclude outlays for depreciation and debt servicing payments. This has been necessary because of the differences in approaches across jurisdictions, which makes a meaningful comparison of these outlays, using this information, very difficult. The figures are shown graphically in Chart 7.6 for 2000-01, which is the most recent year for which Commission data are available.

Table 7.12: Trends in State Level of Service Provision Ratios

State/Territory	1996-97	1997-98	1998-99	1999-00	2000-01
New South Wales	**100.61**	**102.87**	**100.22**	**100.09**	**99.12**
Victoria	**98.86**	**97.33**	**99.40**	**101.34**	**102.36**
Queensland	**97.08**	**93.28**	**98.22**	**92.50**	**92.98**
Western Australia	**104.58**	**102.79**	**100.29**	**102.26**	**103.86**
South Australia	**100.44**	**110.04**	**103.82**	**111.63**	**107.17**
Tasmania	**99.80**	**91.37**	**94.37**	**95.97**	**96.97**
Australian Capital Territory	**103.28**	**103.73**	**113.31**	**108.80**	**122.81**
Northern Territory	**101.26**	**99.20**	**100.06**	**94.27**	**90.69**

Source: *Report on General Revenue Grant Relativities 2002 Update*, Commonwealth Grants Commission.

Chart 7.6: State Level of Service Provision Ratios, 2000-01



Source: *Report on General Revenue Grant Relativities 2002 Update*, Commonwealth Grants Commission.

The Chart shows a comparison of the aggregate levels of service provision across all states (excluding the effects of depreciation and debt servicing costs) for 2000-01, after allowance is made for the cost disabilities faced by each in providing the same standard range of services. The ratio indicates that Tasmania's aggregate level of service provision is currently below the national average. Table 7.12 does, however, also show that Tasmania's level of service provision has increased consistently over the four years to 2000-01.

8 FORWARD ESTIMATES

Features

- The Consolidated Fund outcome projections for 2003-04 to 2005-06 on a same policy basis are:
  - 2003-04: $9.4 million surplus;
  - 2004-05: $10.6 million surplus; and
  - 2005-06: $11.9 million surplus.
- The Forward Estimates indicate that, consistent with its new Fiscal Strategy, the Government has budgeted for a small surplus in each financial year, in accordance with its primary target that no new General Government debt is incurred and General Government net debt is eliminated by 30 June 2008. Consolidated Fund surpluses will reduce debt and accordingly improve the State's financial position.
- The Forward Estimates are based on the Government's policies of not introducing new taxes, providing increased funding for social services and ensuring that the State's unfunded superannuation liability is eliminated by 30 June 2018. The estimates also reflect the on-going impact of the tax reductions announced in the 2001-02 and 2002-03 Budgets.

FORWARD ESTIMATES 2003-04 TO 2005-06

The Forward Estimates Concept

The Forward Estimates provide a mechanism for projecting expenditure and receipts, on the assumption that existing policies are maintained and that the Government's planned objectives continue to be pursued. This is known as the 'same policy basis'. The Forward Estimates which are generated on this basis represent the projected expenditure and revenue outcomes if the same level of services is provided in each of the three years following this Budget, the existing regime of taxes and charges continues but reflects announced changes in tax policy, expectations of the level of Commonwealth transfer payments are realised and assumptions underlying the economic parameters are realised. The existing regime for government charges is also assumed to be unchanged.

The Forward Estimates are premised on Treasury estimates of a number of economic parameters. These parameters are estimated, and regularly reviewed by Treasury, based on economic conditions and forecast movements in major economic aggregates. Further information on forecasts of Tasmanian economic aggregates is detailed in Chapter 2 of this Budget Paper.

The Forward Estimates provide a strategic framework for budgetary decision making in the medium-term, highlight the flow-on effects of revenue and expenditure measures contained in the current year's Budget and facilitate the monitoring of achievements against existing Government strategies and objectives.

The 'same policy' Forward Estimates are not forecasts of expected outcomes. Rather, the estimates provide an indication of the outcomes which would emerge if existing policy was to remain unchanged and current parameter assumptions were to be realised. Future policy decisions, variations to the assumptions underlying economic parameters and external influences will have an impact on the outcomes. In this sense, the Forward Estimates are projections of outcomes under a particular scenario rather than forecasts.

Impact of Policy Initiatives

The expenditure reported in this Chapter includes the policy initiatives announced by the Government in this Budget and the ongoing funding of previous initiatives and expenditure commitments. As outlined in the Treasurer's 2002-03 Budget Speech and detailed further in the Budget Papers, the Government is committed to introducing a number of important policy initiatives in the current Budget year and in the future.

In accordance with the Government's new Fiscal Strategy, the Forward Estimates are based on there being no increase in the rates of existing State taxes but reflect the impact of the tax reductions announced in the 2001-02 and 2002-03 Budgets.

Table 8.1 highlights the projected Consolidated Fund Surplus (CFS) for each of the financial years from 2003-04 to 2005-06. The budgeted CFS outcome in 2002-03 is a surplus of $8.5 million. The forward estimate of the CFS for 2003-04 is $9.4 million, for 2004-05 is $10.6 million and for 2005-06 is $11.9 million. The Forward Estimates indicate that, on a same policy basis, the CFS projections are consistent with the achievement of the Government's target to maintain the Consolidated Fund in surplus. This intermediate objective is required to achieve the Government's primary objectives of no new General Government debt being incurred and General Government net debt being eliminated by 30 June 2008.

Table 8.2 provides detailed Forward Estimates information on an agency basis.

Table 8.1: Consolidated Fund Forward Estimates Summary

	2002-03 Budget	2003-04	2004-05	2005-06
	$'000	$'000	$'000	$'000
Expenditure				
Recurrent Services	**2 289 807**	**2 328 050**	**2 377 618**	**2 433 847**
Works and Services	**138 557**	**134 531**	**134 883**	**137 852**
Total Expenditure	**2 428 364**	**2 462 581**	**2 512 501**	**2 571 699**
Receipts				
Recurrent				
Commonwealth Sources	**1 616 368**	**1 633 927**	**1 684 260**	**1 763 025**
State Sources	**778 916**	**798 944**	**799 720**	**780 853**
	2 395 284	**2 432 871**	**2 483 980**	**2 543 878**
Capital				
Commonwealth Sources	**40 765**	**38 251**	**38 242**	**38 892**
State Sources	**835**	**839**	**839**	**839**
	41 600	**39 090**	**39 081**	**39 731**
Total Receipts	**2 436 884**	**2 471 961**	**2 523 061**	**2 583 609**
Consolidated Fund Surplus[1]	**8 520**	**9 380**	**10 560**	**11 910**

Note:

1. For the purposes of calculating the CFS, recurrent expenditure has been reduced by the contribution payable to the Debt Retirement Reserve Trust Account of $444 000 in 2002-03, $436 000 in 2003-04, $124 000 in 2004-05 and $61 000 in 2005-06.

Table 8.2: Consolidated Fund Forward Estimates – Expenditure Summary

	2002-03 Budget	2003-04	2004-05	2005-06
	$'000	$'000	$'000	$'000
Education	**619 590**	**639 226**	**659 040**	**681 815**
Finance-General				
Debt Management[1]	**112 994**	**110 570**	**105 842**	**99 991**
Employee Related Costs	**17 070**	**22 070**	**22 070**	**22 070**
Superannuation	**116 648**	**121 483**	**127 913**	**135 992**
Payments to Government Businesses	**48 365**	**48 375**	**48 386**	**48 386**
Other	**35 981**	**36 090**	**36 192**	**36 249**
Administered Payments	**114 896**	**107 849**	**106 929**	**108 059**
Health and Human Services	**700 410**	**716 487**	**735 835**	**755 179**
House of Assembly	**4 631**	**4 744**	**4 876**	**5 013**
Infrastructure, Energy and Resources	**95 415**	**96 247**	**96 602**	**97 588**
Justice and Industrial Relations	**59 909**	**58 409**	**59 663**	**60 957**
Legislative Council	**3 394**	**3 482**	**3 582**	**3 685**
Legislature-General	**3 545**	**3 602**	**3 668**	**3 736**
Ministerial and Parliamentary Support	**11 059**	**11 280**	**11 521**	**11 769**
Office of the Governor	**1 961**	**2 012**	**2 058**	**2 105**
Police and Public Safety	**114 716**	**116 943**	**120 857**	**124 946**
Premier and Cabinet	**20 899**	**21 327**	**21 687**	**22 058**
Primary Industries, Water and Environment	**94 872**	**95 274**	**95 967**	**97 895**
State Development	**80 268**	**79 390**	**80 871**	**81 653**
Tasmanian Audit Office	**298**	**305**	**313**	**322**
Treasury and Finance	**33 330**	**33 321**	**33 870**	**34 440**
	2 290 251	**2 328 486**	**2 377 742**	**2 433 908**
Capital Investment Program (Departments)	**55 324**	**49 508**	**49 470**	**51 118**
Roads Program	**69 360**	**71 110**	**71 459**	**72 738**
Housing Program	**13 873**	**13 913**	**13 954**	**13 996**
Infrastructure Fund[2]	**....**	**....**	**....**	**....**
	138 557	**134 531**	**134 883**	**137 852**
TOTAL	**2 428 808**	**2 463 017**	**2 512 625**	**2 571 760**

Notes:

1. Finance-General debt management expenditure includes the contribution payable to the Debt Retirement Reserve Trust Account of $444 000 in 2002-03, $436 000 in 2003-04, $124 000 in 2004-05 and $61 000 in 2005-06.
2. Note that $60 million has been carried forward from higher than expected revenue in 2001-02, of which $30 million is for Social Infrastructure Fund and $30 million is for Major Projects Fund. This $60 million will be expended over several years in the programs described in the Budget documents.

Explanation of Major Expenditure Variations

The explanations provided below should be read in conjunction with Table 8.2 of this Chapter.

Education

The 2002-03 Budget and Forward Estimates for the Department of Education include additional funding of $1 million in 2002-03 and $2 million in each of the following years to increase funding to low-income families to meet the costs of education. Additional funding has also been provided for non-government schools, special education, a TAFE fee exemption program and to fund the wage nexus with teachers in other states. Funding for Managing and Retaining Secondary Students at School (MARSSS) program is provided in the Social Infrastructure Fund (SIF).

Finance-General

Debt Management

The 2002-03 Budget and Forward Estimates relating to debt management costs have been revised, taking into consideration current interest rate forecasts and the maturity profile of the State's debt over the period covered by the Forward Estimates. In comparison with the Forward Estimates at the time of the 2001-02 Budget, the 2002-03 debt management costs to the State are estimated to be lower by $2.0 million, with further savings anticipated in future years. The projected reduction is primarily due to refinancing of maturing debt during 2001-02 at lower interest rates and an overall reduction in the level of State debt, partially offset by an increase in interest allowed on the balance of the Superannuation Provision Account.

Employee Related Costs

During 2001-02, a number of public sector employee wage agreements expired and have been renegotiated by the Government. The additional funding required as a consequence of these new agreements has been incorporated within agency 2002-03 Budget allocations and Forward Estimates. This has resulted in a reduction in the funding allocated for this purpose within the Finance-General Forward Estimates in comparison with the previously published Forward Estimates. A provision has been retained within the Forward Estimates to meet potential additional costs relating to wage negotiations yet to be resolved or arising from outcomes of future wage negotiations.

Superannuation

The 2002-03 Budget and Forward Estimates include increased funding to be applied to the Superannuation Provision Account (SPA). The major component of this expense is the contribution to SPA in respect of the Retirement Benefits Fund (RBF) Contributory Scheme. Over the period of the Forward Estimates, the contribution increases from $109.3 million in 2002-03 to $131.3 million in 2005-06. This contribution, together with contributions to the superannuation schemes for Parliamentarians, Judges, Legal Officers and Governors, is made to ensure that the Government is able to meet the future emerging costs of the schemes and to make progress towards eliminating the unfunded superannuation liability associated with the RBF scheme by 30 June 2018. Further details on superannuation can be found in Chapter 9 of this Budget Paper.

Payments to Government Businesses

The 2002-03 Budget and Forward Estimates for payments to Government Businesses include, for the first time, four annual payments of $44 million, representing the Government's contribution to fund the acquisition of one of the two vessels by TT-Line for the Bass Strait service.

Administered Payments

The increase in the 2002-03 Budget and Forward Estimates for Finance-General Administered Payments, above the Forward Estimates included in the 2001-02 Budget Papers, is primarily due to the demand for grants under the First Home Owners Scheme being significantly higher than previously estimated.

Health and Human Services

The Forward Estimates reflect the provision of additional funds of $21 million, increasing to $27 million in 2005-06, to continue the Government's commitment to maintaining a sustainable funding base.

In addition, the Department has taken over the responsibility for managing services at the Prison Hospital from the Department of Justice and Industrial Relations. Funding for this has been provided by a transfer of $1.455 million from the Department of Justice and Industrial Relations together with additional funds of $1.577 million to meet service requirements.

Infrastructure, Energy and Resources

The Forward Estimates include provision of additional funding of $1.1 million for School Bus Route Services cost increases and an additional $267 000 for School Bus Contract Services. Additional funding of $857 000 in 2002-03, increasing slightly in future years, has been provided for the maintenance of a number of the Government's strategic infrastructure information systems.

Justice and Industrial Relations

The Forward Estimates reflect additional funding to meet service needs, partially offset by the funding transfer to the Department of Health and Human Services resulting from the transfer of responsibility for the administration of the Prison Hospital.

Primary Industries, Water and Environment

The Forward Estimates include additional funding of $1.1 million in 2003-04, $1.1 million in 2004-05 and $1.2 million in 2004-05 to enhance water development and assessment in the State. In addition, funding of $1.2 million per annum for 2002-03 and 2003-04 has been provided to implement a Fox Eradication Strategy for the State.

Capital Investment Program

A number of major Commonwealth funded roads projects will be completed by the end of the 2002 calendar year. Consequently, the Forward Estimates show a decrease from the 2002-03 CIP funding level. State capital funding increases in real terms in 2003-04. The Forward Estimates also reflect the Government's Fiscal Strategy commitment to maintain the State-funded component of the CIP in real terms.

Table 8.3: Consolidated Fund Forward Estimates – Receipts Summary

	2002-03 Budget	2003-04	2004-05	2005-06
	$'000	$'000	$'000	$'000
Commonwealth Sources				
Recurrent Receipts				
General Purpose Payments	1 269 600	1 279 778	1 321 324	1 390 797
Specific Purpose Payments	346 768	354 149	362 936	372 228
Capital Receipts				
Specific Purpose Payments	40 765	38 251	38 242	38 892
Total Commonwealth	1 657 133	1 672 178	1 722 502	1 801 917
State Sources				
Recurrent Receipts				
Taxation	494 492	514 006	521 132	512 964
Receipts from Government Businesses, State-owned Companies and State Authorities	152 053	153 653	150 194	141 599
Departmental Fees and Recoveries	81 112	80 937	80 956	81 467
Recoveries of State Debt Charges	6 224	4 042	3 480	2 918
Sale and Rent of Government Property	11 603	11 603	11 603	11 603
Resource Rents and Royalties	12 908	12 815	12 762	12 759
Other Recurrent Receipts	20 524	21 888	19 593	17 543
Capital Repayments				
Capital Repayments	835	839	839	839
Total State	779 751	799 783	800 559	781 692
Total Receipts	2 436 884	2 471 961	2 523 061	2 583 609

Explanation of Major Revenue Variations

The explanations provided below should be read in conjunction with Table 8.3 of this Chapter and Table 4.4 of Chapter 4 of Budget Paper No 1 *Budget Overview 2002-03*.

Commonwealth Recurrent Receipts

The Forward Estimates for 2003-04 to 2005-06 continue to reflect the revised funding arrangements for the States under the *Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations* (IGA). Full details of these arrangements are provided in Chapter 7 of this Budget Paper.

The increases in Commonwealth General Purpose Payments for each year of the Forward Estimates over the Forward Estimates presented in 2001-02 ($80.4 million in 2003-04, $86.1 million in 2004-05) are due to :

- the Commonwealth Grants Commission's assessment that Tasmania's relative need for Commonwealth financial assistance has increased; and
- improvement in the estimated trend in the State's population growth.

Commonwealth Specific Purpose Payments (SPPs) are not affected by the IGA and the major increases relate to indexation provisions in the intergovernmental agreements to cover cost and demand increases, particularly:

- the Disability Service Grant, $2.1 million in each year;
- the Health Care Grant $4.4 million from 2004-05;
- Home and Community Care Grant $1.2 million in each year;
- Primary and Secondary School Education, $3.1 million in each year; and
- Technical and Further Education, $2.6 million in each year.

Commonwealth Capital Receipts

The Forward Estimates for Commonwealth capital receipts reflect:

- a decrease in funding for the National Highway System of $12 million as a result of completion of major projects by the end of the 2002 calendar year; and
- increased funding for Technical and Further Education due to the size and construction timetable of the projects involved.

State Recurrent Receipts

Significant variations from the Forward Estimates presented in the 2001-02 Budget are as follows:

- the increase of $19.5 million in taxation receipts in 2003-04 reflects estimated stronger than normal economic conditions that are expected to flow from large infrastructure projects;
- under the IGA Debits Duty will also be abolished in 2005-06, resulting in $19 million decrease in taxation receipts;
- returns from Government businesses are expected to be lower than those presented in the 2001-02 Forward Estimates, due to a number of factors, including the retention of additional funds within the

electricity entities for capital expenditure and partially reflects the impact of securing a more competitive energy industry which will provide benefits to private businesses and consumers in the longer term;

- a decrease in Recoveries of State Debt Charges reflecting a decrease in the outstanding balances of some loans to statutory authorities. This is offset by reduced Financial Agreement debt repayments to the Commonwealth;
- a decrease in Resource Rents and Royalties, which includes a decrease of $3.0 million in mineral royalties as a result of the downturn in base metal prices; and
- an increase in Other Recurrent Receipts, reflecting an increase of $4.4 million from income derived from the investment of Government funds.

9 TASMANIAN GOVERNMENT'S ASSETS AND LIABILITIES

Features

- For the first time, information on Total State Sector assets and liabilities in this Chapter is presented in accordance with the accrual Uniform Presentation Framework agreed by the Australian Loan Council in March 2000. In previous years, asset and liability balances have been presented under the Australian Accounting Standards basis of presentation.
- The net worth of the Total State Government Sector as at 30 June 2001 was $6 200 million, comprising $13 984 million in assets and $7 784 million in liabilities. This amounts to net worth per head of population of $13 186 which is greater than in Victoria and South Australia, and on a par with New South Wales.
- Total State Government Sector Net Debt has declined in nominal terms from a peak of $3 082 million as at 30 June 1994 to $1 953 million as at 30 June 2001. It is estimated that Total State Government Sector Net Debt will further decline to $1 845 million as at 30 June 2003.
- In real terms, Total State Government Sector Net Debt has declined from a peak of $3 797 million as at 30 June 1994 to $2 036 million as at 30 June 2001 and an estimated level of $1 845 million as at 30 June 2003.
- 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 3.5 per cent in 2001-02, with 2.8 per cent being estimated for 2002-03.
- The Government will make an estimated contribution of $109.3 million to the Superannuation Provision Account in 2002–03. After payments from the Account through the year, the net impact is estimated to be an increase in the balance of the Account from $355.5 million as at 30 June 2001 to $453.0 million as at 30 June 2002 and $546.9 million as at 30 June 2003.

INTRODUCTION

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. In previous years, the information was based on the consolidated financial statements, prepared on an accrual basis in accordance with the Australian Accounting Standard AAS31 *Financial Reporting by Governments*. The basis of the information in this Chapter is now consistent with that presented in Chapter 11 Uniform Government Reporting. There are some differences between the UPF basis and the Australian Accounting Standard basis of presentation previously used and, as a consequence, the information on assets and liabilities is not directly comparable with the information presented in the *Consolidated Financial Statements for the State of Tasmania 2000-01*.

CLASSIFICATION OF STATE SECTOR ENTITIES

Public sector entities have been classified according to the General Government, Public Trading Enterprise (PTE) and Public Financial Enterprise (PFE) Sectors. A detailed dissection of the coverage and classification of public sector entities for the UPF is provided in Table 11.9 of Chapter 11 of this Budget Paper.

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 covers inner-Budget agencies and some statutory authorities such as the State Fire Commission.

The PTE 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's government businesses. This is equivalent to the Public Non-Financial Corporations Sector, which is the terminology currently used by the Australian Bureau of Statistics (ABS) and in Chapter 11.

The PFE Sector comprises those entities that perform central borrowing functions or have the authority to incur financial liabilities and acquire financial assets in the market on their own account. This sector covers the Motor Accidents Insurance Board, the Nominal Insurer and the Tasmanian Public Finance Corporation (Tascorp). This is equivalent to the Public Financial Corporations Sector, which is the terminology currently used by the ABS.

The Non-Financial Public Sector represents the consolidated total of the General Government and PTE Sectors. The Total State Government Sector represents the consolidated total of the General Government, PTE and PFE Sectors. The movement in these sectors is directly linked to the movement of the component sectors, after eliminating the effect of inter-sector transactions.

For the 2002-03 Budget Papers, Housing Tasmania and the Home Ownership Assistance Program (HOAP) are for the first time classified in the General Government Sector. These entities were previously included in the PTE and PFE Sectors, however they were reclassified by the Australian Bureau of Statistics for the *Government Finance Statistics, Australia* publication released on 12 June 2001. The transfer of housing debt from the PTE sector to the General Government sector will add approximately $238 million to General

Government net debt at 30 June 2002, and will reduce PTE debt by the same amount. The Budget papers for 2002-03 present a revised time series to reflect this change in classification.

ASSETS AND LIABILITIES

A summary of the Total State Government Sector assets and liabilities at 30 June 2001 is shown below in Table 9.1.

Table 9.1: Total State Government Sector Assets and Liabilities as at 30 June 2001

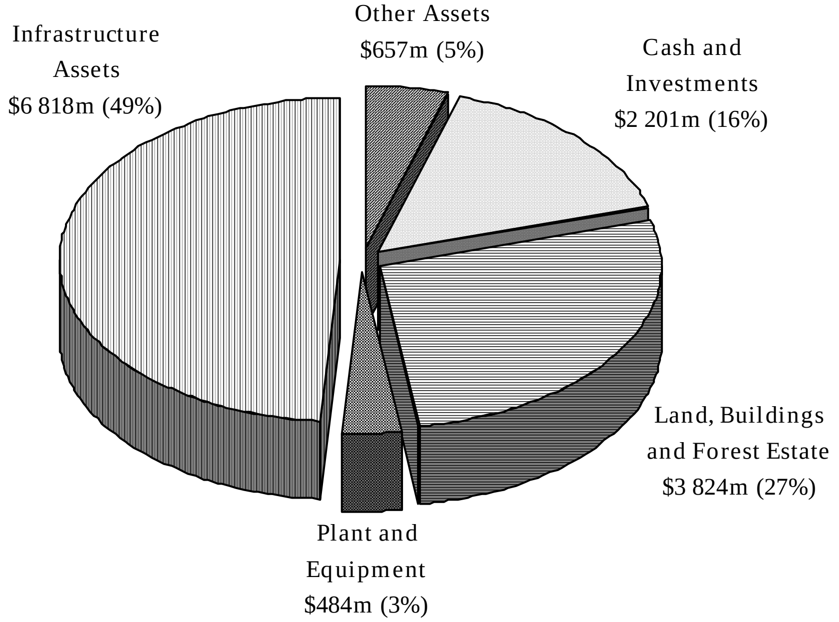
	General Government Sector	Public Trading Enterprise Sector	Public Financial Enterprise Sector	Total State Government Sector[1]
	$m	$m	$m	$m
Financial Assets	**4 715**	**324**	**5 454**	**2 831**
Non-financial Assets	**5 517**	**5 575**	**52**	**11 153**
Total Assets	**10 232**	**5 899**	**5 506**	**13 984**
Liabilities	**4 040**	**2 314**	**5 437**	**7 784**

Source: *Government Finance Statistics, ABS Cat No 5512.0.*
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.

Assets

Assets controlled by the Total State Government Sector as at 30 June 2001 totalled $13 984 million. Total assets by category are shown below in Chart 9.1.

Chart 9.1: Total State Government Sector Assets by Category



Source: *Government Finance Statistics, ABS Cat No 5512.0.*

Cash and Investments

The Total State Government Sector held $2 201 million in cash and investments as at 30 June 2001. This includes assets such as the balance of the cash held in the Public Account ($751 million), other investments in the Non-Government Sector held by Tascorp ($1 106 million) and the Motor Accidents Insurance Board ($344 million).

Land, Buildings and Forest Estate

The Total State Government Sector held $3 824 million in land, buildings and forest estate as at 30 June 2001, consisting of $759 million in land, $2 264 million in buildings and $801 million in forest estates. This category encompasses the value of schools and other buildings held by the Government and the value of Crown land, including National Parks and Conservation areas.

Plant and Equipment

The Total State Government Sector held $484 million in plant and equipment assets as at 30 June 2001.

Infrastructure Assets

The Total State Government Sector held $6 818 million in infrastructure assets as at 30 June 2001. Infrastructure assets are:

- electricity infrastructure ($4 322 million);
- road infrastructure ($1 498 million);
- bridge infrastructure ($918 million);
- harbour and port facilities ($32 million); and
- other infrastructure assets ($47 million).

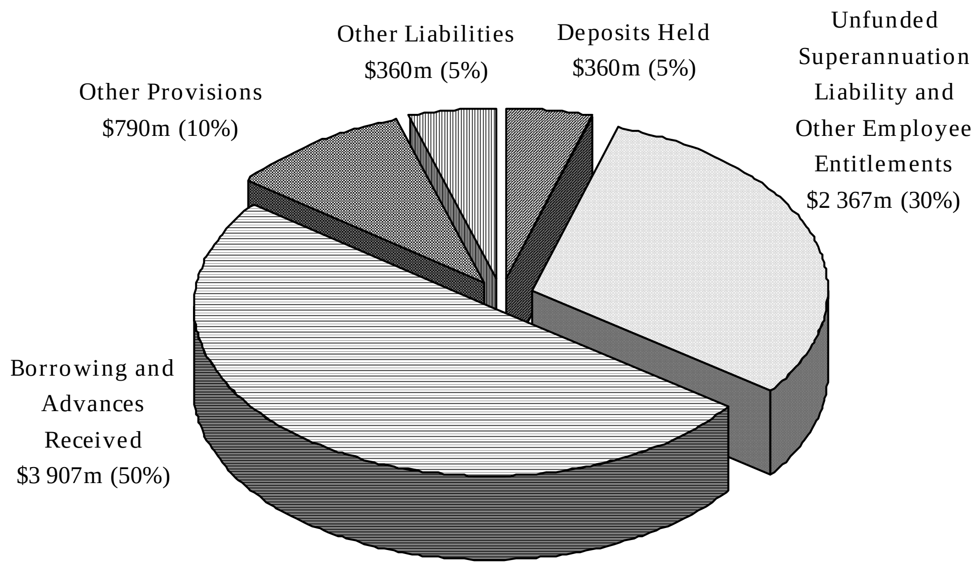
Other Assets

Other assets ($657 million) consist mainly of receivables ($360 million) and inventories ($46 million).

Liabilities

Liabilities of the Total State Government Sector as at 30 June 2001 totalled $7 784 million. The components of these liabilities are detailed below in Chart 9.2.

Chart 9.2: Composition of Total State Government Sector Liabilities



Source: *Government Finance Statistics*, ABS Cat No 5512.0.

Borrowing and Advances Received

Total State Government Sector borrowings and advances received as at 30 June 2001 were $3 907 million. This consisted of Commonwealth debt ($352 million) and Non-Commonwealth debt ($3 555 million). Further detail on borrowings, in particular Net Debt and debt servicing costs, is provided later in this Chapter.

Unfunded Superannuation Liability and Other Employee Entitlements

The Total State Government superannuation liability as at 30 June 2001 was $1 986 million. The unfunded superannuation liability as at 30 June 2001 is calculated by deducting the net market value of plan assets from the gross Accrued Benefit liability for all superannuation schemes. Further detail on superannuation is provided later in this Chapter. Other employee entitlements were $381 million.

Other Provisions

The liability for other provisions as at 30 June 2001 was $790 million. This consisted mainly of provisions for outstanding claims held by the Motor Accidents Insurance Board ($478 million) and income tax liabilities of the PTE sector ($190 million).

Other Liabilities

The Total State Government Sector held $360 million in other liabilities as at 30 June 2001. This consists of creditors ($314 million) and other sundry liabilities ($46 million).

Deposits Held

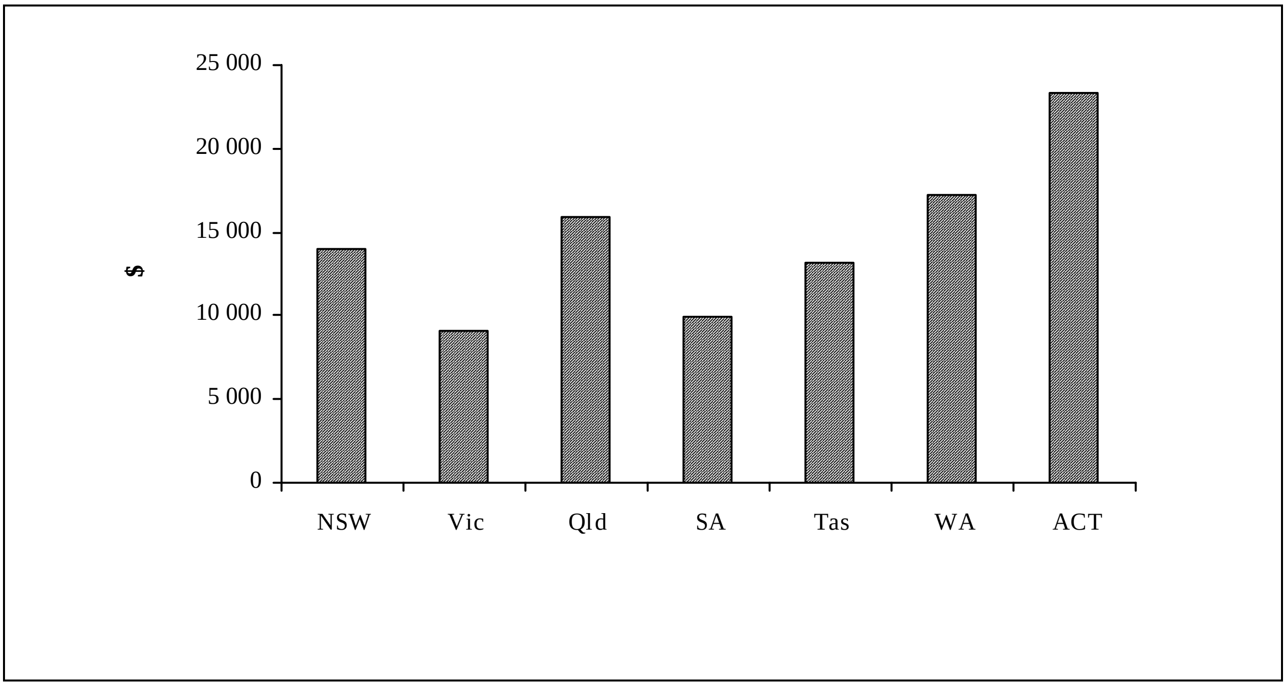
The Total State Government Sector held $360 million on behalf of third parties as at 30 June 2001. This consisted of $20 million held in trust by agencies and $340 million held by Tascorp on behalf of non-government clients.

Net Worth

The State Government is in a positive equity position, meaning the level of assets is greater than the level of liabilities. The net worth per head of population for the Total State Government Sector as at 30 June 2001 was $13 186.

Chart 9.3 provides a comparison across states and territories of the net worth per head of population as at 30 June 2001. The Chart shows that Tasmania's net worth per head of population is greater than Victoria and South Australia, on a par with New South Wales and below Queensland, Western Australia and the Australian Capital Territory. The comparison of net worth per capita shows that the State is in a stronger financial position than is suggested by analysis that is limited to debt information. This ratio also reflects the level of business assets which remain in public ownership in the State.

Chart 9.3: Interstate Comparison of Total State Government Sector Net Worth per Head of Population as at 30 June 2001



Source: *Government Finance Statistics*, ABS Cat No 5512.0; *Australian Demographic Statistics*, ABS Cat No 3101.0.

NET DEBT

The standard measure to assess the State Government's level of indebtedness is Net Debt, as defined in the Uniform Presentation Framework (UPF). Net Debt is determined by deducting liquid financial assets from gross borrowings.

The Net Debt information is consistent with the UPF data presented in Chapter 11 of this Budget Paper.

Budget and forward estimates for the Public Financial Enterprises (PFE) Sector are not reported due to the nature of the Sector, which is subject to potentially significant and unforeseeable market fluctuations. Under the terms of the revised UPF, information for 30 June 2002 will be reported in the *Loan Council Outcomes Report 2001-02*.

For the purposes of this Chapter, Gross Debt is calculated as the total of financial liabilities, such as deposits held, advances received and borrowings. Gross Debt includes items such as debt incurred by the Government and serviced from the Consolidated Fund, specific purpose loans from the Commonwealth and other borrowings raised from the capital markets.

Net Debt is the difference between Gross Debt, as defined above, and liquid financial assets, comprising the total of cash and deposits and investments or loans. Investments on the short-term money market and fixed deposits held with banks are included as financial assets. Net Debt, rather than Gross Debt, is the more appropriate concept for analytical purposes as an analysis based on Gross Debt will not reflect holdings of financial assets.

The State's Net Debt position, debt servicing costs and other financial assets and liabilities are important measures of the financial position of the public sector. Trends in Net Debt levels and debt servicing costs also provide an indicator of the Government's financial management performance over time.

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 1990-01 to 1997-98 have had the effect of stablising the emerging debt problem. Fiscal Strategies pursued from 1998-99 have had a dramatic effect on reducing the level of State debt. Tasmania is now in a position financially to become one of the strongest performing States and Territories.

The Government introduced the current Fiscal Strategy with the 1998-99 Budget. Broadly, the Government's first Fiscal Strategy was concerned with reducing Net Debt and debt servicing levels. Its primary objective was to ensure responsible financial management while supporting industry development and job creation. The Fiscal Strategy was structured to run until the end of 2003-04. However, all targets have already been achieved. As a consequence, a new Fiscal Strategy is announced as part of this Budget. Further details are contained in Chapter 1 of this Budget Paper.

Tables 9.2 and 9.3 show the components of the Total State Government Sector Net Debt in nominal and real terms, respectively.

Table 9.2: Total State Government Sector Net Debt (nominal terms as at 30 June)

Year	General Government	Public Trading Enterprises	Total Non-Financial Public Sector	Public Financial Enterprises	Total State Government Sector
	$m	$m	$m	$m	$m
1994	**1 633**	**1 732**	**3 366**	**(284)**	**3 082**
1995	**1 631**	**1 684**	**3 316**	**(298)**	**3 016**
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)**	**2 704**
1999	**1 527**	**1 480**	**3 007**	**(345)**	**2 662**
2000	**1 162**	**1 451**	**2 613**	**(381)**	**2 229**
2001	**962**	**1 443**	**2 405**	**(452)**	**1 953**
2002 (est)	**780**	**1 759**	**2 539**	**(452)**	**2 087**
2003 (est)	**675**	**1 622**	**2 297**	**(452)**	**1 845**

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

Table 9.3: Total State Government Sector Net Debt (real terms as at 30 June 2003)

Year	General Government	Public Trading Enterprises	Total Non-Financial Public Sector	Public Financial Enterprises	Total State Government Sector
	$m	$m	$m	$m	$m
1994	**2 012**	**2 134**	**4 146**	**(350)**	**3 797**
1995	**1 948**	**2 011**	**3 961**	**(356)**	**3 602**
1996	**1 898**	**1 870**	**3 768**	**(354)**	**3 414**
1997	**1 880**	**1 744**	**3 625**	**(397)**	**3 228**
1998	**1 826**	**1 685**	**3 511**	**(442)**	**3 067**
1999	**1 715**	**1 662**	**3 378**	**(388)**	**2 990**
2000	**1 281**	**1 600**	**2 881**	**(420)**	**2 458**
2001	**1 003**	**1 504**	**2 507**	**(471)**	**2 036**
2002 (est)	**800**	**1 804**	**2 603**	**(463)**	**2 140**
2003 (est)	**675**	**1 622**	**2 297**	**(452)**	**1 845**

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

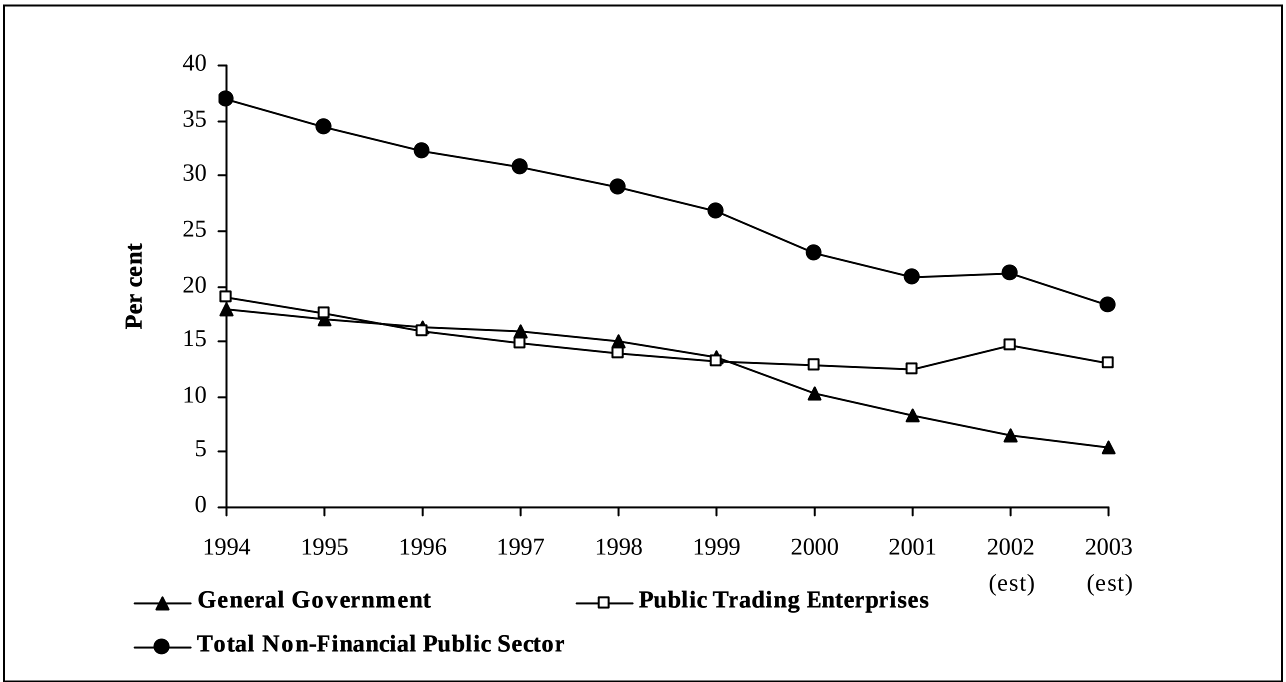
As can be seen from Table 9.2, the PTE Sector accounted for 60 per cent of Total Non-Financial Public Sector Net Debt as at 30 June 2001. This largely reflects the capital intensive nature of the State's hydro-electric systems and past borrowings by the then Hydro-Electric Commission (HEC) to fund power scheme construction.

The major points to note are as follows:

- General Government Sector Net Debt decreased by $200 million, or 17.2 per cent in nominal terms, from $1 162 million to $962 million between 30 June 2000 and 30 June 2001. In real terms, General Government Sector Net Debt decreased by 21.7 per cent from 30 June 2000 to 30 June 2001. The decrease reflects the repayment of borrowings from authority repayments, growth in the Special Deposits and Trust Fund and the Consolidated Fund Surplus for 2000-01. It is estimated that General Government Sector Net Debt will decrease by $182 million, or 18.9 per cent in nominal terms, from $962 million to $780 million between 30 June 2001 and 30 June 2002 and by a further $105 million, or 13.5 per cent in nominal terms between 30 June 2002 and 30 June 2003.
- Net Debt for the PTE Sector decreased by $8 million, or 0.6 per cent in nominal terms, from $1 451 million to $1 443 million between 30 June 2000 and 30 June 2001. It is estimated that PTE Sector Net Debt will increase by $316 million, or 21.9 per cent in nominal terms, from $1 443 million to $1 759 million between 30 June 2001 and 30 June 2002. The movement is primarily attributable to the purchase of two vessels by the TT-Line during 2001-02. Net Debt for the PTE sector will fall to $1 622 million by 30 June 2003.
- Total Non-Financial Public Sector Net Debt decreased by $208 million, or 7.9 per cent in nominal terms, from $2 613 million to $2 405 million between 30 June 2000 and 30 June 2001. The Total Non-Financial Public Sector is the consolidated total of the General Government and PTE Sectors. The movement in Net Debt is therefore directly linked to the movement in Net Debt of the component sectors after eliminating inter-sector transactions.
- Net Debt for the PFE Sector is negative which means that it holds net assets. PFE Sector net assets increased by $71 million, or 18.6 per cent in nominal terms, from $381 million to $452 million between 30 June 2000 and 30 June 2001. The negative Net Debt position of the PFE Sector primarily reflects the net assets held by the Motor Accidents Insurance Board (MAIB). The MAIB holds a significant level of cash and investments in order to fund its liability for outstanding claims. According to ABS classifications, this liability is not included in the calculation of Net Debt, but it will be included in the *Loan Council Outcomes Report 2001-02*.
- Total State Government Sector Net Debt has decreased by $276 million, or 12.3 per cent in nominal terms, from $2 229 million to $1 953 million between 30 June 2000 and 30 June 2001. The Total State Government Sector Net Debt is the consolidated total of the General Government, PTE and PFE Sectors. The movement in Net Debt is therefore directly linked to the movement in Net Debt of the component sectors after eliminating inter-sector transactions. There is an increase in Total State Sector Net Debt at 30 June 2002 as a result of the purchase of the two vessels by TT-Line. However, this is more than eliminated in 2002-03 with Net Debt falling to below the 30 June 2001 level.

As can be seen in Chart 9.4, General Government Sector Net Debt as a percentage of Gross State Product (GSP) has fallen from 13.6 per cent as at 30 June 2000 to 10.3 per cent as at 30 June 2001 and is estimated to fall to 5.4 per cent as at 30 June 2003. For the Total Non-Financial Public Sector, Net Debt as a percentage of GSP has fallen from 23.1 per cent as at 30 June 2000 to 20.8 per cent as at 30 June 2001 and is estimated to fall to 18.3 per cent as at 30 June 2003.

Chart 9.4: Total Non-Financial Public Sector Net Debt to Gross State Product



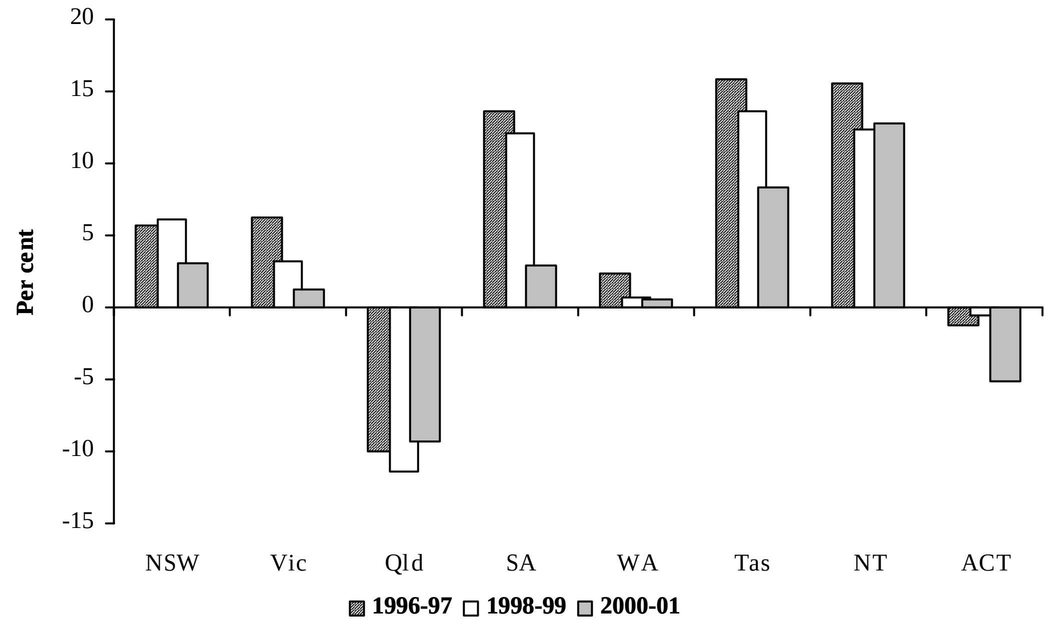
Sources: Australian Bureau of Statistics; Department of Treasury and Finance; *Australian National Accounts: State Accounts*, 2000-01, ABS Cat. No. 5220.0.

Interstate Comparison

Charts 9.5 and 9.6 show interstate comparisons for General Government and Total Non-Financial Public Sector Net Debt as a proportion of GSP for each of the latest three years for which comparable data is available.

Chart 9.5 shows that Tasmania's General Government Sector Net Debt as a proportion of GSP has been comparable with South Australia (until 2000-01) and the Northern Territory, but significantly higher than New South Wales, Victoria, Queensland, Western Australia and the Australian Capital Territory (ACT). The Chart shows 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 steady 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.

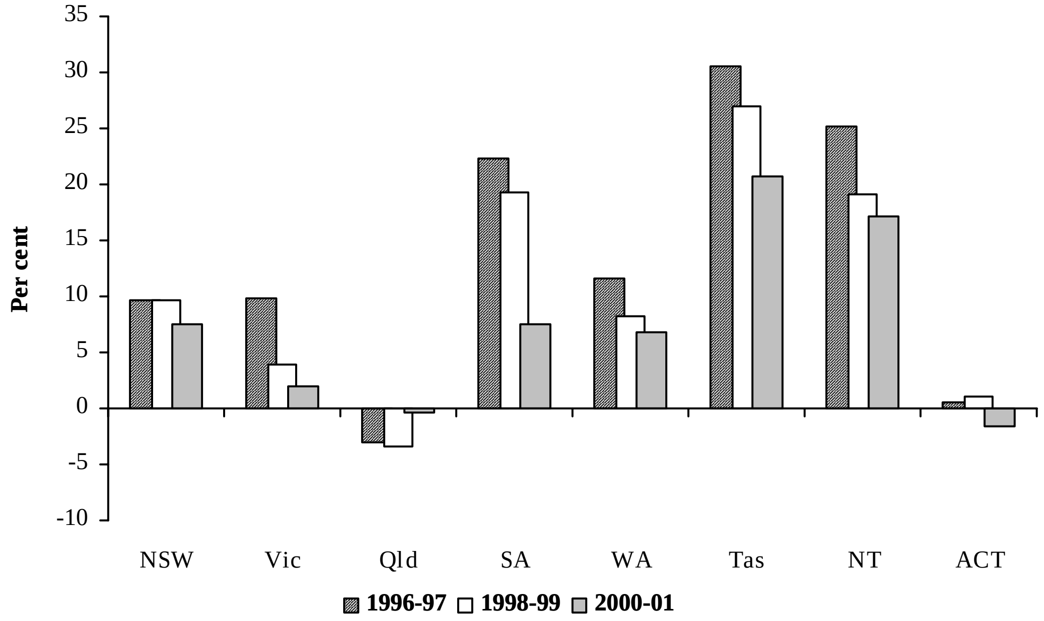
Chart 9.5: General Government Sector Net Debt as a percentage of GSP



Sources: *Government Financial Estimates, Australia* 2000-01, ABS Cat No 5501.0; *Australian National Accounts: State Accounts,* 2000-01, ABS Cat No 5220.0, Northern Territory Treasury.

Chart 9.6 shows that Tasmania, on a Total Non-Financial Public 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 PTEs, and a series of substantial deficits in the General Government Sector in the 1980s and early 1990s. Nevertheless, despite Tasmania recording the highest level of Total Non-Financial Public Sector Net Debt as a proportion of GSP in the five years to 2000–01, the State's net debt ratio has continually fallen since the introduction of the first Fiscal Strategy in 1990-91 and will continue to decline in accordance with the Government's new Fiscal Strategy announced in this Budget.

Chart 9.6: Total Non-Financial Public Sector Net Debt as a percentage of GSP



Sources: *Government Financial Estimates,* Australia 2000-2001, ABS Cat No 5501.0; *Australian National Accounts: State Accounts,* 2000-01, ABS Cat No 5220.0, Northern Territory Treasury.

Gross Debt

The Gross Debt for the General Government Sector as at 30 June 2001 was $1 871 million. This consisted of State Debt which is managed by Tascorp ($1 405 million), Commonwealth debt ($352 million), and other borrowings by General Government entities ($114 million).

The maturity profile is an important factor in the interest rate risk associated with the debt portfolio. When debt matures it is necessary to refinance the debt at prevailing market interest rates. By arranging an appropriate maturity profile, the portfolio will be protected in the short-term from movements in market interest rates. Table 9.4 provides a breakdown of the General Government Gross Debt by year of maturity.

Table 9.4: General Government Sector Gross Debt as at 30 June 2001 by Maturity

Year of Maturity	Tascorp Debt	Commonwealth Debt	Other Gross Debt	Total Gross Debt
	$m	$m	$m	$m
2000-01	**....**	**....**	**91**	**91**
2001-02	**837**	**36**	**1**	**874**
2002-03	**27**	**6**	**1**	**33**
2003-04	**134**	**42**	**....**	**176**
2004-05	**172**	**13**	**....**	**185**
2005-06	**156**	**13**	**21**	**189**
2006-07	**....**	**6**	**....**	**6**
2007-08	**46**	**6**	**....**	**52**
2008-09	**....**	**6**	**....**	**6**
2009-10	**....**	**7**	**....**	**7**
2010-11	**....**	**7**	**....**	**7**
Beyond 2011[1]	**33**	**217**	**....**	**245**
Total	**1 405**	**357**	**114**	**1 871**

Note:
1. The Commonwealth debt maturing beyond 2011 relates to Commonwealth-State Housing Loans which will be repaid over the next forty years.

INTEREST COSTS OF THE GOVERNMENT

The interest costs of the Government are influenced by both average interest rates and variations in the level of Net Debt.

Table 9.5 details the net interest costs paid by the General Government Sector and the net interest cost ratio (NICR). The NICR is one of the indicators that has been adopted to measure performance against the Fiscal Strategy targets. 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.

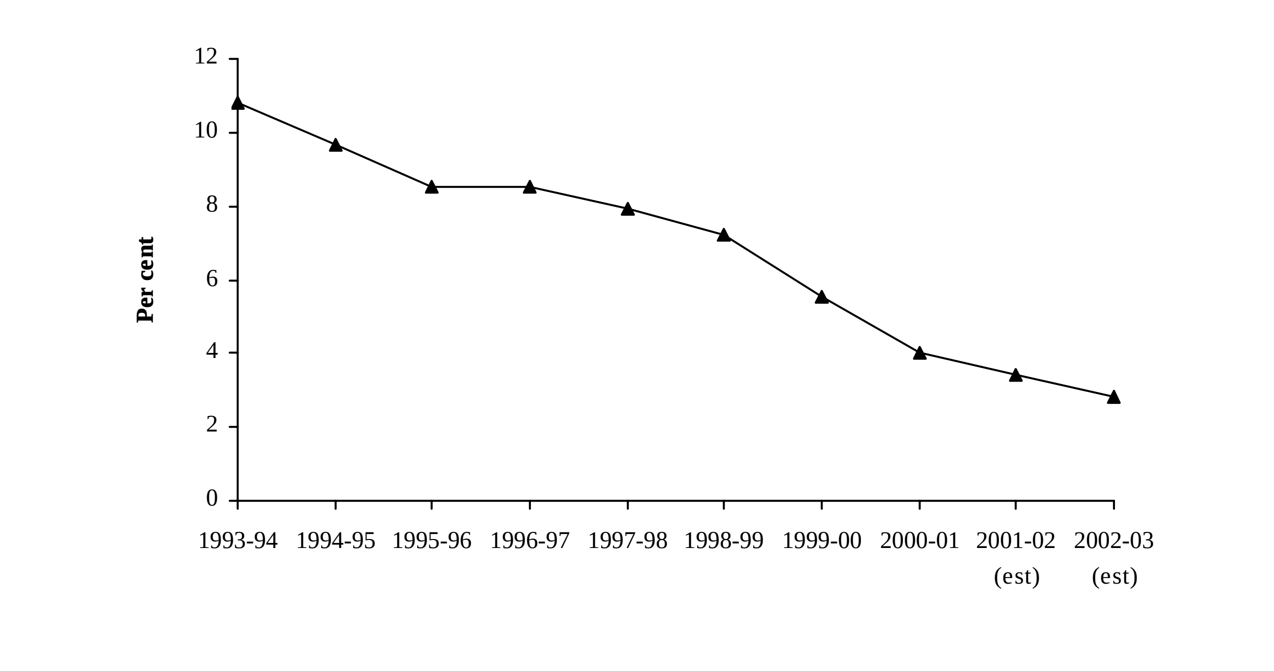
Table 9.5: Net Interest Cost Ratio - General Government Sector (cash basis as at 30 June)

	1994	1995	1996	1997	1998	1999	2000	2001	2002 (est)	2003 (est)
	$m	$m	$m	$m	$m	$m	$m	$m	$m	$m
Interest Paid	**273**	**242**	**233**	**212**	**200**	**185**	**160**	**125**	**108**	**92**
Interest Received:										
from PTEs	**55**	**51**	**40**	**33**	**26**	**23**	**15**	**12**	**3**	**3**
from other enterprises	**36**	**21**	**36**	**16**	**19**	**11**	**19**	**16**	**21**	**18**
Total Interest Received	**91**	**72**	**76**	**49**	**45**	**34**	**34**	**28**	**24**	**21**
Net Interest	**182**	**170**	**157**	**163**	**155**	**151**	**126**	**97**	**84**	**71**
General Government Total Receipts less Interest Received	**1 688**	**1 754**	**1 847**	**1 915**	**1 955**	**2 085**	**2 287**	**2 423**	**2 433**	**2 499**
Net Interest Cost Ratio	**10.8**	**9.7**	**8.5**	**8.5**	**7.9**	**7.2**	**5.5**	**4.0**	**3.5**	**2.8**

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

As can be seen in Chart 9.7, net interest costs as a proportion of General Government recurrent receipts have steadily declined since 1994 (peaking at 10.8 per cent in 1993-94), reflecting the Fiscal Strategies pursued by successive Governments to stabilise the level of debt and reduce the share of revenue required to service that debt. Under the Government's current Fiscal Strategy, the NICR was to be reduced to below five per cent by the year 2003-04. The target was achieved in 2000-01, and further reductions are now expected in accordance with the new Fiscal Strategy announced in this Budget. Further information on the new Fiscal Strategy can be found in Chapter 1 of this Budget Paper.

Chart 9.7: Net Interest Cost Ratio - General Government Sector



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

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. The 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 9.6. All States have a prime rating of P-1 / A-1+ on their short-term debt.

Table 9.6: Government Ratings

	Moody's	Standard & Poor's
New South Wales	**Aaa**	**AAA**
Queensland	**Aaa**	**AAA**
ACT	**Aaa**	**AAA**
Western Australia	**Aaa**	**AAA**
Victoria	**Aaa**	**AAA**
South Australia	**Aa2**	**AA+**
Tasmania	**Aa2**	**AA**
Northern Territory	**Aa2**	**n.a.**

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 are 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.

In October 2001, Standard & Poor's announced the upgrade of the State's long term, local and foreign currency credit ratings from 'AA-' to 'AA'. The credit upgrade is the first for Tasmania since ratings were assigned in 1991 and follows the assignment of a positive outlook in 2000. The 'outlook' is now stable and the S&P short-term rating remains 'A-1+'. The guaranteed debt issues of Tascorp have also been upgraded to 'AA'.

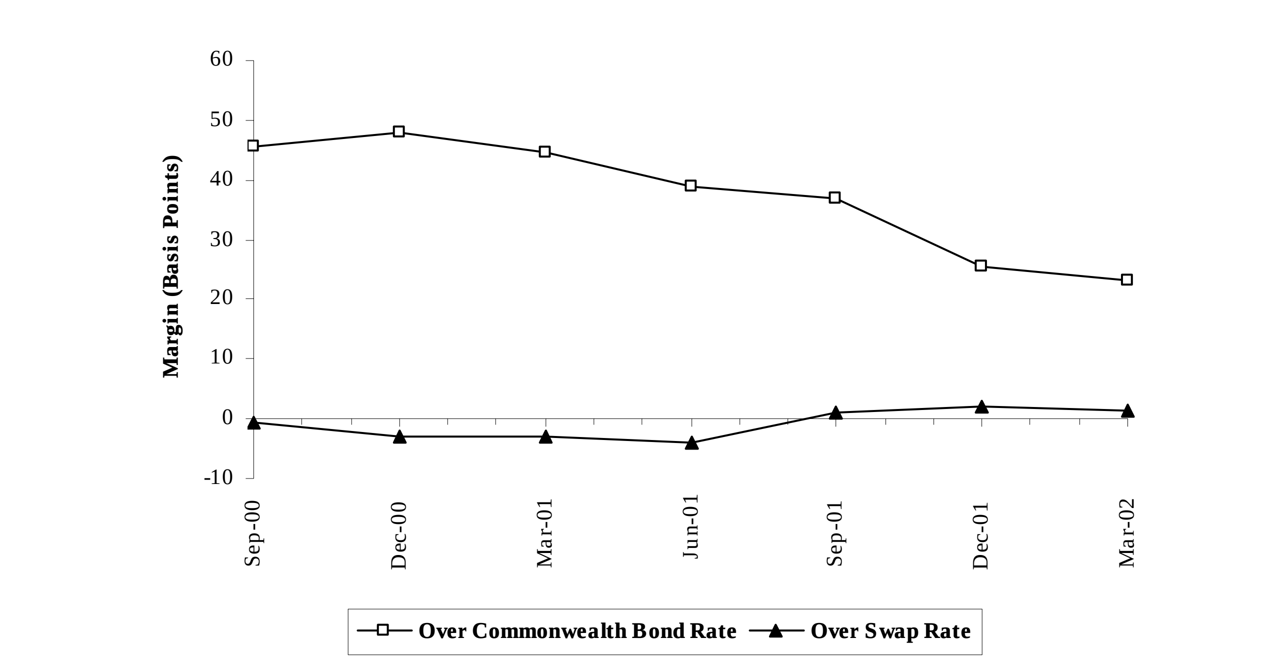
In arriving at its assessment, S&P noted a decade of impressive fiscal consolidation that warranted an upgrade. In S&P's own words "the deficits of the late 1980s and early 1990s have been eliminated, with particular improvement in the last few years, and the budget is now in surplus and set to stay there."

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

Moody's last visited Tasmania in November 2001, and a rating report from this visit is yet to be issued. The most recent rating from Moody's for Tasmania was in August 2001. In that report, Moody's re-affirmed its rating of 'Aa2' for long-term debt and Prime 1 (P-1) ratings for commercial paper for Tasmania. The rating outlook was viewed as stable.

COST OF DEBT

Chart 9.8: Tascorp Margins over Commonwealth Bond Rate and the Swap Rate, 2000 to 2002



Source: Tasmanian Public Finance Corporation.

Chart 9.8 shows the cost of Tasmania's borrowing compared with that of the Commonwealth Bond Rate and the Swap Rates. The former acts as a fixed rate benchmark for the best domestic credit in Australia while the latter is a proxy for the yield of major banks and highly rated corporates, raising fixed rate funds. Because Tascorp competes against the banks for a significant part of its lending business, the Swap Curve is considered a more relevant and liquid benchmark. The Chart shows the difference since September 2002 in market yields over time between Tascorp's seven per cent preferred stock, which matures on 15 July 2005, and the stock of an identical maturity issued by the Commonwealth and the Swap Curve.

The Chart shows that over the last 21 months since the launch of the July 2005 preferred stock, the Tasmanian Government's cost of financing has ranged between 23 and 48 basis points (based on the monthly average) greater than the Commonwealth Bond Rate. Conversely, borrowings by the Tasmanian Government have been between six basis points under and five basis points over the Swap Rate for the same period.

During the period covered by the Chart, various market-driven factors, of a relatively short-term nature, have impacted on the way in which the respective Commonwealth and Swap spreads have traded to Tascorp. These factors affect all credit instruments, regardless of the fundamental strength of the individual credit, reflecting the increasing focus of investors on the close relationship between market and credit risk. The convergence of the Commonwealth and Swap Curves is largely due to the diminishing supply of Commonwealth, State and non-government securities and, more recently, their improving credit outlook.

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.

Contingent and Other Liabilities

Borrowings Guaranteed by the Government

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 2002 are not yet available. Details on the actual level of guarantees as at 30 June 2002 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 9.7.

Table 9.7: Level of State Guarantees (as at 30 June)

Year	Contingent Liability
	$m
1991	8.53
1992	6.46
1993	5.11
1994	3.64
1995	3.22
1996	2.87
1997	2.33
1998	2.52
1999	2.50
2000	2.33
2001[1]	2.14

Note:
1. The amount for 2001 includes loans that have been advanced under the *Co-operative Housing Societies Act 1963* ($738 000), the *State Loans and Guarantees Act 1976* ($176 000), and the *Tasmanian Development Act 1983* ($1.23 million).

The Government's contingent liabilities amounted to $2.14 million as at 30 June 2001. 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 ARRANGEMENTS IN THE TASMANIAN PUBLIC SECTOR

Overview

A number of different superannuation arrangements operate in the Tasmanian public sector for public sector employees, members of Parliament, the judiciary and statutory legal officers. This section gives an account of those public sector superannuation arrangements that impact upon the Consolidated Fund.

Superannuation may be provided on a defined benefit basis, an accumulation basis (often referred to as a defined contribution basis) or a combination of both. A defined benefit scheme is one in which the benefits accruing on resignation, retirement or death are predetermined according to a formula established in the scheme rules or regulations. Since the end benefits are guaranteed under such a scheme and the employee pays a set proportion of salary into the scheme, the employer's actual contribution will vary depending on such factors as the earning rate on investments, the longevity of pensioners and the salary of employees in a defined period immediately before the benefit is calculated.

By comparison, an accumulation scheme is one in which the employer's contribution is fixed according to the scheme rules. Under such a scheme, the end benefit represents the accumulation of contributions by the employer and employee (if any), together with the investment earnings on those contributions. The end benefit of employees will vary with the level of employer and employee contributions and the earning rate on investments over the period of membership of the scheme.

A superannuation fund may be unfunded, partially funded or fully funded. An unfunded scheme is one in which the employer-financed benefit component is met on an 'emerging cost' basis when the employee retires, resigns or dies, without any money being set aside in the scheme by the employer for that individual's benefit. By contrast, a funded scheme is one in which the employer makes a regular contribution to the superannuation fund, reflecting the currently accruing liability in respect of employees.

Some schemes are partially funded such that there are both funded elements (usually relating to employee contributions) and unfunded elements (normally relating to employer contributions). In the past, most major public sector schemes within Australia have been unfunded in respect of employer contributions, but this is no longer the case for most schemes that are open to new members.

The major defined benefit schemes currently operating in the Tasmanian public sector are those established under the *Retirement Benefits Act 1993*, the *Parliamentary Superannuation Act 1973*, the *Parliamentary Retiring Benefits Act 1985* and the *Judges' Contributory Pensions Act 1968*. As discussed below, all these schemes are now closed to new entrants.

The fully funded Tasmanian Accumulation Scheme (TAS) was established under the provisions of the *Public Sector Superannuation Reform Act 1999* and replaced the unfunded RBF non-contributory scheme as from 25 April 2000.

The defining characteristics of these schemes are summarised in Table 9.8, together with details of the numbers of active members and, where appropriate, the number of superannuants.

Table 9.8: Tasmanian Public Sector Superannuation Schemes

Scheme established under the provisions of:	Status of scheme or sub-scheme	Active members	Superannuants Primary	Superannuants Other
Retirement Benefits Act 1993				
Defined benefit scheme [1, 2]	**closed (1999)**	**15 480**	**5 405**	**1 705**
Amalgamated scheme [1, 2, 3]	**closed (1971)**	**16**	**....**	**....**
Police Provident Fund [1, 2, 4, 6]	**closed (1963)**	**1**	**....**	**....**
Total		**15 497**	**5 405**	**1 705**
Public Sector Superannuation Reform Act 1999				
Tasmanian Accumulation Scheme [1, 2, 4, 6, 7]	**open**	**21 222**	**....**	**....**
Other complying superannuation schemes [7, 10]	**open**	**2 268**	**....**	**....**
Parliamentary Superannuation Act 1973 [1]	**closed (1985/1999)** [9]	**6**	**19**	**10**
Parliamentary Retiring Benefits Act 1985 [1, 5, 7]	**closed (1999)**	**26**	**....**	**....**
Judges' Contributory Pensions Act 1968 [1, 8]	**closed (1999)**	**5**	**6**	**5**
Solicitor-General Act 1983 [1, 8]	**closed (1999)**	**1**	**....**	**1**
Governor of Tasmania Act 1982 [1, 8]	**closed (1999)**	**1**	**1**	**....**
Total number of active members [11]		**39 026**		
Number of active members in fully funded schemes		**23 516**		
Percentage of active members in fully funded schemes		**60.3%**		

Notes:

1. For the purpose of the Commonwealth's *Superannuation Industry (Supervision) Act 1993*, these schemes are classified as Exempt Public Sector Superannuation Schemes (see Schedule 1AA of the *Superannuation Industry (Supervision) Regulations 1994)*.
2. Numbers for active members and superannuants (primary, reversionary and children) for the RBF schemes are as at 31 March 2002, as advised by the RBF Board.
3. Pension beneficiaries are included in the figures for the RBF defined benefit scheme.
4. The benefit is expressed as a lump sum, but may be converted by certain members to a CPI-indexed pension based on actuarially determined factors. In such cases, superannuants are included in the figures for the RBF defined benefit scheme.
5. The benefit payable under this Act is provided as a lump sum, although an allocated pension may be purchased from the RBF Board (which is available as an option to all active members, other than those 2 268 members in other complying superannuation schemes).
6. All schemes other than the Tasmanian Accumulation Scheme (TAS) and the Police Provident Fund (PPF) are defined benefit schemes. The level of employer support in TAS is currently eight per cent of salary (rising to nine per cent as from 1 July 2002), whereas in the closed PPF scheme it is 10.5 per cent of salary.
7. All schemes are unfunded in respect of employer contributions and are untaxed, except the Parliamentary Retiring Benefits Fund, established under the provisions of the *Parliamentary Retiring Benefits Act 1985*, the Tasmanian Accumulation Scheme and the other complying superannuation schemes.
8. These three schemes are constitutionally protected (see Schedule 14 of the Commonwealth's *Income Tax Regulations 1936*).
9. The Parliamentary Superannuation Scheme was closed in 1985 to all new parliamentary members, but until 1999 former members retained the right to rejoin the scheme upon re-election to Parliament. The scheme is now fully closed.
10. As obtained from Treasury's 30 June 2001 Whole-of-Government Financial Survey.
11. For the purposes of this table, active members include current public servants, parliamentarians, judges, the Governor and the Solicitor-General who are members of the relevant schemes. The number of superannuants is not included.

For the purposes of Table 9.8, a scheme is characterised as an 'open' scheme if new employees are generally able to join that scheme. Conversely, a 'closed' scheme is one that is generally no longer open to new employees. When a new superannuation scheme is introduced, existing members are usually entitled to remain in the scheme in which they started, even if it is closed to new entrants. In such cases, these members would obtain a benefit as determined by that scheme. In other cases, a transfer option to the new arrangements may be provided, on either a voluntary or, very rarely, on a compulsory basis.

Under the *Public Sector Superannuation Reform Act 1999,* the RBF defined benefit scheme was closed to new public sector employees on 15 May 1999 but was still open to certain temporary employees until 14 May 2002. The scheme is now effectively closed as only a very small number of employees remain eligible to join it.

It should be noted that in the case of the RBF schemes (including TAS), the figures detailed in Table 9.8 represent the number of accounts. In some cases, a person may be a member of more than one scheme, or may have more than one account with that scheme. In TAS, the incidence of one member having more than one account has fallen as a result of the steps taken by the RBF Board following the introduction of full employer funding in April 2000.

The information shown in Table 9.8 demonstrates that just over 60 per cent of Tasmanian public sector employees are members of fully funded, and hence fully portable, superannuation schemes. With the closure of the unfunded defined benefit schemes, this percentage will clearly increase over time.

1999 Public Sector Superannuation Reforms

The Government's decision in 1999 to close the public sector defined benefit schemes has capped the State's unfunded superannuation liability in the sense that virtually no new employees will add to this liability. However, the liability may increase in nominal terms over the short to medium term as the past service and salaries of existing defined benefit scheme members increase.

TAS commenced operation on 25 April 2000. The scheme covers all RBF non-contributory scheme members as at that date, together with all new permanent and fixed-term or temporary employees appointed after 15 May 1999. All members of the TAS scheme now have a fully funded, and fully portable, superannuation benefit. The level of employer superannuation support under TAS is eight per cent of salary, rising to nine per cent from 1 July 2002.

Employees eligible to join TAS have been provided with fund choice, which allows them to elect to have their employer and employee superannuation contributions (if any) paid to a complying superannuation scheme of their choice. As at 30 June 2001 there were 2 268 employees in 215 complying superannuation schemes.

In addition to providing a range of benefits to members, these reforms to Tasmania's public sector superannuation arrangements were necessary to control, and eventually reduce and eliminate, Tasmania's unfunded superannuation liability. This is a long term strategy that will provide greater budget flexibility for future Governments over time and enable them to prioritise expenditure more effectively.

Given that the employer contributions in respect of public sector employees who commenced on or after 15 May 1999 and members of Parliament, judges and statutory legal officers who commenced on or after 1 July 1999 are fully funded, there are no unfunded liabilities pertaining to these arrangements. The remainder of this section therefore covers those schemes for which the Government has unfunded liabilities.

Retirement Benefits Fund – Defined Benefit Scheme

Background

The RBF was established in accordance with the *Retirement Benefits Act 1970*. There were major amendments to the scheme in 1982, 1987, 1993 and in 1999. The *Retirement Benefits Act 1993* provides a framework for the closed defined benefit scheme, details of which are set out in the *Retirement Benefits Regulations 1994* and the *Retirement Benefits (Transitional) Regulations 1994*.

Funding

The RBF defined benefit scheme is an unfunded scheme in respect of employer contributions. 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. Agencies are currently required to pay into the SPA at a rate determined by the Treasurer, currently 11 per cent of salary for most agencies. The employer share of pensions and lump sum benefits payable to retiring employees in inner-Budget agencies are reimbursed to the RBF Board from this account. Employees are required to contribute to the RBF, generally at the rate of five per cent of salary, with such contributions invested by the RBF Board. These contributions and interest are termed RBF Assets in the remainder of this section.

Table 9.9: Superannuation Provision Account

Superannuation Provision Account (T780)	2000-01 Actual	2001-02 Revised Estimate	2002-03 Budget Estimate	2003-04 Forward Estimate	2004-05 Forward Estimate	2005-06 Forward Estimate
	$m	$m	$m	$m	$m	$m
Opening Balance	287.6	355.5	453.0	546.9	648.1	749.0
Receipts						
Agency contributions	74.3	74.4	71.4	68.5	65.8	63.2
Interest	18.2	20.2	25.0	29.9	34.9	40.0
Finance-General (R069)	73.9	105.1	109.3	117.3	124.2	131.3
Total Receipts	166.4	199.6	205.7	215.7	224.9	234.4
Expenditure						
Pensions	58.4	58.2	60.4	62.1	64.0	66.1
Lump sums	40.1	43.8	51.4	52.4	60.1	67.7
Total Expenditure	98.5	102.0	111.8	114.5	124.0	133.9
Closing Balance	355.5	453.0	546.9	648.1	749.0	849.5

Liabilities

The annual review of the state and sufficiency of the Retirement Benefits Fund as at 30 June 2001 was undertaken by the State Government Actuary and Table 9.10 shows the assets and liabilities of the RBF defined benefit scheme as at that date, compared to those as at 30 June in the previous year. The gross past service liability increased in 2001 by 6.9 per cent due to factors such as the accrual of additional years of service by scheme members, salary increases for public sector employees and indexation of pensions and retained benefits. For example, some occupational groups, such as teachers and nurses, have received pay increases above those assumed by the Actuary in earlier valuations.

Given the nominal 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 less provisions increasing in real terms. This effort is reflected in increased contributions to the SPA from the Finance-General account, as shown in Table 9.9.

Table 9.10: Unfunded RBF past service liability

	30 June 2000	30 June 2001	Variation
	$'000	**$'000**	**%**
Gross past service liability			
Defined benefit members	**1 291 405**	**1 406 353**	**8.9**
Superannuants	**1 278 567**	**1 353 983**	**5.9**
Compulsory preservation accounts [1]	**159 349**	**157 290**	**(1.3)**
Gross past service liability	**2 729 321**	**2 917 626**	**6.9**
***less* RBF scheme assets**	**865 713**	**940 600**	**8.7**
Unfunded past service liability	**1 863 608**	**1 977 026**	**6.1**
Provisions			
Superannuation Provision Account (T780)	**287 625**	**355 455**	**23.6**
Authority provisions	**304 677**	**324 823**	**6.6**
Credit for ANR pensions	**47 200**	**46 461**	**(1.6)**
Total provisions	**639 502**	**726 739**	**13.6**
Unfunded past service liability less provisions	**1 224 106**	**1 250 287**	**2.1**

Note:
1. These figures exclude compulsory preservation accounts held by current members of the defined benefit scheme. These liabilities are included as part of the liabilities for defined benefit scheme members.

The estimated RBF unfunded past service superannuation liability of $1 250 million as at 30 June 2001 does not correspond to the value of $1 986 million shown in the early part of this Chapter, which is reporting the total unfunded superannuation liability of the State Government Sector, for the four relevant schemes, without reference to the provisions of GBEs, SOCs, other authorities and the SPA. The amount shown in Table 9.10 relates to the scheme as a whole and takes into account provisions established by authorities and the balance of the SPA. It also includes the liabilities associated with a small number of employees and superannuants who are, or were, employed by authorities that are no longer the responsibility of the State Government, including the three regional water boards and the University of Tasmania. A reconciliation with the unfunded RBF superannuation liability as at 30 June 2001 reported in the consolidated financial statements is shown in Table 9.12.

In previous Budget Papers, estimates of the unfunded liability of the RBF scheme have been provided as at 30 June 1992, 1995, 1996 and 1997. These were calculated using assumptions adopted by previous actuaries.

The estimates of unfunded liabilities since that time have been based on consistent actuarial assumptions. Given the difficulties in making comparisons, only the post-1997 unfunded liabilities are reported in Table 9.11.

Table 9.11: RBF Scheme Past Service Unfunded Superannuation Liability at 30 June

Year	Liability
	$m
1998	**1 191.1**
1999	**1 225.2**
2000	**1 224.1**
2001	**1 250.3**

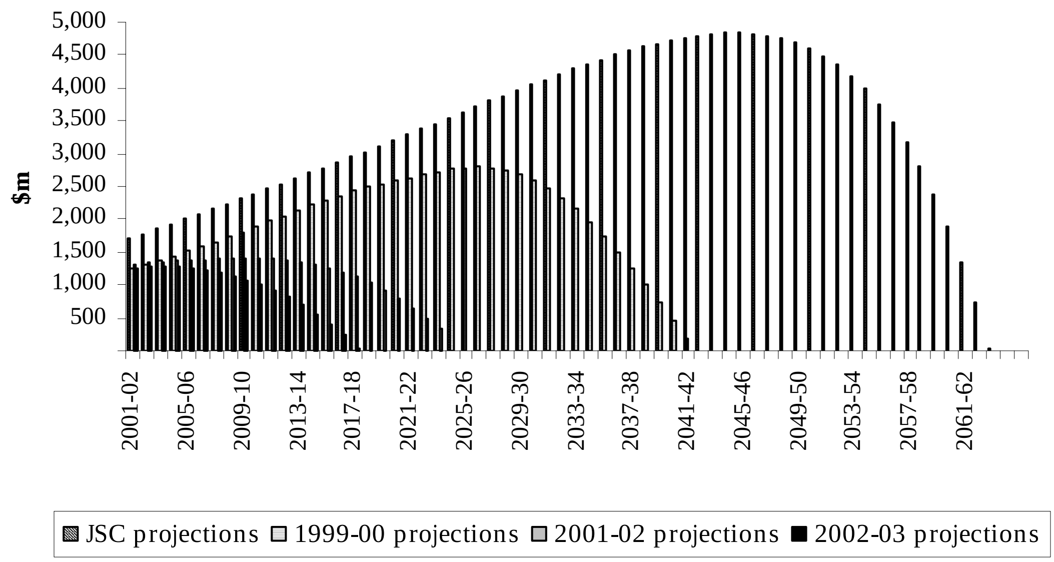
As outlined in Table 9.11, the State's unfunded past service liability less provisions for the RBF scheme as at 30 June 2001 increased by $26.2 million in comparison with the equivalent figure as at 30 June 2000.

It should be stressed that the aggregate unfunded liability figure of $1.25 billion represents the liability of the scheme as a whole, most of which will be funded from the Superannuation Provision Account over time. Government Business Enterprises, State-owned Companies and other relevant statutory authorities meet their liabilities from their own provisions on an emerging cost basis.

In some cases, the liabilities for some current or former RBF members are not those of the State Government or any State Authority. For instance, following the transfer of the Tasmanian Railways to the Commonwealth in 1975, the liabilities associated with former Tasmanian Railways employees, together with their widows or widowers, are met on an emerging cost basis by the Commonwealth Department of Finance and Administration. Similarly, the University of Tasmania is responsible for a proportion of the liabilities relating to former employees of the Tasmanian College of Advanced Education (TCAE), as a result of responsibility for the TCAE being transferred from the State to the University of Tasmania in the 1980s. While the gross unfunded liability figure includes these liabilities, the net unfunded liability also takes into account the provisions held by these other organisations.

Notwithstanding the nominal increase in the unfunded liability of the RBF scheme as at 30 June 2001, the most recent actuarial advice confirms that the State's unfunded liability is expected to be eliminated by around 2018, which is seven years earlier than projected in recent Budget Papers.

Chart 9.9: Projected Unfunded Liability (Nominal)



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, Fund exit experience, mortality, morbidity, inflation and the preference for lump sum benefits over pensions will vary from what has been assumed by the 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 actuary is requested to annually review both cash flow and unfunded liability estimates. These updates of the overall funding position will form the basis on which future inflows into the SPA are determined by the Government, having regard to revised outlay estimates and the new Fiscal Strategy target of eliminating the State's unfunded superannuation liability by 30 June 2018.

Parliamentary Superannuation Fund

Background

The Parliamentary Superannuation Fund is a defined benefit pension scheme established under the provisions of the *Parliamentary Superannuation Act 1973* and is the older of the two parliamentary schemes in operation. The scheme was closed to new members in 1985, but remained open to parliamentarians who, having been first elected before that date, were subsequently re-elected to Parliament after a period out of office. The 1999 reforms closed this scheme to re-elected parliamentarians and therefore allows no parliamentarians to re-enter the scheme.

Funding

The Parliamentary Superannuation Fund is an unfunded scheme, with the employer share of the benefits being met by the Government on an emerging cost basis.

Liabilities

The actuarial valuation of the scheme undertaken as at 30 June 2001 showed that the State's share of the past service liabilities as at that date was $12.2 million. These liabilities relate to seven members and 31 pensioners who were covered by the provisions of the *Parliamentary Superannuation Act 1973* as at that date (see Table 9.8 for current membership details).

Parliamentary Retiring Benefits Fund

Background

The Parliamentary Retiring Benefits Fund (PRBF) is a defined benefit lump sum scheme established under the provisions of the *Parliamentary Retiring Benefits Act 1985*. The scheme covers those members of Parliament first elected after 12 November 1985 and before 1 July 1999. Parliamentarians first elected after 1 July 1999 automatically become members of TAS unless they elect to join a private sector complying superannuation scheme.

Funding

The Government currently funds this scheme at the rate of 25.2 per cent of salary for each member of the scheme. This is above the scheme design level of 22.5 per cent of salary, and arises from the recommendation of the then actuary made as part of the 30 June 1995 review of the scheme. This contribution rate has since been endorsed by the current actuary.

Liabilities

The actuarial valuation of the scheme undertaken as at 30 June 2001 showed that the past service unfunded liability as at that date was $1.2 million. These liabilities relate to the 29 members of Parliament who were covered by the provisions of the *Parliamentary Retiring Benefits Act 1985* as at that date (see Table 9.8 for current membership details).

Judges' Scheme

Background

Superannuation arrangements for judges appointed before 1 July 1999 are specified in the *Judges' Contributory Pensions Act 1968* (Judges' Act). There is no Judges' Superannuation Fund as such, with the member contributions (at the rate of five per cent of salary) being deposited in, and all benefits being met from, the Consolidated Fund. The Judges' Act provides that the Judges' Trust Account (T828) is used for this purpose.

The judges' scheme is a defined benefit scheme that was closed to new entrants with effect from 1 July 1999. Judges and statutory legal officers appointed after that date automatically become members of TAS unless they elect to join a private sector complying superannuation scheme.

Funding

The judges' scheme is an unfunded scheme in respect of employer contributions, with all the benefits being met by the Government on an emerging cost basis.

Liabilities

The actuary has estimated that the past service unfunded liability as at 30 June 2001 was $20 million. These liabilities relate to the five members and 11 pensioners covered by the provisions of the Judges' Act and the one member and one pensioner covered by the provisions of the *Solicitor-General Act 1983* as at 30 June 2001. As at May 2002, there have been no changes to these numbers since that date.

Aggregate Unfunded Liability

The Tasmanian Government's 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 the various public sector superannuation schemes. As indicated above, an actuarial review was undertaken of each of the State's superannuation schemes as at 30 June 2001.

The details of each scheme, together with a reconciliation of the figures prepared for the earlier part of this Chapter, are outlined in Table 9.12.

Table 9.12: Reconciliation of Aggregate Unfunded Superannuation Liability as at 30 June 2001 – All Schemes

	Accrued Benefits	Plan Assets	Past Service Liability
	$'000	$'000	$'000
Retirement Benefits Act 1993 **- defined benefit scheme**[1]	**2 917 626**	**940 600**	**1 977 026**
Parliamentary Superannuation Act 1973	**18 788**	**6 616**	**12 172**
Parliamentary Retiring Benefits Act 1985	**8 439**	**7 247**	**1 192**
Judges' Contributory Pensions Act 1968	**20 020**	**....**	**20 020**
Total - all schemes	**2 964 873**	**954 463**	**2 010 410**
Less **total non-State Government Sector authorities**[2]	**24 096**	**7 256**	**16 840**
Adjustment for reporting differences[3]	**(7 139)**	**439**	**(7 578)**
Reported State Government Sector	**2 933 638**	**947 646**	**1 985 992**
less **GBEs, SOCs (as adjusted for reporting differences)**	**417 687**	**108 351**	**309 336**
Total All Schemes - General Government Sector[4]	**2 515 951**	**839 295**	**1 676 656**

Notes:

1. The net RBF unfunded superannuation liability of $1.977 billion is reduced to $1.25 billion when the balance of the SPA account and the ANR credit are taken into account (see Table 9.10).
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 and the Retirement Benefits Fund Board.
3. This reflects the fact that some authorities published liability figures which were different to those provided by the actuary at the time of the preparation of the Treasurer's Financial Statements for the year ended 30 June 2001.
4. The figures for the two Parliamentary schemes (and therefore the total) have been revised slightly by the actuary since the publication of the Treasurer's Financial Statements for the year ended 30 June 2001.

Table 9.13 shows that taking into account the balance of the SPA, the provisions established by authorities and the ANR credit, the aggregate unfunded liability of the State in respect of public sector superannuation was $1.284 billion as at 30 June 2001, of which the RBF unfunded liability comprised 97.4 per cent. The components of this amount and the changes since the previous year are also outlined in the Table.

Table 9.13: Aggregate Unfunded Superannuation Liability

All schemes - past service unfunded liabilities (including SPA, authority provisions, ANR credit)	**2000-01**	**1999-00**	**Difference**	**Variation**
	$'000	**$'000**	**$'000**	**%**
Retirement Benefits Act 1993	**1 250 288**	**1 224 106**	**26 182**	**2.1**
Parliamentary Superannuation Act 1973	**12 587**	**11 256**	**1 331**	**11.8**
Parliamentary Retiring Benefits Act 1985	**1 192**	**758**	**434**	**57.3**
Judges' Contributory Pensions Act 1968	**20 020**	**20 934**	**(914)**	**(4.4)**
Total	**1 284 087**	**1 257 054**	**27 032**	**2.2**

The liability of $1.284 billion is a contingent liability of the State. The Government has acted to reduce this liability by closing the unfunded defined benefit schemes to new entrants and substantially increasing its funding effort.

From 1 July 2002, there will be 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, all new employees, regardless of their employment status, will receive the same level of employer superannuation support (as a percentage of salary) from that date. The differential levels of employer superannuation support inherent in the defined benefit schemes will therefore be eliminated for such employees.

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.

History of the Fund

Prior to 1999, there was no clearly defined policy or strategy for the management of the risks to which agencies are exposed. Agencies provided for the costs of a relatively small number of risks through insurance with the private sector, but met the costs associated with uninsured risk as those costs were incurred. In addition, the costs associated with:

- workers' compensation were met through the Tasmanian State Service Workers' Compensation Scheme. The Scheme was a self-insurance arrangement that was established following the enactment of the *Workers' Rehabilitation and Compensation Act 1988*. All inner-Budget agencies and statutory authorities were required to participate in the Scheme; and
- the Government's light passenger vehicles were met through insurance purchased from the private sector.

The fact that no formal provision was made to meet the costs associated with the uninsured risks resulted from the lack of an established whole-of-government approach to risk management and insurance, rather than from a planned strategy to carry risk. Agencies were generally responsible for meeting the costs associated with the risks for which no provision was made. However, in some cases, agencies were unable to meet the costs associated with large and unexpected losses within their global allocations, with the result that it was necessary to fund those losses from the Treasurer's Reserve.

In December 1998, the Tasmanian Risk Management Fund was established to progressively provide for whole-of-government risk exposures from 1 January 1999. All inner-Budget agencies are required to participate in the Fund. Agencies pay contributions into the Tasmanian Risk Management Fund Account in the Special Deposits and Trust Fund to meet the claims costs for which the Fund is responsible, as well as administrative expenses. The Account is administered by the Department of Treasury and Finance and is strategically managed by the Tasmanian Risk Management Fund Steering Committee, an inter-departmental committee with representatives from participating agencies. The services of a Fund Administration Agent are retained on a contract basis to provide advice in relation to the identification, quantification and financing of risk and the placement of insurance / reinsurance.

In order to facilitate the transition to providing for risk through the Fund, the Steering Committee adopted a phased approach to the implementation of the Fund. In this way, there was a transition from agencies having little or no cover, to covering risks through the purchase of insurance from the private sector, to covering risks through self-insurance.

In 1999-00, whole-of-government cover was purchased for public / products / professional liability, motor vehicle, marine hull and personal accident / travel. In addition, a number of agencies purchased selective cover for risks not provided for through the whole-of-government covers. In 2000-01, whole-of-government cover was purchased for all risk except property and business interruption and medical malpractice. A number of agencies also purchased selective cover for property and business interruption. In both 1999-00 and 2000-01, the Fund placed each risk with the private sector.

From 1 July 2001, the Fund and the Tasmanian State Service Workers' Compensation Scheme merged. The Scheme operated on a fully funded basis and the reserves accumulated to meet workers' compensation liabilities were transferred to the Fund on 1 July 2001. The expanded Fund meets the costs associated with all risk to which agencies are exposed, including property and business interruption and medical negligence, through a mixture of insurance and self-insurance. In 2001, a tender was conducted to appoint a single Fund Administration Agent, incorporating the services previously sourced from the Fund Administration Agent for the Scheme and the Risk Management Agent for the Fund. A new Fund Administration Agent, Marsh Pty Ltd, was appointed for a three-year term from 1 July 2001.

Performance of the Fund

Table 9.14 summarises the total contributions paid by agencies to the Fund since its inception.

Table 9.14: Contributions Made by Participating Agencies to the Fund

	Total Contributions[1]
	$m
1999-00	**2.2**
2000-01	**3.6**
2001-02[2]	**30.6**
2002-03 (est)	**32.1**

Notes:
1. Inclusive of Goods and Services Tax (GST) from 2000-01. It should be noted that 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 2001-02 reflects the fact that the range of risks for which agencies purchased whole-of-government cover through the Fund has progressively increased, as noted above. In 2002-03:

- general risk management contributions will total $12.9 million as the Fund will provide cover for all risk to which agencies are exposed; and
- workers' compensation contributions to the Fund will total $19.1 million. The estimated 2002-03 workers' compensation contributions include a four per cent levy payable by the Fund to the Nominal insurer in 2002-03 as a result of the collapse of HIH in March 2001.

General Risk

The following tables summarise the claims experience of the major classes of general risk covered by the Fund.

Table 9.15: Number and Average Cost of Light Motor Vehicle Fleet Claims

	Number of Claims	Average Cost	Total Estimated Cost
		$	$
1999-00	**273**	**1 694**	**462 437**
2000-01	**160**	**2 356**	**376 984**
2001-02 [1]	**83**	**1 802**	**149 529**

Note:
1. Based on claims reported as at 31 December 2001.

Table 9.16: Number and Average Cost of Police Fleet Claims

	Number of Claims	Average Cost	Total Estimated Cost
		$	$
1999-00	**92**	**1 671**	**153 769**
2000-01	**113**	**1 617**	**182 739**
2001-02[1]	**37**	**2 110**	**78 059**

Note:
1. Based on claims reported as at 31 December 2001.

Table 9.17: Number and Average Cost of Housing Tasmania Claims

	Number of Claims	Average Cost	Total Estimated Cost
		$	$
1999-00	**2 741**	**670**	**1 836 181**
2000-01	**2 921**	**565**	**1 650 195**
2001-02[1]	**1 551**	**516**	**799 654**

Note:
1. Based on claims reported as at 31 December 2001.

Workers' Compensation

Table 9.18 summaries the total workers' compensation contributions paid by agencies to the former Scheme from 1989-90 to 2000-01 and to the Fund since 2001-02.

Table 9.18: Workers' Compensation Contributions Made by Participating Agencies

	Total Salaries	Total Contributions	Average Rate of Salary
	$m	$m	%
1989-90	779.1	8.3	1.07
1990-91	782.7	9.7	1.24
1991-92	754.0	11.2	1.49
1992-93	804.0	12.4	1.54
1993-94	785.7	13.2	1.68
1994-95	800.0	17.5	2.20
1995-96 [1]	819.0	28.5	3.48
1996-97 [1]	826.9	39.0	4.76
1997-98 [1]	867.2	38.0	4.38
1998-99 [1]	897.3	37.0	4.12
1999-00 [1]	927.0	32.6	3.52
2000-01 [2]	975.1	19.0	1.95
2001-02 [2]	1 009.9	18.7	1.85
2002-03 (est) [2]	1 046.1	19.1	1.83

Notes:

1. Until 1995-96, agency contributions were consistently less than the estimated total cost of claims. Consequently, it was necessary to levy an additional component in the years 1995-96 to 1999-00 to meet the unfunded cost of past claims. The Scheme became fully funded at 30 June 2000, with the result that it has not been necessary to levy an additional component since 1999-00.
2. Including Goods and Services Tax (GST). It should be noted that GST applies to contributions made by agencies after 1 July 2000. However, agencies are able to claim an Input Tax Credit on contributions.

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 9.19 shows the number and average cost of claims for each year since the inception of the Scheme.

Table 9.19: Number and Average Cost of Claims Against the Scheme

	Number of Claims[1]	Average Cost[2]	Total Estimated Cost
		$	$m
1989-90	3 457	3 645	12.601
1990-91	3 590	4 065	14.593
1991-92	3 394	6 128	20.798
1992-93	3 124	8 480	26.492
1993-94	3 119	11 352	35.407
1994-95	2 770	11 514	31.894
1995-96	2 458	9 713	23.875
1996-97	2 122	7 639	16.210
1997-98	1 905	8 297	15.806
1998-99	1 791	10 113	18.112
1999-00	1 732	9 376	16.239
2000-01 [3]	1 629	11 077	18.044
2001-02 (est) [3]	730	10 495	7.661

Notes:
1. The number of claims is the total number of claims reported as at 31 December 2001 that had occurred during each period, regardless of when each claim will actually be reported.
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 2001.
3. Excluding Goods and Services Tax.

Measures to Reduce the Number and Cost of Claims

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

- the production of an Annual Report which will include 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 will provide comprehensive information to agency managers on the performance of the Fund and the development of trends in specific risk areas over the preceding 12 months;
- the production of a quarterly Newsletter 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 1 of the Procedures Manual was issued in December 2001. Statements of Cover detailing the cover that the Fund will provide to agencies will also be developed as part of this process and included in Version 2 of the Procedures Manual, due for release in July 2002;

- the development of policies related to whole-of-government risk management issues, including consideration of a fleet purchase and use policy and a policy on insurance clauses included in agency contracts for the purchase of goods and services; and
- the development of a 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. Over the next two years, consideration will be given to introducing systems to enable agencies to report claims/incidents to the Fund and review claims experience via the Fund's website.

10 GOVERNMENT BUSINESSES AND AUTHORITIES

Features

- In 2002-03, financial returns to the State from government businesses are expected to total $152.0 million. Dividends are forecast to increase from $75.7 million in 2001-02 to $99.1 million in 2002-03 in line with the improving performance of government businesses.
- Financial returns from the State's three electricity businesses (Hydro Tasmania, Aurora Energy Pty Ltd and Transend Networks Pty Ltd) are estimated to amount to $131.3 million in 2002-03, or 86 per cent of total returns.
- The government business sector delivers critical economic infrastructure for the State. The strategic decisions taken, and investments made, by government businesses play a fundamental role in Tasmania's economic development. Several government businesses are at the centre of infrastructure proposals that will have a major bearing on the State's medium and long-term economic future.

INTRODUCTION

This chapter provides summary information on the State's government businesses, which comprise Government Business Enterprises (GBEs) and State-owned Companies (SOCs). The chapter also reports on certain statutory authorities. Information is provided in relation to:

- the level of financial returns paid to the State by government businesses (Table 10.1);
- corporate governance developments in the government business sector;
- the contribution that government businesses are making to the economic development of Tasmania; and
- profiles of GBEs, SOCs and statutory authorities.

The State Government owns a diverse portfolio of businesses, comprising 14 GBEs and nine SOCs. The businesses operate in many commercial markets including various primary industries, port operations, transport, financial services, construction, forestry and energy industries.

GBEs undertake commercial trading activities and are subject to the provisions of the *Government Business Enterprises Act 1995* (GBE Act), and to provisions contained in their enabling legislation.

SOCs operate on a fully commercial basis and, while established by enabling legislation, are also subject to the requirements of the Commonwealth's *Corporations Act 2001*.

A summary of the performance of each GBE and SOC is shown in Table 10.2. Full details on the operations and performance of each GBE, SOC and statutory authority for 2001-02 will be available in their respective annual reports, which are required to be tabled in Parliament by 30 November 2002.

PERFORMANCE OF GOVERNMENT BUSINESSES

In 2002-03, financial returns to the State from government businesses are expected to total $152.0 million, slightly lower than the budgeted returns of $155.7 million in 2001-02. Table 10.1 and Chart 10.1 show the actual financial returns from government businesses, in relation to guarantee fees, tax equivalents and dividends, for 1999-00 and 2000-01 and estimated financial returns for 2001-02 and 2002-03. A breakdown of estimated financial returns from individual government businesses during 2002-03 is shown in Table 4.4 in Chapter 4 of this Budget Paper.

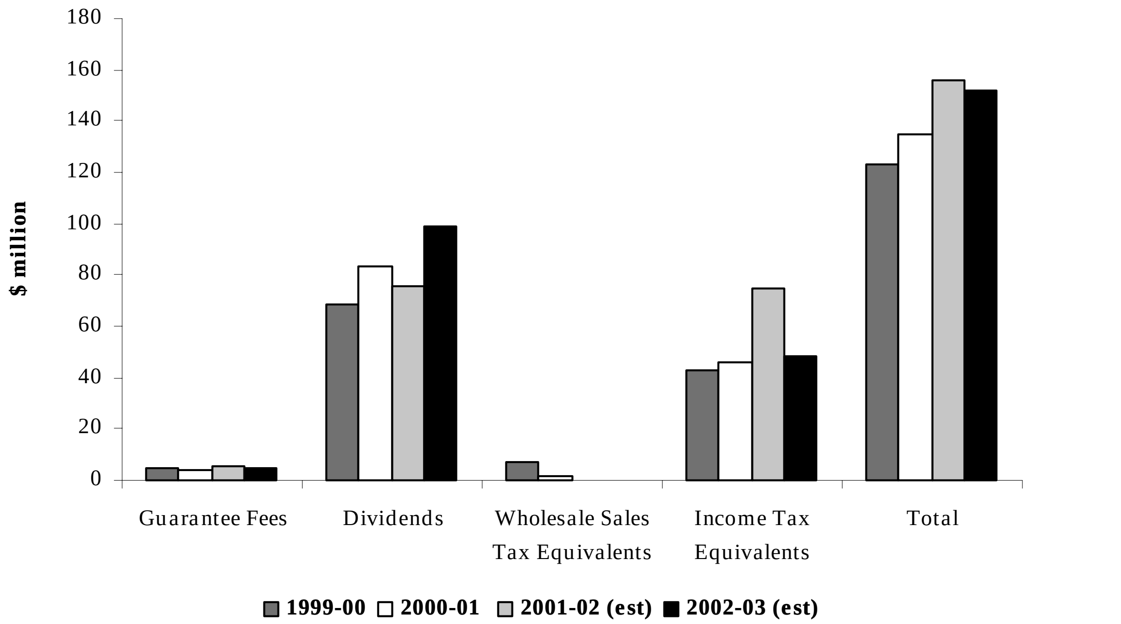
Table 10.1: Financial Returns from Government Businesses

	1999-00 Actual	2000-01 Actual	2001-02 Budget	2002-03 Budget
	$'000	$'000	$'000	$'000
Guarantee Fees	4 459	4 281	5 273	4 721
Dividends	68 871	83 762	75 723	99 090
Wholesale Sales Tax Equivalents[1]	6 670	1 289	....	....
Income Tax Equivalents[2]	43 020	45 653	74 712	48 242
Total	123 020	134 985	155 708	152 053

Notes:

1. On 1 July 2000, the Commonwealth Government abolished wholesale sales tax as part of its National Tax Reforms. Accordingly, wholesale sales tax equivalents collected in 2000-01 relate to transactions that occurred prior to 1 July 2000.
2. The projected decline in tax equivalent receipts in 2002-03 is largely due to the pre-payment of tax by Hydro Tasmania during 2001-02 and a one-off increase in tax equivalent payments by the three electricity businesses expected in the 2001-02 Budget as a result of the introduction of the Pay as You Go tax reforms.

Chart 10.1: Financial Returns from Government Businesses



Notes:

1. On 1 July 2000, the Commonwealth Government abolished wholesale sales tax as part of its National Tax Reforms. Accordingly, wholesale sales tax equivalents collected in 2000-01 relate to transactions that occurred prior to 1 July 2000.
2. The projected decline in tax equivalent receipts in 2002-03 is largely due to the pre-payment of tax by Hydro Tasmania during 2001-02 and a one-off increase in tax equivalent payments by the three electricity businesses expected in the 2001-02 Budget as a result of the introduction of the Pay as You Go tax reforms.

MAJOR DEVELOPMENTS

During 2001-02, the program of reform to improve the financial performance and commercial focus of government businesses continued.

This section discusses the major developments relating to government businesses in Tasmania which were initiated or completed during 2001-02 and those proposed for 2002-03.

Governance Framework

Performance Monitoring and Reporting

In terms of the ongoing administration of the GBE Act, draft corporate plans, covering a three year horizon and setting out planning strategies and performance targets, are required to be submitted by GBEs by the end of March each year. The draft plans are subject to review by the relevant Portfolio Minister and the Stakeholder Minister (the Treasurer).

SOCs are also expected to submit an annual business plan by 31 March each year under Article 8(b) of the SOCs' Articles of Association. The business plan identifies and forecasts the objectives, business and operating environment and performance goals of the company and sets benchmarks or targets against which actual performance can be compared.

Some of the major government businesses also present their corporate/business plans to relevant Ministers. This provides a more informed and open discussion between the Government as 'owner' shareholder and the Chairman/CEO of the businesses on strategic issues such as the future direction of the business, creation of shareholder value, borrowings, the capital expenditure program and anticipated returns to government.

The Government has introduced a range of initiatives to assist Tasmanian businesses to compete for the provision of goods and services to government. GBEs and SOCs are required to provide a quarterly report to the Government on any tender and contract undertaken of a value in excess of $50 000. The intention of procurement reporting is to monitor the level of involvement with Tasmanian business by the government business sector.

In 2001-02, the Government commenced collecting quarterly capital expenditure reports from SOCs in addition to the capital expenditure information currently collected from GBEs as part of their quarterly reports. The provision of quarterly capital expenditure information from all government businesses has enabled the Government to more accurately gauge the impact of capital expenditure by government businesses on the State economy.

The Government continued to monitor the financial performance of government businesses against planned performance targets set by the Board of each business. This performance management approach is part of the risk management strategy and accountability arrangements implemented by the Government as owners on behalf of the Tasmanian community.

Review of the Government Business Enterprises Act

The GBE Act was introduced in 1995 to place the State's major government businesses on a more commercial footing. As umbrella legislation, overarching the Portfolio Act establishing each GBE, it has provided the framework for continued improvement in the efficiency, effectiveness and accountability of the State's GBEs.

The GBE Act is wholly consistent with the five generally accepted principles underpinning corporatisation, namely:

- the setting of clear and non-conflicting objectives;
- providing for managerial responsibility, authority and autonomy;
- the existence of effective performance monitoring by the owner government;
- effective rewards and sanctions related to performance; and
- competitive neutrality relative to the private sector.

During 1999, a review of the GBE Act commenced to ensure that the Act reflects current best practice. A Review Group was established in September 1999 to identify, analyse and make recommendations for improvements to the existing GBE Act.

Drafting of legislation to encompass the recommendations that have legislative implications has commenced. Subject to the Government's final approval of the draft legislation, it is anticipated that a Government Business Enterprises Amendment Bill will be introduced into Parliament during 2002.

Community Service Obligations

The Department of Treasury and Finance is responsible for the policy framework for the identification and transparent funding of non-commercial activities undertaken by government businesses (in the case of GBEs, referred to as Community Service Obligations (CSOs) and in the case of SOCs, referred to as Community Service Agreements).

The Department also has direct responsibility for administering CSOs with The Public Trustee and with Hydro Tasmania. Administration of these CSOs involves ongoing quarterly financial review of CSO payments and the ongoing performance monitoring of the CSO contracts.

The Public Trustee CSO provides four categories of CSOs to the community, on behalf of Government:

- administration of Absolute Estates with a gross asset value of less than $60 000;
- administration of continuing Trust and Life Tenancy Estates with a gross asset value of less than $100 000;
- administration and management of Minor Trusts with a gross asset value of less than $20 000; and
- administration of assets for Represented Persons with a gross asset value of less than $100 000.

The Public Trustee contract is for a term of three years and is due to expire on 30 June 2003. An amount of $666 000 has been allocated in 2002-03 for the delivery of the CSO by The Public Trustee. The existing contract incorporates a number of performance indicators and benchmarks that have been monitored throughout the contract period to ensure the efficient and effective delivery of services.

The Bass Strait Islands CSO provides for the subsidised supply of electricity to Bass Strait Islands customers by Hydro Tasmania and the provision of concessions to pensioner customers on the Islands. This CSO has been funded since 1998-99 and is currently being renegotiated for a further three years. The level of funding for the Bass Strait Islands CSO in 2002-03 is estimated to be $6.17 million.

A review of the CSO policy framework and implementation guidelines will be undertaken during 2002-03. The purpose of the review will be to update the existing guidelines associated with the CSO Treasurer's Instruction and to implement recommendations arising from the review of the GBE Act.

Consultation with all relevant stakeholders and GBEs is anticipated to occur by late 2002.

Contribution to Economic Development in Tasmania

Government businesses are not only significant in terms of their size (see Table 10.2) but are major contributors to the economic development of Tasmania. In addition to providing significant financial returns to the State and employing over three and a half thousand Tasmanians (FTE basis), government businesses deliver some of the State's most important economic infrastructure, and through their strategic directions and investments, play a fundamental role in the economic development of the State.

Tasmania's energy sector is at the threshold of an era unprecedented since the initial development of the State's hydro system. Tasmania has now secured two nationally significant energy infrastructure projects - Basslink and the Tasmania Natural Gas Project (TNGP). These projects, with a combined investment in the order of $1 billion, will diversify the State's energy sector, introduce competition and create an environment for sustainable economic development. Basslink will enable the large-scale development of the State's world-class wind resource, with flow-on developments in the local manufacturing of wind generation equipment.

While the Government has actively facilitated these infrastructure developments and provided the broad regulatory framework within which they will progress, the State's electricity entities are playing pivotal commercial roles in bringing these projects to fruition.

Another significant development during 2001-02 was the decision to replace the *Spirit of Tasmania* with two vessels for its Bass Strait ferry service. The purchase of the two vessels will significantly strengthen a key aspect of the State's transport infrastructure as well as provide significant benefits to the Tasmanian economy through increased tourism, increased employment and increased business investment in tourism infrastructure and services.

The forest industry contributes about $1 billion each year to the Tasmanian economy. Forestry Tasmania, as custodian and manager of over 40 per cent of the State's forests, plays a central role in this important sector. Forestry Tasmania is also facilitating the development of world-class value adding activities within the State, including the Southwood Resources project.

More specific details on each of these major developments and the roles played by government businesses are provided below.

Basslink

Basslink is a 480 MW undersea link between Tasmania and Victoria which is being progressed by Basslink Pty Ltd. The link will enable Tasmania to join the National Electricity Market (NEM) and offers significant strategic benefits to Tasmania, Victoria and Australia as a whole. Moreover, Basslink offers an important commercial opportunity for Hydro Tasmania to realise the full value of its hydro system, delivering renewable and peaking power to those regions in Australia that require it.

This coalition of interest has been pivotal in securing Basslink. Hydro Tasmania has taken a leading role in underpinning the commerciality of this project, while the Government has established an energy reform framework and successfully negotiated the State's participation in the NEM with the Australian Competition and Consumer Commission and the NEM jurisdictions (at the end of 2001). Without this joint approach, it is highly unlikely that Basslink could have proceeded to this point.

The project will provide Tasmania with a reliable and flexible electricity supply response to meet its changing electricity needs at a competitive cost. The combination of Basslink and NEM participation will:

- introduce sustainable competition and customer choice in electricity generation by providing access to the Tasmanian market for interstate generators and encouraging new market entrants in retailing;
- provide a robust framework for new investment in the Tasmanian electricity supply industry;
- capture the synergies available from interconnecting the State's energy constrained hydro system with the capacity constrained, largely thermal mainland system, both in terms of improving security of supply and in electricity prices;
- enable the development of Tasmania's world-class wind resource and thereby assist Australia in meeting its international greenhouse gas commitments; and
- provide significant economic benefits to the Tasmanian, Victorian and national economies, particularly in the construction phase.

Wind

Analysis of wind farm development opportunities in Tasmania indicates that the State has some of the highest potential utilisation rates of any existing or planned wind sites in Australia. As a result, Tasmania has been the subject of much interest from a number of potential private operators of wind generation.

Tasmania has large areas of land where wind power development is compatible with current land use. The feasibility of negotiating agreements for land access for the purposes of investigation and ultimately development of wind generation has been clearly established. Together with a high-quality underlying resource, Tasmania's extensive transmission system, coupled with the State's low population density, make wind generation a real commercial opportunity.

By providing access to the NEM, Basslink is the key enabler for the large-scale development of the State's wind resources. Without Basslink, exploitation of wind would be limited to the natural growth in Tasmania's own electricity needs.

Building on its experience on the Bass Strait Islands, Hydro Tasmania is leading the way in the development of wind generation in Tasmania. It has commenced the development of a wind farm on the Woolnorth property in the North West of Tasmania. The initial stage of the development will see a 10 MW facility installed and on-line in 2002. When fully developed, the Woolnorth wind farm will have 130 MW of capacity.

The Government considers the development of Tasmania's renewable energy base as one of the key strategic opportunities and public benefits of Basslink and NEM participation. It is, therefore, keen to promote the development of the State's wind resources by both Hydro Tasmania and other developers.

Wind-based manufacturing

In February 2002, Hydro Tasmania announced a major partnership agreement with the world's leading wind turbine manufacturer, Vestas. The partnership was formalised with Hydro Tasmania giving a Notice to Proceed to the Danish manufacturer for construction of the plant for Hydro Tasmania's wind farm developments.

In order to meet the growth expected in the Australian market, Vestas has committed to the assembly of the turbine nacelles and the manufacture of fibreglass components for the turbines in northern Tasmania.

Hydro Tasmania's order with Vestas is the largest placed in Australia and demonstrates that Tasmania has achieved 'first-mover' advantage in that it has led to the establishment of wind component manufacturing in Australia.

The project value, including operations and maintenance support and civil works, is likely to amount to some $200 million over the life of the agreement. The associated new manufacturing industry (nacelle assembly plant) is expected to create up to 175 new jobs by 2003-04.

Natural Gas

The (Tasmania Natural Gas Project) TNGP is being progressed by Duke Energy International (Duke) and involves:

- the construction of a 305 km undersea gas transmission pipe between Victoria (Longford) and Tasmania (Bell Bay);
- the development of 430 km of gas transmission pipelines to supply gas to the north, north-west and south of the State;
- the conversion of the Bell Bay Power Station (BBPS) to natural gas and the sale of gas-generated electricity through the Tasmanian network; and
- the reticulation and retailing of natural gas to smaller commercial, industrial and residential customers, by one or more parties other than Duke.

The project is proceeding well, with Duke currently laying the undersea pipeline as well as the on-shore transmission laterals.

The Government established a competitive tender for the selection of a reticulator and retailer of gas to smaller industrial, commercial and residential customers. The tender closed in April 2002, and the preferred proponent(s) are expected to be selected in mid-2002.

Securing the TNGP required the identification of a base-load contract for gas usage. Hydro Tasmania has anchored the Government's initiative to bring natural gas to Tasmania as a foundation customer through the conversion of the Bell Bay Power Station from oil to gas fired operation. The main benefit that gas brings to Tasmania's large industry is a more cost effective and environmentally cleaner heat and steam-raising alternative compared with that of oil and coal. Gas will also provide greater surety of energy supply to underpin economic expansion.

Other economic contributions from the electricity entities

Tasmania's State-owned electricity transmission company, Transend Networks Pty Ltd (Transend), is essential to the local economy. As the link between power stations and the local distribution system, Transend's transmission lines move power around the State.

Transend's main operational goal is to keep the current flowing by aiming for a service that is as reliable as possible. In almost four years of operations, Transend has supplied on average more than 99.99 per cent of the electrical energy demanded by consumers around the State.

The company's goal is to further improve performance to meet the increasing demand for even better reliability. As homes and businesses grow more dependent on a reliable, high quality supply of electricity, consumers are less tolerant of supply interruptions and voltage fluctuations.

To reach that goal, Transend is investing heavily to upgrade and modernise Tasmania's electricity transmission system. In the three years since 1 July 1998, Transend invested $119 million to upgrade the system; by the end of 2001-02 the company estimates it will have invested a further $35 million. This is one of the largest investments in the Tasmanian economy by any business in recent years.

Basslink will link Tasmania to the eastern Australia transmission system via a connection at Transend's George Town Substation. Basslink represents a connection to the Tasmanian transmission system of more than double the capacity of any existing connection (load or generator). Transend is committed to meeting the Government's timetable for NEM entry and has allocated the necessary resources to ensure the successful implementation of this important project.

Aurora Energy Pty Ltd is the State's distributor and retailer of electricity, providing the essential infrastructure for the distribution of basic energy needs to 207 336 households and 40 465 commercial and government installations. Aurora's line crews patrol and maintain 15 700 kilometres of high voltage lines and 9 400 kilometres of low voltage lines. Aurora directly employs 809 people, with a further 63 on traineeships through Tas Group Training (as at March 2002), and returned $44 million to the community through its gross payroll in 2000-01.

Aurora is developing a range of new products and services other than electricity supply, by working with alliance partners to deliver to Tasmanians services such as telecommunications, insurance and insulation, as well as national pay-as-you-go electricity metering.

TT-Line Company Pty Ltd

Bass Strait transport is a vital issue to the Tasmanian public and economy. The Government's decision to purchase two vessels to replace the *Spirit of Tasmania* recognises the strategic importance of a reliable daily service across Bass Strait, enhancing a key aspect of the State's transport infrastructure. The proposal was considered within the context of stimulating travel to Tasmania as a holiday destination and the underlying significance of the travel/tourism industry to the State. The purchase of the two vessels will have a major beneficial impact on tourist operators, on tourism developments, on jobs and on the Tasmanian economy more generally.

The new service is expected to be of great economic benefit to both Tasmanian and Victorian tourism. From a Tasmanian perspective, the new TT-Line service is anticipated to boost in-bound tourism by around 36 000 visitors per annum in the early years of the business planning horizon, generating additional spending within the State of around $40 million per year. Over the medium term, independent estimates suggest that around 3 000 direct and indirect jobs will be created as a result of tourism spending from the higher visitation arising from the new vessels.

The tourism industry is a major contributor to the economy in terms of expenditure by visitors; employment in the tourism and supporting industries; generation of Gross State Product; and generation of government taxes and charges. Some $57 million worth of new tourism related development is under construction and a further $164 million under consideration. The enhancement of the TT-Line's service will provide a major trigger to bring these proposals to reality.

The Government's equity support for this project from the Budget is commensurate with the strategic importance of the two-vessel strategy for Tasmania and the economic benefits that will flow from this decision.

Forestry Tasmania

In November 1998, the State Government launched the Forestry Growth Plan (FGP). The FGP is a blueprint to grow Tasmania's wood resources to world-scale and to develop new world-competitive forest-based industry for the 21st century. Its objectives include integrating the management and processing of forest resources and investigating opportunities for industry development.

This involves expanding the softwood and hardwood forest resources to an international scale, using intensive forest management (IFM). Annual targets have been set for the establishment and thinning of eucalypt plantations, the expansion of radiata pine plantations and thinning native forests. The IFM program employs up to 300 contractors to prepare plantation sites, plant, fertilise and prune eucalypt plantations and thin native forests. Forestry Tasmania is a major contributor to the IFM program through its capital expansion program.

As part of the FGP, two integrated timber processing centres are proposed (these projects are generally referred to as Southwood). One site is to be based in the Huon and the other site is to be based at Circular Head. Each site will have a central merchandising yard from which a range of products will be distributed.

The timber processing centres will introduce the first modern rotary peeled veneer manufacturing facilities to the State. These will make a significant contribution in value adding by using 25 per cent of the existing regrowth pulpwood for rotary peeling with no increase in harvesting intensity or area.

These developments will improve returns and economies of scale through a reengineering of the current timber supply chain so that greater value recovery is realised and better outcomes overall achieved. These outcomes include increased wood recovery, greater operational safety, improved product quality and transport efficiencies.

The proposed timber processing centres are expected to deliver significant social, economic and regional development benefits for the State. Similarly, the infrastructure benefits are likely to open opportunities for local businesses. Estimated direct employment, once the Southwood Huon site is fully developed, is approximately 200 full time jobs and approximately $9 million each year in wages to the local community. During the construction period, up to 200 direct jobs are expected to be created. Flow-on effects are expected to create a similar number of jobs indirectly.

Forestry Tasmania is playing a key role in facilitating Forestry Growth Plan projects, and progressing investment ready timber production sites that will attract private sector investment to develop innovative timber processing in Tasmania.

PROFILES OF MAJOR GOVERNMENT BUSINESSES

The Government owns a diverse portfolio of businesses ranging in size from Hydro Tasmania, with net assets of $1.89 billion, to the Tasmanian International Velodrome Management Authority with net assets of $169 000. These businesses represent a substantial proportion of the State Government Sector and many undertake a major role in the Tasmanian economy.

Combined, GBEs and SOCs employ approximately 3 600 full time employees (FTEs), have net assets of $3.7 billion and annual operating revenues of approximately $2.0 billion. Table 10.2 lists the State's GBEs and SOCs and provides summary financial information as at 30 June 2001 and estimated financial returns to the Government for 2001-02.

The following section profiles the State's major government businesses in terms of financial performance and direction. For other government businesses and certain non-commercial statutory authorities, background information describing the function and future direction of the entity is provided.

Table 10:2: Summary Profile of Government Businesses

	Number of Employees 30 June 2001	Operating Revenue 2000-01	Profit after Tax 2000-01[1]	Returns to the State 2001-02 (est)[2]
	FTEs	$'000	$'000	$'000
Government Business Enterprises				
Civil Construction Corporation	130	26 527	(1 357)	....
Egg Marketing Board	5	211	(276)	....
Forestry Tasmania	564	169 870	19 096	4 007
Hydro Tasmania	639	331 746	15 224	88 431
Motor Accidents Insurance Board	37	117 558	3 618	....
Port Arthur Historic Site Management Authority	82	6 210	(1 501)	....
Printing Authority of Tasmania	73	8 747	226	60
Rivers and Water Supply Commission	7	2 124	(936)	80
Southern Regional Cemetery Trust	16	1 764	(45)	131
Stanley Cool Stores Board	2	594	124	94
Tasmanian Grain Elevators Board	10	7 796	140	103
Tasmanian International Velodrome Management Authority	7	277	(75)	....
Tasmanian Public Finance Corporation	14	454 726	4 976	7 261
The Public Trustee	49	3 885	244	100
State-owned Companies				
Aurora Energy Pty Ltd	810	572 499	20 146	29 487
Burnie Port Corporation Pty Ltd	48	11 513	(2 535)	43
Hobart Ports Corporation Pty Ltd	119	21 756	699	993
Metro Tasmania Pty Ltd	380	28 950	(53)	13
Port of Devonport Corporation Pty Ltd	41	10 748	216	1 265
Port of Launceston Pty Ltd	38	9 135	281	371
TOTE Tasmania Pty Ltd	102	30 830	534	1 154
Transend Networks Pty Ltd	91	77 939	10 066	22 115
TT-Line Company Pty Ltd	345	81 829	5 368	....
TOTAL	3 609	1 977 234	74 180	155 708

Sources: Auditor–General's Report No 2 *Government Departments and Public Bodies, November 2001* and 2000-01 annual reports of government businesses.

Notes:

1. Profit after tax is shown after abnormal items and deficit funding (if applicable).
2. Consists of guarantee fee, dividend and income tax equivalent payments.

Table 10.2: Summary Profile of Government Businesses (continued)

	Total Assets 30 June 2001[1]	Total Liabilities 30 June 2001	Net Assets 30 June 2001	Return on Equity 2000-01[2]
	$'000	$'000	$'000	%
Government Business Enterprises				
Civil Construction Corporation	12 713	5 845	6 868	(18.0)
Egg Marketing Board[3]	367	306	61	....
Forestry Tasmania	879 400	106 438	772 962	2.5
Hydro Tasmania	3 341 957	1 456 072	1 885 885	0.8
Motor Accidents Insurance Board	584 513	526 127	58 386	6.4
Port Arthur Historic Site Management Authority[4]	11 677	3 033	8 644	....
Printing Authority of Tasmania	4 221	2 421	1 800	15.2
Rivers and Water Supply Commission	38 209	15 993	22 216	(4.4)
Southern Regional Cemetery Trust	8 301	1 426	6 875	(0.6)
Stanley Cool Stores Board	1 519	171	1 348	9.3
Tasmanian Grain Elevators Board	5 196	2 058	3 138	4.5
Tasmanian International Velodrome Management Authority	318	149	169	(36.3)
Tasmanian Public Finance Corporation	5 054 070	5 044 070	10 000	49.8
The Public Trustee	5 961	4 896	1 065	24.3
State-owned Companies				
Aurora Energy Pty Ltd	792 095	528 926	263 169	8.0
Burnie Port Corporation Pty Ltd	38 337	22 025	16 312	(14.4)
Hobart Ports Corporation Pty Ltd	69 790	21 866	47 924	1.5
Metro Tasmania Pty Ltd	35 567	18 506	17 061	(0.3)
Port of Devonport Corporation Pty Ltd	45 161	10 943	34 218	0.6
Port of Launceston Pty Ltd	43 395	17 728	25 667	1.1
TOTE Tasmania Pty Ltd[5]	25 642	10 019	15 623	....
Transend Networks Pty Ltd	464 170	68 813	395 357	2.6
TT-Line Company Pty Ltd	119 601	57 318	62 283	9.0
TOTAL	11 582 180	7 925 149	3 657 031	....

Notes:
1. The assets of the Tasmanian Public Finance Corporation consist of advances made to public sector entities, including Government Business Enterprises and State-owned Companies, which are classified as liabilities for each individual entity.
2. Return on Equity is calculated as operating profit after income tax expense (excluding abnormal items) as a percentage of average net assets.
3. Return on Equity has not been calculated for this government business as the measure is no longer relevant due to the sale of its commercial operations in April 2001.
4. Return on Equity has not been calculated for this government business as it is in receipt of a grant and is not subject to a tax regime (which distorts this measure).
5. Return on Equity has not been calculated for this government business as the waiver of a licence fee of $2.0 million distorts this measure.

Government Business Enterprises

Civil Construction Corporation

The Civil Construction Services Corporation, trading as the Civil Construction Corporation (CCC), was established on 19 April 1995 as a civil construction business focusing on core areas of expertise in road and bridge maintenance and construction. It has expanded its core business to include civil asset management services, associated business process management, training services and plant hire. CCC promotes a total asset management philosophy.

The corporate goal of CCC is to be a customer-focused civil construction enterprise committed to achieving quality business outcomes through continuous improvement in all aspects of the civil contracting business.

The key factors affecting the operating environment of CCC are the economic environment and the highly competitive civil construction industry.

The major strategic directions of CCC are to:

- improve the wealth and profitability of the Corporation;
- set quality, OH&S and environmental benchmarks for the civil industry in Tasmania;
- develop and retain skills within the civil industry in Tasmania;
- provide work and development for subcontractors in Tasmania; and
- provide both direct and indirect employment opportunities for people in Tasmania.

To deliver these outcomes in a highly competitive environment, the Corporation will:

- increase market stability and penetration through alliances and business partnerships;
- develop niche markets that integrate skills and experience developed in the core activities of construction and asset maintenance;
- increase competitiveness by reducing the cost of doing business both at an operational level and within corporate overheads; and
- stabilise income streams and manage commercial risks by broadening the customer base of the Corporation.

Further information about CCC is available through the Internet at www.civilconstructioncorp.com.au.

Egg Marketing Board

The Egg Marketing Board (EMB) has the role of ensuring that egg producers generate an adequate supply of eggs to meet demand all year round. Prior to the cessation of its commercial operations, its major activities associated with this objective included egg supply management through a hen quota scheme, receipt of surplus eggs for processing into egg products for sale to the bakery/catering market, obtaining eggs for producers in short supply, promotion and quality assurance.

The EMB ceased its commercial operations on 30 April 2001 and its role associated with the management of the supply of eggs and egg products has been devolved. The Department of Primary Industries, Water and Environment is undertaking the management of the statutory functions of the hen quota scheme. Tasmania Quality Assured is carrying out the administration of other related functions under a contractual arrangement. A major egg producer has taken up the processing of surplus eggs and the supply of packaging previously undertaken by the EMB.

Since the introduction of the *Mutual Recognition (Tasmania) Act 1993*, the EMB has competed in an open national egg market, with no barriers to entry into Tasmania for interstate producers. The *Egg Industry Act 1988* is currently in the process of being amended, and will establish a new regime for the egg industry in Tasmania.

Forestry Tasmania

Forestry Tasmania is a GBE established under the *Forestry Act 1920*. Its main business is the sustainable production and delivery of forest products and services for optimum commercial returns and community benefit.

The key factors affecting the operating environment of Forestry Tasmania are:

- national and international markets for wood fibre and solid wood products; and
- environmental requirements to meet sustainable forest management standards.

Forestry Tasmania is continuing to work towards achieving the objectives of the Forestry Growth Plan, which is a twenty year plan to take Tasmanian forestry and forest based industries to a world competitive level in resources, harvesting, processing and technology.

As part of the Forestry Growth Plan, two integrated timber processing site development projects, known as Southwood Resources, are proposed within the State. One site is proposed to be based in the Huon and the other site is proposed to be based at Circular Head. It is intended that each site will have a central merchandising yard from which a range of products will be distributed to customers and increased value will be added to forest products.

The key business directions for Forestry Tasmania are to:

- expand hardwood resources through the Intensive Forest Management Program;
- diversify sales of wood fibre and solid wood products to national and new international markets;
- develop improved forest harvesting, transport and processing systems;
- promote investment in downstream processing;
- continuously improve forest management based on ecologically sustainable forest management principles set out in the Regional Forest Agreement; and
- market recreational and tourism potential within State forests.

Further information about Forestry Tasmania is available through the Internet at www.forestrytas.com.au.

Hydro Tasmania

The Hydro-Electric Corporation, trading as Hydro Tasmania, is a GBE operating in commercial markets. Its principal purpose is to undertake the following activities:

- generation and trading of electricity;
- development and operation of renewable energy generation assets; and
- provision of consulting and other services in renewable energy, environment and water management and associated sciences and technologies.

Hydro Tasmania's vision is to be Tasmania's world renowned renewable energy business.

Through its operations in the energy, asset and water management sectors, Hydro Tasmania will continue to strengthen areas of the business that will enhance its market position. Growing the business, responding to electricity supply industry reform and preparing for participation in the NEM are the key challenges facing Hydro Tasmania. At the same time, Hydro Tasmania will continue to focus on improving plant efficiency and effective risk management of its assets and business practices.

The major strategic direction for Hydro Tasmania over the next three years is to prepare the business for the increasing levels of competition in the local and national energy markets and to do so in conjunction with a renewable energy development program throughout Australasia. The development of Basslink will complement Hydro Tasmania's strategic objective of optimising Tasmania's hydro capability and maximising the hydro-wind energy synergy.

Hydro Tasmania established a subsidiary company, Bell Bay Power Pty Ltd, on 1 January 2002. The Bell Bay Power Station (BBPS) will be owned and managed by this new subsidiary. BBPS is to be converted from oil fired to natural gas during 2002. Once Tasmania enters the NEM, the subsidiary will be transferred to State Government ownership and corporatised as a State-owned Company. It will then operate as a fully independent generator of electricity, in competition with Hydro Tasmania.

Further information about Hydro Tasmania is available through the Internet at www.hydro.com.au.

Motor Accidents Insurance Board

The Motor Accidents Insurance Board (MAIB), established under the *Motor Accidents (Liabilities and Compensation) Act 1973*, provides a combined no fault and common law insurance coverage to persons injured in motor vehicle accidents in Tasmania. Premiums are levied according to vehicle class and are paid at the time of registration.

The MAIB is proactive in the prevention of road accidents by way of contributions to road safety programs and in rehabilitation and future care. The funding of these activities results in beneficial outcomes to all road users and people injured in road accidents and serves to reduce the cost of claims and maintain premiums at reasonable levels.

The key factors affecting the operating environment of the MAIB include:

- maximum premium capture through increases in motor vehicle registrations;
- the volatility of investment markets;
- the effectiveness of road safety programs;

- future care costs;
- the level of court awards; and
- the availability and costs of re-insurance.

The key business directions for the MAIB for 2002-03 are to:

- have in place 'best practice' solutions to meet the challenges created in providing no fault insurance services;
- ensure that an appropriate balance exists between premium income, the cost of claims and the MAIB's prudential requirements so as to achieve a sustainable return to the Government;
- reduce serious casualty claims through contributions to road safety programs;
- continually improve the service to claimants;
- effectively manage and fund the Injury Prevention and Management Foundation;
- advance the rehabilitation process with the aim of achieving acceptable outcomes for persons suffering injuries in motor vehicle accidents; and
- recognise the contribution made by the Board's staff and continue training and professional development on an ongoing basis.

Further information about the MAIB is available through the Internet at www.maib.tas.gov.au.

Port Arthur Historic Site Management Authority

The Port Arthur Historic Site Management Authority (PAHSMA) is responsible for the conservation of the Port Arthur Historic Site and its interpretation and presentation to visitors. This means PAHSMA largely operates within the tourism industry with the principal customers being visitors to the State. To achieve its objectives, PAHSMA is organised into the following main business units:

- conservation and infrastructure;
- visitor services;
- commercial operations (retailing and catering); and
- finance, administration and human resources.

In the 2000-01 State Budget, the Government announced a five year funding allocation to conserve the cultural heritage at the Port Arthur Historic Site (PAHS). The conservation management of the PAHS is primarily determined by the PAHS Conservation Plan 2000, adopted by the Board in April of that year. The Plan establishes the cultural significance of the Site, and sets out the broad strategic policies required to conserve that significance. The Plan adopts as its basic tenet that "there is nothing more important about the future management of the Port Arthur Historic Site than the obligation to achieve its long-term conservation". The PAHSMA Corporate Plan is prepared in accordance with the principles and policies of the Conservation Plan, and sets out the strategy and programs for implementation of these policies. The immediate challenges facing PAHSMA now are to:

- prioritise the conservation expenditure in the most effective manner to conserve the cultural significance of the Site and to meet the requirements of the State Government, visitors and PAHSMA staff;

- improve the financial returns from tourism activities, thus generating revenue for the future conservation needs of the Site;
- maximise opportunities for use of the new Port Arthur ferry and enhance harbour activities;
- build on the progress made by Port Arthur Region Marketing Ltd;
- open Point Puer for a range of specialist tours by March 2003; and
- ensure financial obligations for conservation can be maintained beyond 2005.

The key business directions for PAHSMA for 2002-03 are to:

- continue to implement the PAHS Conservation Plan;
- increase visitor numbers to the Site;
- increase revenue and reduce costs to make commercial activities more profitable;
- provide a quality, value for money visitor experience;
- develop cooperative strategies in consultation with State, Local Government and key stakeholders to protect the cultural landscape of the Tasman Peninsula adjacent to Port Arthur;
- develop and promote PAHSMA as a centre of excellence in conservation methodology;
- work towards securing world heritage status;
- work towards securing National Register Listing; and
- cooperate in the implementation of the Heritage Review 2000.

Further information about PAHSMA is available through the Internet at www.portarthur.org.au.

Printing Authority of Tasmania

The core business and main undertaking of the Printing Authority of Tasmania (PAT) is to provide a production facility for the Tasmanian Government and associated authorities and departments for commercially viable, quality, printed and electronically generated communications. Under its legislation, the PAT is restricted from competing in the Tasmanian open market for private work except in specific circumstances.

The PAT aims to provide the best quality product for its target market utilising the latest appropriate technology and cost effective innovations available to the printing industry.

The business direction for 2002-03 is to continually improve the performance of the PAT in a secure, sustainable and socially responsible manner by supplying goods and services that meet customer requirements.

Quality Assurance Accreditation to ISO International standards will be maintained to assist the business to remain focused on delivering reliable quality products and services to its customers.

Further information about the PAT is available through the Internet at www.pat.tas.gov.au.

Rivers and Water Supply Commission

The Rivers and Water Supply Commission is responsible for management of the following commercial activities throughout the State:

- South East Irrigation Scheme;
- Winnaleah Irrigation Scheme;
- Cressy-Longford Irrigation Scheme;
- Prosser River Water Supply Scheme;
- Togari Water Supply Scheme;
- Welcome River Improvement Scheme;
- Montagu River Improvement Scheme;
- Furneaux Drainage Scheme;
- Lobster Rivulet River Improvement Scheme; and
- Meander Valley Irrigation Scheme (not proclaimed).

The Commission is also responsible for ensuring that the management of its commercial operations is conducted on a sustainable and ecologically sound basis, whilst recognising the needs of industry, agriculture and the Tasmanian community.

The strategic directions for the 2002-03 financial year include:

- continuing the implementation within Tasmania of the water reforms agreed by the Council of Australian Governments (COAG) as part of National Competition Policy, including the transfer of the Cressy-Longford Irrigation Scheme to self-management by irrigators, and maintaining the debt reduction program;
- maintaining good liaison with customers and being responsive to their needs;
- meeting all statutory requirements and implementing environmental best practices; and
- achieving the maximum economic life from assets at the required level of service.

Further information about the Rivers and Water Supply Commission is available through the Internet at www.dpiwe.tas.gov.au.

Southern Regional Cemetery Trust

The vision for the Southern Regional Cemetery Trust is to be recognised as the leader in Southern Tasmania for funeral, burial, memorialisation and cremation services.

Its objectives are to ensure the viability of the business and to maximise the value of the Trust's assets.

Its strategies include:

- substantially upgrading the range of the Trust's burial, cremation, and related facilities and services;
- actively marketing core and new services;

- maximising revenue opportunities;
- improving organisational development and cost effective performance;
- developing more flexible financial management; and
- enhancing comprehensive service provision.

Current strategic activity includes detailed planning for expanding the present 60 seat capacity chapel and for improving its ambience, undertaking the construction of a further 32 crypts, developing an asset development plan and examining the Trust's future marketing program.

Stanley Cool Stores Board

The core business of the Stanley Cool Stores Board (SCSB) is the operation of a cool storage facility located at the port of Stanley. The key factor affecting the operating environment of the SCSB has been the renewal of a long-term lease with McCain Foods (Aust) Pty Ltd.

The Board's principal strategic directions include:

- ensuring that the facility is used to its fullest extent;
- operating the cool stores in a profitable manner; and
- considering future options for the cool store facility.

The strategic direction for the 2002-03 financial year will be to maintain the present value and profitability and to continue a capital expenditure program to ensure the facility meets international best practice standard.

Tasmanian Grain Elevators Board

The Tasmanian Grain Elevators Board (TGEB) is responsible for the receipt and distribution of Tasmania's grain requirements and maintaining sufficient grain reserves to meet demand. The business of the TGEB is the storage and handling of wheat, supplied by a number of traders including AWB Ltd, the accumulation of locally grown cereals and the trading of other imported grains and legumes.

The TGEB is the major supplier of wheat to the Tasmanian flour, stockfeed milling and intensive animal industries and is the key supplier of stock feed during adverse climatic conditions.

The TGEB operates in a highly variable environment typical of the agricultural sector. The grain market is driven by climatic conditions, which causes significant fluctuations in the supply of, and demand for, grain products.

There are several factors affecting the operations of the TGEB. These are:

- the declining market for wheat. Traded tonnage of wheat has been declining over the past five years due to a number of grain consuming businesses withdrawing from the Tasmanian market;
- the Tasmanian Wheat Freight Subsidy Scheme (TWFSS). The Commonwealth has advised that it is committed to the present funding of the TWFSS until 30 June 2003. Abolition of the scheme would have a serious impact on the TGEB's trade; and
- ongoing deregulation of agricultural markets has increased competition and reduced margins.

To reduce future operating risks, the TGEB has pursued an expanded range of commercial activities within the agricultural sector.

Further information about the TGEB is available through the Internet at www.tasgrain.com.au.

Tasmanian International Velodrome Management Authority

The Tasmanian International Velodrome Management Authority (the Authority) is responsible for the management and promotion of the velodrome and indoor sports, entertainment, exhibition and convention facilities known as the 'Silverdome' situated at the Kate Reed State Recreation Area near Launceston.

The Silverdome provides high quality entertainment, sport, exhibition and meeting facilities for the people of Tasmania.

The strategic directions for the Authority during 2002-03 are to:

- increase the variety of competitive sports using the facility, with particular emphasis on cycling and indoor sports;
- facilitate commercial sports, entertainment and business use of the Silverdome to improve the Silverdome's financial viability;
- develop efficient and effective use of Silverdome facilities; and
- develop community use of the Silverdome facility.

Further information about the Silverdome is available through the Internet at www.silverdome.com.au.

Tasmanian Public Finance Corporation

The Tasmanian Public Finance Corporation (Tascorp), established under the *Tasmanian Public Finance Corporation Act 1985*, is the Government's central borrowing authority. Its responsibilities include the development and implementation of borrowing and investment programs for the benefit of the State public sector. Tascorp also offers financial advisory services to State and local government authorities and government businesses.

The key factors affecting the operating environment of Tascorp are:

- new initiatives to improve the return on its own-account investment activities;
- the expansion of asset management products and services to clients;
- a trend decline in Tascorp's core lending to the State public sector arising from the Government's debt reduction strategy; and
- improvement in the efficiency of core business operations.

The key business directions for Tascorp for 2002-03 are:

- to meet the identified funding needs of clients, at the Tascorp yield curve, in a timely manner;
- to provide clients with a rate of return in excess of a relevant market benchmark;
- to identify and provide other high quality financial services to the Tasmanian public sector; and

- to achieve a reasonable return on net assets, while operating within appropriate levels of financial risk.

Further information about Tascorp is available through the Internet at www.tascorp.com.au.

The Public Trustee

The Public Trustee is empowered to act as executor, administrator or trustee under a will or settlement, as an attorney under a power of attorney, including an enduring power of attorney, and in a number of other capacities. The Public Trustee is also appointed as financial administrator by the Guardianship and Administration Board to act on behalf of, and protect the financial interests of, individuals with a disability.

The strategic direction of The Public Trustee for the 2002-03 year will focus on continuing to develop The Public Trustee as a specialist provider of trust and financial administration services.

As noted above, The Public Trustee administers a number of non-commercial matters as CSOs. The funding of the net avoidable costs incurred in the provision of these services is the subject of a three year agreement that has been negotiated with the Government, represented by the Treasurer as the Purchasing Minister. The agreement is effective from 1 July 2000.

As part of that process, new business process systems, identified in an analysis of core business processes to enhance operational efficiency, will be developed and implemented.

Further information about The Public Trustee is available through the Internet at www.publictrustee.tas.gov.au.

STATE-OWNED COMPANIES

Aurora Energy Pty Ltd

Aurora is responsible for the distribution and retailing of electricity throughout Tasmania. Aurora's goal is to be a world class services company, building new business from Aurora's strong Tasmanian distribution and retail base.

In delivering this vision, Aurora recognises the need to develop strategies that focus on:

- its core business (electricity distribution and retailing);
- the competitive impacts (threats and opportunities) which will be imposed by Tasmania's impending entry to the NEM and by the introduction of natural gas; and
- the growth of Aurora's business base through new business opportunities.

Aurora's mission and objectives are represented in a balanced scorecard system that drives its development and implementation of corporate strategies. Underpinning these objectives, however, is the key driver, which for Aurora is to increase total business value, involving one or more of:

- improving the operational efficiency and effectiveness of delivery of current services;
- expanding assets under management;
- increasing product offerings to existing retail customers;
- utilising existing Aurora competencies and services to deliver new ventures; and
- broadening Aurora's potential customer base, and increasing its operational scale to defray fixed costs.

Aurora also provides pensioner concessions for electricity as a Community Service Agreement (CSA) on behalf of the Department of Health and Human Services. The amount of funding provided is approximately $9.57 million in 2002-03.

Further information about Aurora is available through the Internet at www.auroraenergy.com.au.

Burnie Port Corporation Pty Ltd

The Burnie Port Corporation Pty Ltd (BPC) is responsible for the planning, development and operation of the seaport at Burnie on the North-West coast of Tasmania.

The mission of the BPC is to facilitate the safe and efficient movement of cargo and passengers into and out of Tasmania.

The vision of the BPC is to be a vibrant and commercially sound port, providing high quality services and facilities to its customers and to be capable of responding in a timely manner to the future sea transport needs of industry in the region and the State.

The key factors affecting the operating environment of the BPC are State, national and international economic conditions.

Further information about the BPC is available through the Internet at www.burnieport.com.au.

Hobart Ports Corporation Pty Ltd

The primary function of the Hobart Ports Corporation Pty Ltd (HPC) is to manage overall port operations covering the movement of vessels and the provision of cargo-handling facilities.

Diversification into, principally, port-related property has occurred in more recent years to obtain improved returns from assets not fully utilised for shipping activities. The HPC also holds a shareholding in Hobart International Airport Pty Ltd. The King Island Ports Corporation Pty Ltd is a wholly owned subsidiary of the HPC.

The vision of the HPC is to be a globally competitive provider of integrated trade and transport services for Tasmania. This diversification will enable it to compete effectively and efficiently in a competitive environment for the benefit of Tasmania.

The key factors affecting the operating environment of the HPC are:

- export production in southern Tasmania; and
- the level of activity in the Hobart property market.

The key business directions for the HPC for 2002-03 are:

- consolidation of core activities to improve profitability; and
- development of cargo and stevedoring services.

Further information about the HPC is available through the Internet at www.hpc.com.au.

Metro Tasmania Pty Ltd

Metro Tasmania Pty Ltd (Metro) was established under the *Metro Tasmania Act 1997* as a State-owned Company, which provides a public urban road transport service in the metropolitan areas of Hobart, Launceston and Burnie.

In May 1999, Metro formed a subsidiary company, Hobart Coaches (Tas) Pty Ltd, to operate bus passenger services purchased by Metro from Hobart to Kingston/Blackmans Bay, the Channel, Richmond and New Norfolk.

The current Community Service Activity contract for the provision of public urban transport services commenced on 1 July 2001. Funding of $19.5 million budgeted by the Department of Infrastructure, Energy and Resources for 2002-03 is subject to quarterly indexation by means of the 'Metro Index' as defined and calculated under the *Government Prices Oversight (Metro Bus Fares) Order 2000*.

The key factor affecting the operating environment of Metro is the level of economic activity, which impacts on Metro's patronage and fares revenue.

Metro's strategic directions for the next three years are to focus on meeting its commercial obligations to the Government and its customers by:

- structuring Metro's financial, operational and customer activities so as to successfully meet future passenger transport service demands; and
- minimising the total cost of delivering the agreed level and quality of services.

Metro is also required to have regard to the Government's obligations under the Council of Australian Governments' agreement on future policies, procedures and practices concerning the transport industry.

The key business directions for Metro for 2002-03 are to:

- continue the implementation of its bus replacement program to maintain a modern fleet and meet its undertakings under its Disability Action Plan;
- to replace the existing ticketing system, which is nearing obsolescence, with a new ticketing system, which will utilise the latest smart card technology;
- implement measures to consolidate the halt in the decline of patronage achieved in the last two years by providing services more tailored to the public's needs;
- reduce operating costs by introducing changes to work practices and through enterprise bargaining agreements that improve efficiency and productivity; and
- increase revenue from non-core activities, including advertising and bus charter.

Further information about Metro is available through the Internet at www.metrotas.com.au.

Port of Devonport Corporation Pty Ltd

The Port of Devonport Corporation Pty Ltd (PDC) owns and operates the sea and air ports at Devonport.

The PDC's mission is to provide, maintain and manage port and airport facilities and services in accordance with sound commercial practice so as to facilitate the efficient, reliable and safe movement of ships, aircraft, cargo and passengers through the port and airport for the benefit of the region and the State.

The principal objectives of the PDC are:

- to facilitate trade for the benefit of Tasmania; and
- to operate its activities in accordance with sound commercial practice.

The key factors affecting the operating environment of the PDC are:

- regional, national and international economic conditions and trade opportunities; and
- the competitive nature of the Tasmanian ports system.

The key business directions for the PDC for 2002-03 are to:

- build on the existing cargo mix and to diversify these cargoes; and
- provide improved facilities and services.

Further information about the PDC is available through the Internet at www.portdev.com.au.

Port of Launceston Pty Ltd

The Port of Launceston Pty Ltd (POL) was incorporated on 30 July 1997. A wholly owned subsidiary, the Flinders Island Ports Corporation Pty Ltd, was also established at this time.

The POL provides, maintains, operates and manages port facilities and services in the Tamar area.

The principal objectives of the POL are to facilitate trade for the benefit of Tasmania and to operate its activity in accordance with sound commercial practice.

The key factors affecting the operating environment of the POL are:

- commodity prices;
- the Tasmanian economy;
- exchange rates;
- competitors' policies; and
- productivity of neighbouring industries.

The policy objectives of the POL include:

- to be responsive to customer requirements;
- to ensure the provision of appropriate facilities and essential operational services from its own resources, or by other businesses; and
- to ensure the long-term commercial strength of the Corporation, given its move towards full private enterprise operating principles.

The key business direction for POL for 2002-03 is to continue to expand its trade base.

Further information about the POL is available through the Internet at www.portlaun.com.au.

TOTE Tasmania Pty Ltd

TOTE Tasmania Pty Ltd (the TOTE) conducts totalizator betting in Tasmania in accordance with the *Racing and Gaming Act 1952* and has responsibility for planning, administering and marketing the Tasmanian racing industry. The TOTE sells wagering products to consumers with the majority of these products being pool based such that the return to the TOTE is known and fixed for each event. The exception to this is the fixed odds bets – Triwin and Sportsbet. A fully owned subsidiary, Tasradio Pty Ltd, provides a radio service for the racing industry.

Key issues for the TOTE during 2002-03 include:

- retention of share of wagering market in light of increased competition from interstate TABs and corporate bookmakers;
- optimising technological solutions to preserve market share and provide better customer service;
- increasing the share of wagering on Tasmanian product (currently 92 per cent of TOTE turnover is generated from imported product);

- maximising utilisation of assets so as to gain economies of scale and higher levels of cost effectiveness; and
- increasing the number of racing and breeding animals and associated personnel.

The following strategic objectives have been developed to address the key issues faced by the TOTE:

Immediate

- improve customer service in retail operations and telephone betting;
- improve the entertainment offer via new products;
- commence interactive wagering via the Internet;
- work with the local racing industry and interstate TABs to compete against corporate bookmakers; and
- improve the contribution to industry funding.

Medium – Long-Term

- diversify the product offer to non pari mutuel products;
- further develop the TOTE's Internet site;
- seek to enter into a strategic alliance with a large national company in the leisure and entertainment industry; and
- commence work to improve the output of the breeding industry.

Further information about the TOTE is available through the Internet at www.totetas.com.au.

Transend Networks Pty Ltd

Transend Networks Pty Ltd (Transend) owns and operates the electricity transmission system in Tasmania, the link between power stations and the local electricity distribution network. The company's mission is to efficiently provide a reliable and secure electricity transmission service to consumers at a cost commensurate with appropriate and sustainable returns to its shareholders.

Key issues for Transend during 2002-03 include:

- continuing a capital upgrade program with the goal of improving the reliability and security of the transmission system;
- preparing a submission to the Australian Competition and Consumer Commission for Transend's next revenue determination; and
- working with the Department of Treasury and Finance, other Tasmanian electricity entities, and the National Electricity Market Management Company (NEMMCO) to facilitate Tasmania's entry into the NEM, and the successful implementation of Basslink.

The main objectives of Transend's capital upgrade program are to improve the reliability of Tasmania's transmission system and to reduce the risk of interruptions to the power supply. The upgrades will also improve operational efficiency and mitigate environmental risks.

A consequence of Tasmania's proposed NEM entry is that regulation of the transmission business will transfer to the ACCC from the Office of the Tasmanian Energy Regulator. Transend's next revenue determination will therefore be conducted by the ACCC and implemented under the *Tasmanian Electricity Code* in the first instance.

Prior to joining the NEM, responsibility for power system security in Tasmania will transfer to NEMMCO from Transend. A transition program is being established to ensure that systems and processes are in place to enable this to occur without disruption.

Basslink will be a significant connection to Tasmania's electricity transmission system, and requires detailed technical assessment by Transend to ensure the ongoing safe and secure operation of the Tasmanian power system.

The concurrency of the revenue determination, NEM entry, and Basslink projects will place a significant demand on Transend's resources during the period.

Further information about Transend is available through the Internet at www.transend.com.au.

TT-Line Company Pty Ltd

During 2002-03, TT-Line Company Pty Ltd (TT-Line) will operate the *Spirit of Tasmania* to the end of August 2002, at which time it will be replaced by two new vessels to be named *Spirit of Tasmania I* and *Spirit of Tasmania II*. The new vessels will operate a daily service between Melbourne and Devonport increasing to twice daily during peak periods and when demand warrants.

The *Devil Cat* charter finished in April 2002 and will not be continued.

For 2001-02, it is estimated that a total of 345 000 passengers will be carried on the *Spirit of Tasmania* and the *Devil Cat*, representing an increase of 16 000 from 2000-01. In addition, it is estimated that 22 000 twenty foot equivalent units of freight and 135 000 vehicles will be carried.

Both new vessels are roll on/roll off with 2 470 lane metres to accommodate vehicles and freight and have 750 berths and 126 cruise seats and can carry up to 1 400 passengers. In addition, they can travel at speeds in excess of 27 knots, cutting the crossing time to nine hours.

In 2002-03, TT-Line will be in a position to achieve its objective of:

- providing a daily service;
- providing additional passenger and vehicle capacity especially during peak and shoulder periods;
- increasing freight service and capacity; and
- providing Tasmania with transport infrastructure needed for the future.

The key business direction for TT-Line for 2002-03 will be to successfully market the new vessels and provide a service that benefits all of Tasmania.

Further information about TT-Line is available through the Internet at www.tt-line.com.au.

STATUTORY AUTHORITIES

Private Forests Tasmania

Private Forests Tasmania is a statutory authority established by the *Private Forests Act 1994* to promote, foster and assist the private forest sector to sustainably manage native forests and encourage the expansion of plantations on private land.

The Act provides Private Forests Tasmania with clear governance responsibilities that recognise the economic and environmental importance of Tasmania's private forests and the significant contribution and potential they have for the overall industry.

The core roles of Private Forests Tasmania are to develop and advocate strategic and policy advice to the Minister for Infrastructure, Energy and Resources and forestry partners on all matters relating to private forestry in Tasmania and to work in partnership with growers, managers, investors and industry to develop and manage Tasmania's private forests and to initiate extended or new market opportunities.

Further information about Private Forests Tasmania is available through the Internet at www.privateforests.tas.gov.au.

Retirement Benefits Fund Board

The Retirement Benefits Fund Board (the Board) manages Tasmania's major public sector superannuation fund (the RBF).

The sub-fund structure of the RBF includes:

- a RBF Contributory Scheme which was closed to new members on 15 May 1999;
- a Tasmanian Accumulation Scheme for employer superannuation guarantee contributions for new public sector employees from 25 April 2000 and for members of the closed Non Contributory Scheme;
- an investment account comprising member voluntary superannuation contributions, spouse accounts and certain preserved benefits;
- life pensions payable to former RBF members; and
- allocated pensions.

The main business objective of the RBF is to provide retirement benefits for Tasmanian public sector employees and their families through prudent management and investment of approximately $1.5 billion of members' contributions and interest. A range of flexible benefit, contribution and investment options are available to members.

The major strategic directions of the RBF Board for the 2002-03 financial year are to:

- be the Fund of Choice in a competitive superannuation environment;
- retain and attract members by providing quality products, excellent service and good investment returns;
- assist with maximising the retirement savings to members by balancing costs and rates of return;

- communicate effectively with members and assist them with their retirement planning;
- continue to adapt its culture and processes to give maximum value to members; and
- provide members with easy access to information electronically.

Further information about the RBF is available through the Internet at www.rbf.com.au.

State Fire Commission

The State Fire Commission's primary role is to minimise the social, economic and environmental impact of fire on the Tasmanian community. This is pursued through provision of a rapid and effective response to emergencies and through the delivery of a broad range of fire safety and prevention programs.

The Commission is also responsible for managing unplanned incidents involving hazardous materials.

The State Fire Commission delivers all of its services through its operational arm, the Tasmania Fire Service.

The major strategic directions for the 2002-03 financial year are:

- delivery of efficient and effective response to fires and hazardous material incidents;
- promotion, coordination and delivery of fire safety education to the community; and
- positioning the Tasmania Fire Service as a productive and safe workplace where members are able and willing to contribute towards the achievement of the strategic objectives of the organisation.

Further information about the State Fire Commission is available through the Internet at www.fire.tas.gov.au.

11 UNIFORM GOVERNMENT REPORTING

Features

- For the first time, Government Finance Statistics data is presented in accordance with accrual concepts, consistent with the accrual Uniform Presentation Framework agreed by the Australian Loan Council in March 2000. In previous years, GFS data has been presented under the cash based Uniform Presentation Framework.
- The estimated Net Lending outcome for 2001–02 is a surplus of $109 million for the General Government Sector, a deficit of $317 million for the Public Non-Financial Corporations (PNFC) Sector and a deficit of $210 million for the Total Non-Financial Public Sector. The PNFC Sector is in a deficit position due to the one-off impact of the purchase of two vessels by the TT-Line for the Bass Strait service.
- The budgeted Net Lending outcome for 2002-03 is a surplus of $67 million for the General Government Sector, a surplus of $154 million for the PNFC Sector and a surplus of $209 million for the Total Non-Financial Public Sector.
- Between 30 June 2002 and 30 June 2003, General Government Net Debt is forecast to decrease from $780 million to $675 million, Public Non-Financial Corporation Net Debt to decrease from $1 759 million to $1 622 million, and Total Non-Financial Public Sector Net Debt to decrease from $2 543 million to $2 298 million.
- Tasmania's estimated Loan Council Allocation (LCA) for 2002-03 is a surplus of $212 million.

INTRODUCTION

The financial performance information in this Chapter has been prepared in accordance with the Uniform Presentation Framework (UPF) applying to governments preparing 'early' Budgets using the accrual based Government Finance Statistics (GFS) framework. This is the first time the State has produced information in accordance with the accrual UPF. As a result, the information in this Chapter is different from the cash based UPF information produced in prior years.

This Chapter provides 2000-01 outcomes, 2001-02 estimates and 2002-03 estimates for the operating statement, balance sheet and cashflow statement for the Tasmanian General Government, Public Non-Financial Corporations (PNFC) and Total Non-Financial Public Sectors only. For the General Government Sector, Forward Estimates are provided for the period 2003-04 to 2005-06. In accordance with the UPF, more detailed and updated information on the actual end of year results will be released in the *Loan Council Outcomes Report 2001-02*. The report will be publicly released by no later than 31 October 2002.

Jurisdictions are not required to report Budget or forward estimates for the Public Financial Corporations (PFC) Sector. Consequently, information on the PFC Sector and the Total State Government Sector is not included in this Chapter. Under the terms of the UPF, this information is only reported in the Loan Council Outcomes Report.

GFS data is prepared by all states and territories and the Commonwealth on the basis of common concepts and classifications to facilitate inter-jurisdictional comparisons. Some comparisons with other states and territories are provided later in the Chapter. Details of the concepts and classifications used in the preparation of GFE statistics are provided in an appendix to this Chapter.

The purpose of this Chapter is therefore to:

- report on Tasmania's recent financial performance;
- enable a comparison with the recent financial performance of other state and territory Governments;
- present information on Loan Council arrangements and the Loan Council Allocation (LCA), which is primarily based on GFS aggregates; and
- satisfy information requirements under the UPF.

The information published in this Chapter differs from information provided elsewhere in the Budget Papers. Differences arise for the following reasons:

- the GFS presentation is on an accrual basis, whereas the Budget Papers are currently presented on a cash basis;
- GFS present a consolidated view of the transactions of the non-financial activities of the State Government, whereas the Budget concentrates on the transactions which impact on the Public Account. A broader range of activities is therefore captured by the GFS data;
- the classification and coverage of agencies used for GFS purposes differs from that used elsewhere in the Budget Papers; and
- the definition or valuation of transactions may vary elsewhere in the Budget Papers.

Greater explanation of the differences between GFE statistics and those used elsewhere in the Budget Papers is provided in an appendix to this Chapter.

The Accrual GFS Presentation

The accrual GFS presentation provides details of the expenses, revenue, payments, receipts, assets and liabilities of the public sector. GFS only includes those transactions over which the government exercises control. This means that, unlike the accounting viewpoint, the GFS excludes from the calculation of net operating balance both revaluations (holding gains or losses) arising from a change in market prices, and other changes in the volume of assets that result from discoveries, depletion and destruction of assets. This means that differences arise between the GFS and accounting frameworks, particularly within the operating statement.

The accrual GFS presentation is comprised of three primary statements: operating statement, balance sheet, and cash flow statement.

Operating Statement

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

Unlike a standard accounting operating statement, the GFS operating statement reports two major fiscal measures – the GFS net operating balance, and GFS net lending.

GFS Net Operating Balance

The GFS net operating balance, or operating result, is the excess of GFS revenue over GFS expenses. The net operating balance 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 balance encompasses the full costs of providing government services.

GFS Net Lending

GFS net lending, or fiscal balance, measures a government's investment-saving balance. A fiscal surplus indicates that a government is saving more than enough to finance all of its investment spending and is therefore not contributing directly to the current account deficit.

GFS net lending differs from the net operating balance by including capital expenditure and excluding depreciation. In a year in which a government undertakes major infrastructure works, other things being equal, the fiscal surplus will be significantly lower than the net operating balance. Because it includes the full amount of investment by a government in a particular period, the fiscal balance measures the impact of the Government's Budget on the economy in a given period.

Balance Sheet

The balance sheet records a government's stocks of financial and non-financial assets and liabilities. The balance sheet is a snap-shot of a government's financial position, taken at the end of each financial year.

The GFS balance sheet differs from the standard accounting presentation in that it provides information on financial and non-financial assets, and does not distinguish between current and non-current assets and liabilities. The major Balance Sheet indicators are Net Worth, Net Debt and Net Financial Worth.

Net Debt

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

Net Worth

Net worth provides a more comprehensive picture of a government's overall financial position than the net debt measure. It is calculated as total assets (both financial and non-financial) minus total liabilities, minus shares and other contributed capital. Net worth incorporates a government's non-financial assets such as land and other infrastructure assets, as well as certain financial assets and liabilities not captured by the net debt measure, most notably accrued employee superannuation liabilities, debtors and creditors.

Net Financial Worth

Net financial worth measures a government's net holdings of financial assets. It is calculated from the balance sheet as financial assets minus liabilities.

Net financial worth is a broader measure than net debt, in that it incorporates provisions made (such as superannuation provisions, but excludes depreciation and bad debts) as well as holdings of equity. Net financial worth includes all classes of financial assets and liabilities, only some of which are included in net debt.

Cash Flow Statement

The cash flow statement records a government's cash receipts and payments. The cashflow statement reveals how a government receives and spends in cash terms.

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

The signing convention within the cash flow statement is that all inflows carry a positive sign and all outflows carry a negative sign (regardless of whether they are gross or net cash flows).

The GFS 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.

GFS Cash Surplus

The GFS cash surplus measure is broadly comparable with the old cash-GFS surplus measure that has been presented in previous year's Budget Papers, allowing for comparisons between the two frameworks.

The GFS Cash surplus equals the sum of net cash flows from operating activities, net cash flows from investments in non-financial assets, less distributions paid (for the PNFC Sector only). The difference between the GFS cash surplus and the net increase in cash held is the net cash flows from investments in financial assets and the net cash flows from financing activities.

It should be noted that the ABS concept of a deficit/(surplus) does not include major asset sales 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 deficit/(surplus).

Institutional Sectors

The data in this Chapter has been classified according to the General Government Sector, the Public Non-Financial Corporations (PNFC) Sector and the Total Non-Financial Public Sector.

General Government Sector

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 covers inner-Budget agencies and some statutory authorities such as the State Fire Commission.

Housing Tasmania and the Home Ownership Assistance Program (HOAP) are now classified as part of the General Government Sector. These entities were previously included in the PNFC and PFC Sectors respectively. However, they were reclassified by the Australian Bureau of Statistics for the *Government Finance Statistics, Australia* publication released on 12 June 2001. The transfer of housing debt from the PNFC Sector to the General Government Sector will add approximately $238 million to General Government net debt at 30 June 2002, and will reduce PNFC debt by the same amount. The Budget Papers for 2002-03 present a revised time series to reflect these changes in classification.

Public Non-Financial Corporations 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's Government Business Enterprises (GBEs) and State-owned Corporations (SOCS). This is equivalent to the Public Trading Enterprises (PTE) Sector which is the terminology used elsewhere in the Budget Papers.

Total Non-Financial Public Sector (NFPS)

The Total Non-Financial Public Sector represents the consolidated transactions and assets and liabilities of the General Government and PNFC Sectors, after eliminating inter-sector transactions

GOVERNMENT FINANCIAL ESTIMATES

Tables 11.1 to 11.9 provide details of the Operating Statement, Balance Sheet and Cashflow Statements for the General Government, Public Non-Financial Corporation and Total Non-Financial Public Sectors respectively. The amounts in the tables are rounded to the nearest million dollars. As a consequence, rounded figures may not add to the totals.

It should be noted that the 2001-02 Revised Estimate figures have been adjusted to account for the impact of the purchase of two vessels by the TT-Line for the Bass Strait service. This results in a Net Lending Deficit for the PNFC and Total Non-Financial Sectors in 2001-02.

Table 11.1: General Government – Operating Statement

	2000-01 Actual	2001-02 Revised Estimate	2002-03 Budget Estimate	2003-04 Forward Estimate	2004-05 Forward Estimate	2005-06 Forward Estimate
	$m	$m	$m	$m	$m	$m
GFS Revenue						
Taxation revenue	547	511	483	516	522	512
Current grants and subsidies	1 555	1 678	1 757	1 790	1 835	1 934
Sales of goods and services	283	301	345	354	355	356
Interest income	30	19	21	20	17	14
Other	269	237	244	251	243	234
Total	2 684	2 746	2 850	2 931	2 972	3 050
less						
GFS Expenses						
Depreciation	145	147	149	148	149	149
Employee expenses	1 164	1 211	1 253	1 309	1 362	1 416
Other operating expenses	697	708	772	795	807	813
Nominal superannuation interest expenses	67	82	86	89	93	96
Other interest expenses	122	100	87	84	74	65
Current grants and transfers	382	395	454	446	439	437
Capital grants and transfers	2	16	8	....	....	....
Total	2 579	2 659	2 809	2 871	2 924	2 976
Equals NET OPERATING BALANCE	105	87	41	60	48	74
Less						
Net acquisition of non-financial assets						
Gross fixed capital formation	105	124	123	119	105	83
less Depreciation	145	147	149	148	149	149
plus Change in inventories	2	....	....	....	....	....
plus Other transactions in non-financial assets	....	1	....	....	....	....
Total	(38)	(22)	(26)	(29)	(44)	(66)
Equals NET LENDING	143	109	67	89	92	140

Table 11.2: General Government – Balance Sheet

	2000-01 Actual	2001-02 Revised Estimate	2002-03 Budget Estimate	2003-04 Forward Estimate	2004-05 Forward Estimate	2005-06 Forward Estimate
	$m	$m	$m	$m	$m	$m
Assets						
Financial assets						
Cash and deposits	808	918	989	1 056	1 169	1 289
Advances paid	149	167	165	156	149	150
Investments, loans and placements	1	1	....	....	....	....
Other non-equity assets	91	93	92	110	116	123
Equity	3 666	3 642	3 962	4 081	4 203	4 329
Total	4 715	4 821	5 208	5 403	5 637	5 891
Non-financial assets						
Land and fixed assets	5 511	5 602	5 672	5 703	5 719	5 733
Other non-financial assets	5	5	5	6	6	6
Total	5 516	5 607	5 677	5 709	5 725	5 739
Total assets	10 231	10 428	10 885	11 112	11 362	11 630
Liabilities						
Deposits held	20	20	19	19	19	19
Advances received	360	324	318	280	270	261
Borrowing	1 540	1 522	1 492	1 495	1 475	1 461
Unfunded superannuation liability and other employee entitlements	2 014	2 179	2 280	2 352	2 439	2 519
Other non-equity liabilities	98	105	125	75	70	65
Total liabilities	4 032	4 150	4 234	4 221	4 273	4 325
GFS NET WORTH [1]	6 199	6 278	6 651	6 891	7 089	7 305
NET DEBT [2]	962	780	675	582	446	302
NET FINANCIAL WORTH [3]	683	671	974	1 182	1 364	1 566

Notes:
1. GFS Net Worth equals Total Assets less Total Liabilities.
2. 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.
3. Net Financial Worth equals Total Financial Assets minus Total Liabilities.

Table 11.3: General Government – Cash Flow statement

		2000-01 Actual	2001-02 Revised Estimate	2002-03 Budget Estimate	2003-04 Forward Estimate	2004-05 Forward Estimate	2005-06 Forward Estimate
		$m	$m	$m	$m	$m	$m
Cash receipts from operating activities							
Taxes received		525	515	484	505	517	509
Receipts from sales of goods and services		369	319	309	389	390	393
Grants and subsidies received		1 640	1 678	1 757	1 790	1 835	1 934
Interest received		27	24	21	20	17	14
Other receipts		258	240	258	169	172	162
Total		2 819	2 776	2 829	2 873	2 931	3 012
Cash payments for operating activities							
Payments for goods and services		(1 984)	(1 960)	(2 038)	(2 049)	(2 101)	(2 236)
Grants and subsidies paid		(386)	(385)	(455)	(445)	(439)	(436)
Interest paid		(125)	(108)	(92)	(84)	(74)	(55)
Other payments		(71)	(25)	(16)	(84)	(76)	(58)
Total		(2 566)	(2 478)	(2 601)	(2 662)	(2 690)	(2 785)
Net cash flows from operating activities	(A)	253	298	228	211	241	227
Net cash flows from investments in non-financial assets							
Sales of non-financial assets		46	33	31	45	59	74
Purchases of new non-financial assets		(149)	(158)	(154)	(164)	(164)	(157)
Total	(B)	(103)	(125)	(123)	(119)	(105)	(83)
Net cash flows from investments in financial assets for policy purposes	(C)	30	(18)	(2)	(9)	(7)	....
Net cash flows from investments in financial assets for liquidity purposes	(D)	(3)	....	(1)	....	....	....
Net cash flows from financing activities							
Advances received (net)		(116)	(36)	(6)	(39)	(10)	(10)
Borrowing (net)		88	(11)	(30)	(3)	(21)	(14)
Deposits received (net)		....	....	....	....	....	....
Other financing (net)		14	(1)	4	26	14	(2)
Total	(E)	(14)	(48)	(32)	(16)	(17)	(26)
Net Increase/(Decrease) in Cash Held [1]		163	107	70	67	112	118
SURPLUS/(DEFICIT) [2]		150	173	105	92	136	144

Notes:
1. Net Increase/(Decrease) in Cash Held is equal to A+B+C+D+E.
2. Surplus/(Deficit) is equal to A+B.

Table 11.4: Public Non-Financial Corporations Sector – Operating Statement

	2000-01 Actual	2001-02 Revised Estimate	2002-03 Budget Estimate
	$m	$m	$m
GFS Revenue			
Current grants and subsidies	42	62	88
Sales of goods and services	943	951	976
Interest income	6	4	4
Other	20	4	4
Total	1 011	1 021	1 072
less GFS Expenses			
Depreciation	165	175	190
Employee expenses	195	215	203
Other operating expenses	343	340	366
Other interest expenses	120	116	122
Dividend and Income Tax Equivalent expenses	120	144	136
Current grants and transfers	10	10	11
Total	953	1 000	1 028
Equals NET OPERATING BALANCE	58	21	44
Less			
Net acquisition of non-financial assets			
Gross fixed capital formation	136	513	80
less Depreciation	165	175	190
Plus Change in inventories	....	....	....
Plus Other transactions in non-financial assets	1	....	....
Total	(28)	338	(110)
Equals NET LENDING	86	(317)	154

Table 11.5: Public Non-Financial Corporations Sector – Balance Sheet

	2000-01 Actual	2001-02 Revised Estimate	2002-03 Budget Estimate
	$m	$m	$m
Assets			
Financial assets			
Cash and deposits	99	48	120
Advances paid	....	....	....
Investments, loans and placements	8	7	7
Other non-equity assets	205	207	145
Equity	12	12	12
Total	324	274	284
Non-financial assets			
Land and fixed assets	5 562	5 903	6 141
Other non-financial assets	13	11	21
Total	5 575	5 914	6 162
Total assets	5 899	6 188	6 446
Liabilities			
Deposits held	2	2	....
Advances received	40	31	37
Borrowing	1 508	1 781	1 712
Unfunded superannuation liability and other employee entitlements	351	354	357
Other provisions	294	286	290
Other non-equity liabilities	118	167	145
Total liabilities	2 314	2 621	2 541
Shares and other contributed capital	3 586	3 567	3 905
GFS NET WORTH[1]	....	....	....
NET DEBT[2]	1 443	1 759	1 622
NET FINANCIAL WORTH[3]	(5 575)	(5 914)	(6 162)

Notes:
1. GFS Net Worth equals Total Assets less Total Liabilities.
2. 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.
3. Net Financial Worth equals Total Financial Assets minus Total Liabilities and shares and other contributed capital.

Table 11.6: Public Non-Financial Corporations Sector – Cash Flow Statement

		2000-01	2001-02	2002-03
			Revised	Budget
		Actual	Estimate	Estimate
		$m	$m	$m
Cash receipts from operating activities				
Receipts from sales of goods and services		1 009	955	1 031
Grants and subsidies received		46	62	88
Interest received		2	2	4
Other receipts		3	3	2
Total		1 060	1 022	1 125
Cash payments for operating activities				
Payments for goods and services		(594)	(551)	(601)
Grants and subsidies paid		(10)	(10)	(11)
Interest paid		(122)	(115)	(126)
Other payments		(38)	(8)	(31)
Total		(764)	(684)	(769)
Net cash flows from operating activities	(A)	296	338	356
Net cash flows from investments in non-financial assets				
Sales of non-financial assets		10	6	74
Purchases of new non-financial assets		(146)	(522)	(154)
Total	(B)	(136)	(516)	(80)
Net cash flows from financing activities				
Distributions paid	(C)	(124)	(143)	(140)
Borrowing (net)		8	346	(112)
Deposits received (net)		....	....	(1)
Other financing (net)		(57)	(77)	49
Total	(D)	(173)	126	(204)
Net Increase/(Decrease) in Cash Held[1]		(13)	(52)	72
SURPLUS/(DEFICIT)[2]		36	(321)	136

Notes:
1. Net Increase / (Decrease) in Cash Held is equal to A+B+D.
2. Surplus / (Deficit) is equal to A+B-C.

Table 11.7: Total Non-Financial Public Sector – Operating Statement

	2000-01 Actual	2001-02 Revised Estimate	2002-03 Budget Estimate
	$m	$m	$m
GFS Revenue			
Taxation revenue	516	503	472
Current grants and subsidies	1 557	1 678	1 758
Sales of goods and services	1 191	1 222	1 321
Interest income	28	18	16
Other	167	98	101
Total	3 459	3 519	3 668
less GFS Expenses			
Depreciation	310	320	339
Employee expenses	1 359	1 357	1 445
Other operating expenses	973	1 074	1 138
Nominal superannuation interest expenses	67	82	86
Other interest expenses	234	215	201
Current grants and transfers	351	360	386
Total	3 294	3 408	3 595
Equals NET OPERATING BALANCE	165	111	73
Less			
Net acquisition of non-financial assets			
Gross fixed capital formation	241	637	203
less Depreciation	310	320	339
Plus Change in inventories	1	....	....
Plus Other transactions in non-financial assets	1	4	....
Total	(67)	321	(136)
Equals NET LENDING	232	(210)	209

Table 11.8: Total Non-Financial Public Sector – Balance Sheet

	2000-01 Actual	2001-02 Revised Estimate	2002-03 Budget Estimate
	$m	$m	$m
Assets			
Financial assets			
Cash and deposits	892	948	1 109
Advances paid	108	135	128
Investments, loans and placements	7	7	7
Other non-equity assets	290	296	231
Equity	92	92	92
Total	1 389	1 478	1 567
Non-financial assets			
Land and fixed assets	11 073	11 505	11 813
Other non-financial assets	16	16	26
Total	11 089	11 521	11 839
Total assets	12 478	12 999	13 406
Liabilities			
Deposits held	7	8	19
Advances received	356	323	319
Borrowing	3 049	3 298	3 204
Unfunded superannuation liability and other employee entitlements	2 366	2 369	2 636
Other provisions	281	287	290
Other non-equity liabilities	218	271	264
Total liabilities	6 277	6 556	6 732
Shares and other contributed capital	....	....	....
GFS NET WORTH[1]	6 201	6 443	6 674
NET DEBT[2]	2 405	2 539	2 297
NET FINANCIAL WORTH[3]	(4 888)	(5 078)	(5 165)

Notes:

1. GFS Net Worth equals Total Assets less Total Liabilities.
2. 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.
3. Net Financial Worth equals Total Financial Assets minus Total Liabilities.

Table 11.9: Total Non-Financial Public Sector – Cash Flow Statement

		2000-01 Actual	2001-02 Revised Estimate	2002-03 Budget Estimate
		$m	$m	$m
Cash receipts from operating activities				
Taxes received		494	508	473
Receipts from sales of goods and services		1 397	1 218	1 339
Grants and subsidies received		1 642	1 738	1 758
Other receipts		100	50	130
Total		3 633	3 514	3 700
Cash payments for operating activities				
Payments for goods and services		(2 547)	(2 446)	(2 627)
Grants and subsidies paid		(342)	(323)	(378)
Interest paid		(254)	(236)	(209)
Other payments		(66)	(25)	(47)
Total		(3 209)	(3 030)	(3 263)
Net cash flows from operating activities	(A)	424	484	437
Net cash flows from investments in non-financial assets				
Sales of non-financial assets		56	39	105
Purchases of new non-financial assets		(295)	(679)	(309)
Total	(B)	(239)	(640)	(204)
Net cash flows from investments in financial assets for policy purposes	(C)	16	(26)	(2)
Net cash flows from investments in financial assets for liquidity purposes	(D)	(2)	1	(1)
Net cash flows from financing activities				
Advances Received (net)		(116)	(36)	(117)
Borrowing (net)		97	336	(31)
Deposits received (net)		....	....	48
Other financing (net)		(176)	(64)	31
Total	(E)	(195)	236	(69)
Net Increase/(Decrease) in Cash Held[1]		4	55	161
SURPLUS/(DEFICIT)[2]		185	(156)	233

Notes:
1. Net Increase / (Decrease) in Cash Held is equal to A+B+C+D+E.
2. Surplus / (Deficit) is equal to A+B.

Table 11.10: General Government Expenses by Purpose

	2000-01 Actual	2001-02 Revised Estimate	2002-03 Budget Estimate
	$m	$m	$m
General public services	**148**	**157**	**150**
Public order and safety	**217**	**247**	**249**
Education	**690**	**705**	**759**
Health	**552**	**564**	**598**
Social security and welfare	**162**	**156**	**176**
Housing and community amenities	**135**	**171**	**146**
Recreation and culture	**108**	**76**	**91**
Fuel and energy	**4**	**1**	**1**
Agriculture, forestry, fishing and hunting	**50**	**64**	**70**
Mining and mineral resources other than fuels, manufacturing and construction	**8**	**7**	**7**
Transport and communications	**161**	**179**	**220**
Other economic affairs	**125**	**110**	**135**
Nominal interest on unfunded superannuation	**67**	**82**	**86**
Other purposes	**150**	**139**	**120**
Total General Government Expenses	**2 579**	**2 658**	**2 808**

Table 11.11: General Government Taxes

	2000-01 Actual	2001-02 Revised Estimate	2002-03 Budget Estimate
	$m	$m	$m
Employers' Payroll Taxes	165	165	151
Taxes on property			
Land tax	27	27	25
Property owners contributions to fire brigade	19	19	19
Taxes on financial and capital transactions	122	109	92
Total taxes on property	168	155	136
Taxes on the provision of goods and services			
Levies on statutory corporations	14	2	....
Taxes on gambling			
Taxes on private lotteries	20	20	20
Casino taxes	42	44	47
Race betting taxes	1	1	1
Total taxes on gambling	63	65	68
Taxes on insurance			
Insurance companies' contributions to fire brigades	8	8	8
Third party insurance taxes	1	1	1
Taxes on insurance not elsewhere classified	23	21	21
Total taxes on insurance	32	30	30
Total taxes on the provision of goods and services	109	97	98
Taxes on use of goods and performance of activities			
Motor vehicle taxes			
Vehicle registration fees and taxes	69	62	66
Stamp duties on vehicle registration	28	32	32
Total motor vehicle taxes	97	94	98
Safety Net Revenues	8	....	....
Total taxes on use of goods and performance	105	94	98
Total Taxes	547	511	483

Source: Department of Treasury and Finance.

LOAN COUNCIL

Loan Council Arrangements

Loan Council arrangements provide for each state and territory to nominate a Loan Council Allocation (LCA) based on the estimated combined underlying General Government and Public Non-Financial Corporations (PNFC) deficit/(surplus), plus certain 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.

The Loan Council considers the appropriateness of LCA nominations from the perspective of consistency of the aggregate LCA with national macro economic policy, each jurisdiction's current budgetary position and the expected medium-term outlook in cases where a state or territory's fiscal position is of concern.

New Loan Council arrangements, which were introduced in 1993-94 and published in a 1993 report entitled *Future Arrangements for Loan Council Monitoring and Reporting*, use the GFE deficit or surplus as the primary element of the LCA. Since that time, revised Loan Council reporting arrangements have been introduced and published in a March 1997 report entitled *Uniform Presentation Framework*. These arrangements are designed to reduce the complexity and duplication involved in Loan Council reporting by facilitating a framework that will integrate the Loan Council reporting arrangements into the Uniform Presentation Agreement first reached at the May 1991 Premiers' Conference.

Loan Council Allocations

The LCAs nominated for 2002-03 are listed in Table 11.12. At its meeting of 22 March 2002, the Loan Council considered that the aggregate of 2002-03 LCA nominations was consistent with current macroeconomic policy objectives and endorsed each jurisdiction's nomination without change.

Table 11.12: Approved LCAs for 2002-03[1]

	NSW	Vic	Qld	SA	WA	Tas	NT	ACT	C/W
	$m	$m	$m	$m	$m	$m	$m	$m	$m
Nominated LCA[2]	**216**	**25**	**388**	**272**	**(245)**	**(45)**	**92**	**(28)**	**1 850**

Notes:
1. The LCA is a deficit concept. A negative LCA represents a surplus.
2. Tasmania's and the Northern Territory's LCAs are not strictly comparable with other jurisdictions as they are prepared on a cash basis, while other jurisdictions' LCAs are prepared on an accrual basis. However, the difference is minimal. Tasmania will report its GFEs on an accrual basis commencing from the 2002-03 Budget.

The nomination was compiled from forward estimates of the General Government Sector deficit/(surplus), information provided by the PNFC Sector and an assessment of the magnitude of the borrowing programs of local government councils and the University.

After combining the underlying surplus and net advances paid for the PNFC Sector with the memorandum items for local government and University borrowing, the result was a surplus LCA nomination for

Tasmania of $45 million for 2002-03. This compares with the surplus LCA nomination in 2001-02 of $32 million.

A tolerance band calculated as two per cent of Total Non Financial Public Sector revenue applies between the budgeted LCA and the LCA outcome. The tolerance limit applicable to Tasmania's nominated LCA for 2002-03 is $54 million.

Table 11.13 compares the LCA approved by the Loan Council in March 2002 with the budgeted LCA for 2002-03. The tolerance limit also applies between the LCA approved by the Loan Council and the budgeted LCA.

Table 11.13 shows that Tasmania's budgeted LCA for 2002-03 of $212 million is outside the tolerance limit. This is primarily due to the change in expected result for the PNFC Sector, where additional revenue has been included to account for the proceeds expected in 2002-03 from the sale of the *Spirit of Tasmania*.

Table 11.13: Comparison of Budgeted Loan Council Allocation and the LCA Approved Nomination for 2002-03

	2002-03 Loan Council Allocation	2002-03 Budget Estimate
	$m	$m
General Government underlying Deficit/(Surplus)	(115)	(105)
Public Non-Financial Corporations (PNFC) underlying Deficit/(Surplus)	42	(136)
Non-Financial Public Sector underlying Deficit/(Surplus)	(73)	(241)
Non-Financial Public Sector Net Advances Paid	....	....
Memo Items		
Universities	8	8
Local Government	21	21
Other	....	....
TOTAL LCA	(45)	(212)

APPENDIX

Classification Basis of Government Financial Estimates

Government Financial Statistics (GFS) is prepared on the basis of concepts and classifications used by the ABS in the preparation of public finance statistics. 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 transaction classifications used in the preparation of GFS are:

- the Economic Transactions Framework, which categorises outlays, revenue, grants received and financing transactions according to their effect on the rest of the economy;
- the Government Purpose Classification, which groups outlays on similar functions; and
- the Taxes Classification, which gives detailed dissection of these revenue sources.

Given that the State Budget classifies transactions according to Ministerial portfolio, Output, recurrent services, and works and services accounts, the GFEs presented in Chapter 11 are not directly comparable with estimates presented elsewhere in the Budget Papers, but are nonetheless fully consistent with Budget estimates.

For GFS, Agencies are classified into either the General Government, Public Non-Financial Corporation (PNFC) or Public Financial Corporation (PFC) Sectors. General Government agencies are departments, bodies or offices that provide services free of charge or at prices substantially below their cost of production. PNFCs, on the other hand, aim to cover the bulk of their expenses by revenues from the sales of goods and services. 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.

Given that the classification of agencies in GFS differs from the classification of agencies for Budget purposes, Table 11.14 compares the classification and coverage of agencies for GFS purposes with that used for the Budget.

GFS provides a comprehensive record of State Government financial transactions. Other information presented elsewhere in this and other Budget Papers provides only partial information on particular aspects of the State's finances

GFS is based on common concepts and classifications and can be compared across state and territory governments. In doing so, however, care must be exercised as the varying structures of government administrations and functions may cause groups of transactions that serve similar functions in various jurisdictions to be classified differently.

Consolidation of Transactions

GFS presents a consolidated view of the financial transactions of the General Government and PNFC Sectors. The Total Non-Financial Public Sector is the consolidated total of the General Government and PNFC Sectors. This enables the overall impact of State Government non-financial activity and its two component sectors of the Tasmanian economy to be illustrated.

To compile statistics about the financial activities of the whole State Government sector, or its components, the receipts and payments for certain types of transactions between units within the chosen grouping have to be matched and eliminated to avoid double counting. This process is known as consolidation.

For instance, in the case of GFEs, transactions between the Department of Treasury and Finance and the Department of Primary Industries, Water and Environment are netted out as both agencies are classified as General Government. Transactions between the Department of Treasury and Finance and Hydro Tasmania are not netted out in the General Government and PNFC tables as the former agency is classified as General Government while the latter is a PNFC. However, such transactions are netted out for the purposes of the Total Non-Financial Public Sector table.

Table 11.14: Classification of Public Sector Entities

Name	Administrative Sector	Institutional Sector
Education	Budget	General Government
Health and Human Services including Housing Division	Budget	General Government
House of Assembly	Budget	General Government
Infrastructure, Energy and Resources	Budget	General Government
Justice and Industrial Relations	Budget	General Government
Legislative Council	Budget	General Government
Legislature-General	Budget	General Government
Office of the Governor	Budget	General Government
Police and Public Safety	Budget	General Government
Premier and Cabinet	Budget	General Government
Primary Industries, Water and Environment	Budget	General Government
State Development	Budget	General Government
Tasmanian Audit Office	Budget	General Government
Treasury and Finance	Budget	General Government
Civil Construction Service Corporation	Non-Budget	General Government
Inland Fisheries Commission	Non-Budget	General Government
Marine *and* Safety Tasmania	Non-Budget	General Government
Royal Tasmanian Botanical Gardens	Non-Budget	General Government
State Fire Commission	Non-Budget	General Government
Tasmanian Public Finance Corporation	Non-Budget	PFC
Motor Accidents Insurance Board	Non-Budget	PFC
The Nominal Insurer	Non-Budget	PFC
Burnie Port Corporation Pty Ltd	Non-Budget	PNFC
Egg Marketing Board	Non-Budget	PNFC
Hydro Tasmania	Non-Budget	PNFC
Aurora Energy Pty Ltd	Non-Budget	PNFC
Transend Networks Pty Ltd	Non-Budget	PNFC
Forestry Tasmania	Non-Budget	PNFC
Flinders Island Port Company Pty Ltd	Non-Budget	PNFC
Hobart Ports Corporation Pty Ltd	Non-Budget	PNFC
King Island Ports Corporation	Non-Budget	PNFC
Metro Tasmania Pty Ltd	Non-Budget	PNFC
Port Arthur Historic Site Management Authority	Non-Budget	PNFC
Port of Devonport Corporation Pty Ltd	Non-Budget	PNFC
Port of Launceston Pty Ltd	Non-Budget	PNFC
Printing Authority of Tasmania	Non-Budget	PNFC

Table 11.14: Classification of Public Sector Entities (continued)

Name	Administrative Sector	Institutional Sector
Private Forests Tasmania	**Non-Budget**	**PNFC**
Rivers and Water Supply Commission	**Non-Budget**	**PNFC**
Southern Regional Cemetery Trust	**Non-Budget**	**PNFC**
Stanley Cool Stores Board	**Non-Budget**	**PNFC**
Tasmanian Grain Elevators Board	**Non-Budget**	**PNFC**
Tasmanian International Velodrome Management Authority	**Non-Budget**	**PNFC**
The Public Trustee	**Non-Budget**	**PNFC**
TOTE Tasmania Pty Ltd	**Non-Budget**	**PNFC**
TT-Line Company Pty Ltd	**Non-Budget**	**PNFC**

12 LOCAL GOVERNMENT

Features

- Bilateral Partnership Agreements are currently being developed with Burnie, Central Highlands, King Island, Derwent Valley, West Coast, Dorset, Glamorgan-Spring Bay, West Tamar and George Town Councils.
- Bilateral Partnership Agreements have been signed with Circular Head, Launceston City, Hobart City, Glenorchy City, Kingborough , Break O'Day and Flinders Councils.
- Two regional Partnership Agreements have been signed and a third is currently in negotiation. Together, the three Agreements will involve every council in the State.
- The Premier's Local Government Council has completed statewide Partnership Agreements on waste management and simplifying planning schemes. A Partnership Agreement on communication is also currently being developed.
- Sales of goods and services, including water, sewerage and garbage components of rates, were the major Local Government revenue sources during 2000-01, accounting for 41.1 per cent of total revenue. Taxes (the general rate component) was 35.3 per cent of total revenue, with current grants and subsidies making up 14.6 per cent.
- In 2000-01 the largest expense area was housing and community amenities at 35.5 per cent of total expenses, while interest comprised only 3.3 per cent of the total, reflecting the low debt level of the Local Government sector.
- The Local Government sector returned a surplus of $8.0 million in 2000-01, the fourth successive surplus since 1996–97.

INTRODUCTION

This chapter provides information on:

- the development and role of the Local Government sector in the Tasmanian economy;
- the financial relationship Local Government has with both the State Government and the Commonwealth Government;
- the implications of current economic reform initiatives for Local Government;
- the financial position of Local Government in general; and
- key performance indicators developed for Local Government.

DEVELOPMENT OF THE LOCAL GOVERNMENT SECTOR AND ITS ROLE IN THE ECONOMY

Development of the Local Government Sector

Local Government originated in the early years of European settlement in Tasmania and existed in a variety of forms including municipal districts, cities, rural municipalities, town boards and road trusts, until the *Local Government Act 1906* provided for their replacement with municipalities which administered all Local Government functions. A total of 52 municipalities (including the cities of Hobart and Launceston) were formed.

Under the *Local Government Act 1962* (1962 Act) another four cities were proclaimed: Glenorchy, Devonport, Clarence and Burnie. By this time there were 46 Local Government authorities (LGAs) in total. The 1962 Act was very prescriptive about how Local Government could function. In 1992, the then State Government and Local Government agreed to a reform and modernisation program which has since seen the number of LGAs in Tasmania reduced from 46 to 29 and the Local Government Act updated.

Details of more recent developments in Local Government are provided later in this chapter.

Role in the Economy

Local Government provides public services that are generally suited to delivery at the community or local/regional level. Functions of councils are prescribed under section 20 of the *Local Government Act 1993*. Broadly, these aim to:

- provide for the health, safety and welfare of the community;
- facilitate and encourage proper planning and development;
- represent and promote the interests of the community;
- provide for peace, order and good government; and

- formulate, implement and monitor policies, plans and programs for the provision of appropriate services and facilities to meet the present and future needs of the community.

Local Government functions include the provision of: water reticulation and sewerage services; local roads; garbage collection and disposal; and community recreational amenities. Expenditure is funded from:

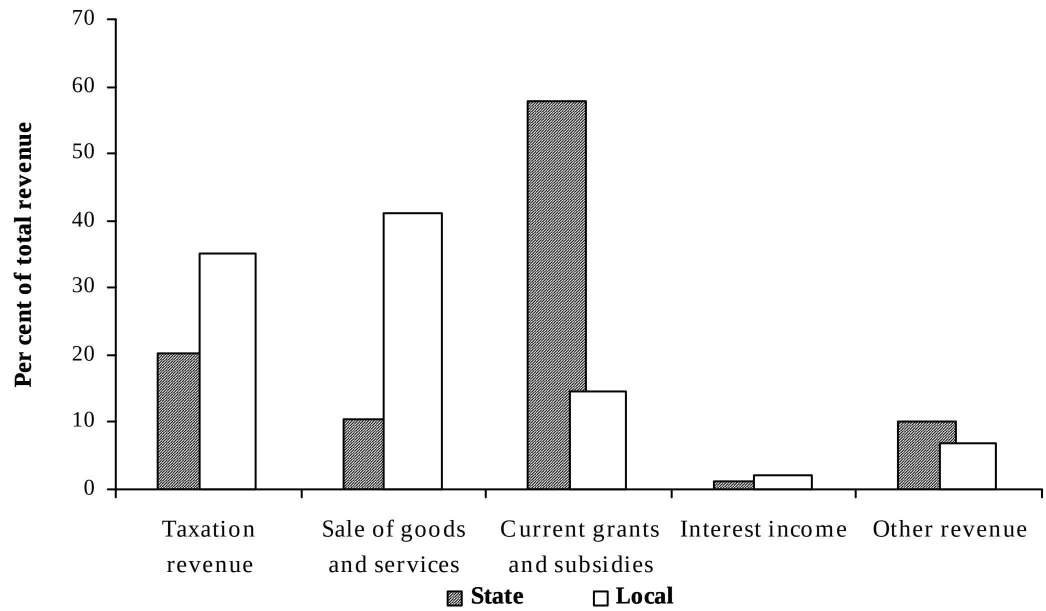
- rates, fees, fines and charges;
- Commonwealth Government and State Government grants; and
- borrowing.

Local Government activities have a significant impact on, and role within, the State economy. For example, water and sewerage represent significant inputs for many key industry sectors. The development, planning approval and control functions of Local Government also have a fundamental economic impact.

In 2000-01 sales of goods and services, including water, sewerage and garbage components of rates, were the major Local Government revenue sources, accounting for 41.1 per cent of total revenue on a Government Finance Statistics (GFS) basis. Tax revenues (the general rate component) constituted 35.3 per cent of total revenue on the same GFS basis. Current grants and subsidies made up 14.6 per cent of total revenue. By comparison, the majority of State Government revenue stems from Commonwealth transfers.

Chart 12.1 shows the sources of revenue of the State and local levels of government in Tasmania during 2000-01.

Chart 12.1: State and Local Government Revenue Sources, 2000-01



Source: *Government Finance Statistics,* Australia 2000-01, ABS Cat No 5512.0.

It is important for the promotion of economic growth that both the State and local levels of government participate, through genuine improvements in efficiency, in reducing the costs that they impose on business and the community. Local Government can assist economic reform by keeping the burden of rates and charges to the minimum level necessary. This can be achieved by Local Government continuing to improve the efficiency of its service delivery and by focusing expenditure on core activities.

Local Government financial management is also important with regard to external monitoring of the State Government's financial position. Rating agencies and the Australian Loan Council include Local Government in their assessments of State Government finances. The opinions of rating agencies have a direct impact on the cost of servicing the State's debt. The State Government must also manage the annual financial performance of the State public sector (including Local Government borrowing) within the constraints set by the Australian Loan Council. These constraints seek to ensure that the demands placed on financial markets by the public sector, including Local Government, are at a level that will not significantly impact on the availability of capital to the private sector. The constraints also ensure that the various jurisdictions within the public sector are adopting appropriate long-term fiscal strategies.

Relationship with Other Levels of Government

There is a relatively complex financial relationship between Local Government, the State Government and the Commonwealth Government. The complexity in this relationship arises both from the nature of the institutional arrangements in Australia referred to in Chapter 7, and because of the blurred division of the respective roles and responsibilities of the three levels of government, despite the constitutional division of powers. Whilst respective taxing powers are relatively well differentiated, the exact role of Local Government as distinct from other levels of government is not always clear. As with the situation between the Commonwealth and State, this leads to some duplication and overlap and an array of financial transfers between governments.

The financial transfers involving Local Government can be categorised as follows:

- grants from the Commonwealth Government;
- grants from the State Government;
- State Government subsidies of Local Government costs;
- Local Government exemptions from State taxes and charges and State exemptions from council general rates;
- levies and charges paid by councils to the State Government; and
- charges paid by councils for the use of State Government services.

Commonwealth Grants

The Commonwealth Government provides both general purpose and specific purpose funding for Local Government. General purpose assistance has been paid to LGAs since 1974-75. General purpose funding comprises base grants and identified local road funds (ILRFs), both of which are distributed in accordance with the Commonwealth's *Local Government (Financial Assistance) Act 1995*. Although local road funds are still identified as a separate component, the ILRFs are untied and may be applied at the discretion of councils.

The Commonwealth's Local Government (Financial Assistance) Act specifies that the distribution of the base grant (ie not including road funds) between states and territories is to be on a per capita basis. ILRFs are not distributed between states and territories on a per capita basis, but rather on the basis of historical shares between states and territories as defined in the Commonwealth's *Australian Land Transport Development Act 1988*. In total, Tasmania receives 3.3 per cent of the total general purpose payments made available nationally to Local Government by the Commonwealth. Total Commonwealth general purpose payments to Tasmania's LGAs are estimated to be $45.9 million in respect of 2001-02, a real terms increase of 1.3 per cent over the total payments for 2000-01 of $44.1 million.

Estimated total Commonwealth general purpose payments in 2001-02 to Local Government in each state and territory for base grants and ILRFs are shown in the following table.

Table 12.1: Commonwealth General Purpose Grants to Local Government, 2001-02

State/Territory	Base Grants	Identified Local Road Funds	Total Grants	% of Total
	$m	$m	$m	%
New South Wales	**321.3**	**122.6**	**443.9**	**32.3**
Victoria	**237.0**	**87.1**	**324.2**	**23.6**
Queensland	**177.7**	**79.2**	**256.9**	**18.7**
Western Australia	**93.7**	**64.6**	**158.4**	**11.5**
South Australia	**74.1**	**23.2**	**97.4**	**7.1**
Tasmania	**23.4**	**22.5**	**45.9**	**3.3**
Northern Territory	**9.7**	**9.9**	**19.6**	**1.4**
Australian Capital Territory	**15.4**	**13.6**	**29.0**	**2.1**
TOTAL[1]	**952.5**	**422.7**	**1 375.2**	**100.0**

Source: *Statement of Estimated Payments*, Commonwealth Treasury, March 2002.
Note:
1. These figures represent estimates of the cash payments to be made in 2001-02 which consist of the estimated entitlement for 2001-02 adjusted for underpayments made in 2000-01, which are added to the quarterly instalments paid by the Commonwealth over the 2001-02 financial year.

The Commonwealth has determined that there will be a positive adjustment to payments in respect of 2000-01 as the estimated inflation figure of 3.89 per cent used to determine last year's pool was lower than the actual level of inflation of 4.46 per cent. The adjustment is being added to the 2001-02 quarterly payments, based on the distribution of the 2000-01 grants. This means that the cash actually paid to Tasmanian councils in 2001-02 will be the estimated 2001-02 entitlement of $45.6 million plus a positive adjustment to the 2000-01 grants of $318 299, which is a total of $45.9 million.

Each LGA's share of funds is determined on the recommendation of the Tasmanian State Grants Commission. The base grant distribution is determined according to the fiscal equalisation principle. This principle aims to provide each LGA with the capacity to be able to fund a level and standard of service not appreciably different from the State average, provided that an average revenue raising effort is made. The allocation of ILRFs between LGAs is based on the relative expenditure need of each municipality in order to preserve its road assets.

Table 12.2 details the Commonwealth general purpose grants made to individual Tasmanian councils in 2000-01 and the recommended grants for 2001-02 that have been approved by the Commonwealth. The totals in Table 12.1 for 2001-02 vary from the Tasmanian figures presented in Table 12.2 because those in Table 12.1 represent the cash payments to be made in 2001-02.

Table 12.2: Commonwealth General Purpose Grants to LGAs, 2000-01 and 2001-02 (Recommended Entitlement)

	2000-01			2001-02		
	Base Grant	ILRF	Total Grant per capita[1]	Base Grant	ILRF	Total Grant per capita[1]
	$'000	$'000	$	$'000	$'000	$
Break O'Day	674.0	872.0	269.1	716.0	961.6	291.6
Brighton	708.6	309.2	78.4	725.2	318.4	80.0
Burnie	938.2	703.8	84.7	915.2	689.3	83.3
Central Coast	1 233.2	1 014.4	106.8	1 338.1	1 074.8	115.1
Central Highlands	571.0	767.0	536.1	565.2	834.8	562.7
Circular Head	814.0	902.6	202.1	840.8	965.9	213.1
Clarence	1 149.6	794.8	39.7	1 214.8	796.6	41.1
Derwent Valley	576.5	474.1	107.1	610.7	489.6	112.9
Devonport	792.8	615.8	57.6	757.5	616.6	56.5
Dorset	791.4	1 089.7	252.5	822.0	1 155.1	266.9
Flinders	382.7	363.3	790.3	414.3	384.3	849.6
George Town	558.9	395.0	141.6	577.5	407.6	146.4
Glamorgan/Spring Bay	391.6	440.8	197.2	433.8	470.8	212.9
Glenorchy	630.4	796.5	32.5	650.1	787.3	32.9
Hobart	663.0	918.8	34.4	680.4	1 023.9	37.1
Huon Valley	942.0	1 007.6	143.1	947.1	1 048.2	145.9
Kentish	649.4	680.7	240.5	690.3	718.3	255.9
King Island	351.2	396.4	421.2	368.4	422.6	450.7
Kingborough	983.3	750.1	60.9	968.8	766.7	60.7
Latrobe	440.1	347.9	97.4	481.5	362.7	103.4
Launceston	1 691.9	1 613.0	52.6	1 658.1	1 618.0	52.3
Meander Valley	1 153.1	1 193.0	133.6	1 221.2	1 245.3	139.2
Northern Midlands	1 162.3	1 309.2	209.2	1 201.9	1 376.8	217.8
Sorell	639.0	520.0	106.2	654.4	537.8	109.0
Southern Midlands	739.1	1 275.5	358.4	767.6	1 258.8	359.3
Tasman	266.1	214.1	214.9	275.3	229.8	227.3
Waratah/Wynyard	943.6	797.2	125.3	964.8	832.7	130.1
West Coast	686.6	366.7	188.1	694.3	395.5	193.9
West Tamar	1 007.8	582.6	79.5	1 074.4	603.9	83.7
TOTAL	22 531.7	21 511.8	93.6	23 229.6	22 393.3	97.0

Sources: Tasmanian *State Grants Commission Annual Report For 2001-02*; Commonwealth approved State Grants Commission recommendations for 2001-02.

Note:

1. To obtain the total grants per capita, the 2000-01 population estimate was used, as this is the most recent available.

The Tasmanian State Grants Commission is currently considering a distribution of grants to Local Government for 2002-03.

In addition to general purpose grants, the Commonwealth provides some specific purpose grants to Local Government. These grants are largely provided for aged and disabled persons' homes, children's services and aboriginal advancement.

The Local Government (Financial Assistance) Act has recently been reviewed for the Commonwealth by the Commonwealth Grants Commission (CGC).

The Final Report arising from the Review was released on 4 July 2001. The Report contains a number of conclusions which, if adopted, will require significant changes to the structure of the equalisation model used by the State Grants Commission (SGC) to determine its recommendations for the distribution of the base grant (the Review did not address the SGC's road grant methodology).

The focus of the CGC's attention in the Final Report is upon better assessing relative needs amongst councils, and enhancing the transparency of the grant assessment process. In summary, the major findings presented in the Final Report were that:

- the minimum grant principle, under which all councils receive a base grant share equivalent to 30 per cent of what they would receive were the pool to be distributed on a per capita basis, should be retained;
- the efficiency and effectiveness purpose should be removed from the Act as it is not an appropriate purpose for an Act that distributes untied assistance on equalisation principles;
- the recommendations of Local Government Grants Commissions should be finalised shortly after the Commonwealth budget (in mid May each year) so as to better align the time of grant announcements with councils' budget planning needs;
- the method of allocating the minimum grant should be altered by splitting the base grant pool into separate per capita and relative needs pools;
- in order to achieve a comprehensive, accurate and transparent assessment of councils' needs, the standard equalisation budgets of the Grants Commissions should include as much of Local Government revenue and expenditure as possible;
- a 'budget result term' (attributing to each council an equal per capita share of the aggregate of any collective surplus or deficit calculated by the SGC's equalisation model) should be introduced to more correctly reflect the reality of how councils finance their expenditure and reduce the volatility of the SGC's equalisation model;
- in assessing expenditure needs, all disability factors should be centred on 1.00 (as opposed to the SGC's current practice of according a factor of 1.00 to the least disadvantaged councils);
- a revised method should be adopted for 'factoring back' the difference between the total standardised deficits of all councils assessed as having grant needs and the quantum of available grant funds; and
- there should be an assessment of the proportion of standard expenditure within each expenditure category to which disability factors are applied.

The SGC has since commenced the process of research and consultation required to determine its response to the recommendations presented in the CGC Review. In doing so, it has been guided by three fundamental principles:

- the SGC's evaluation of the recommendations presented in the Review will be based solely upon the merit of each recommendation without regard to the grant impact that may arise from the introduction of any one methodological change in isolation;
- the SGC will not make incremental changes to its methodology in response to the Review. Rather, the introduction of any changes will be deferred until all the recommendations have been evaluated. At the conclusion of the proposed process of research and consultation, any modifications to the SGC's method will be introduced simultaneously; and
- once the SGC has agreed to its response, any new methodology will be phased in over a lengthy time frame, most likely five years, so as to minimise the financial disruption caused to any councils that experience large grant changes.

The proposed changes are unlikely to be implemented before the 2003-04 grant year, as it could be some time before the necessary enabling legislation is considered by the Commonwealth Parliament.

Prior to 2000-01, escalation in the national pool of Local Government financial assistance was partly determined by underlying movements in Financial Assistance Grants (FAGs) from the Commonwealth to the states and territories. With the reform of Commonwealth-State financial arrangements stemming from the introduction of the Commonwealth's *A New Tax System*, FAGs were abolished from 1 July 2000, and replaced by revenues collected from the Goods and Services Tax. This brought to an end the nexus between State and Local Government grants and, accordingly, it became necessary for the Commonwealth to amend the Local Government (Financial Assistance) Act to recognise this fact.

Since 2000-01, the national quantum of Local Government general purpose financial assistance has been linked to annual changes in both the Australian population and the consumer price index, so that the pool is maintained in 'real per capita' terms. The final year for which the previous arrangements existed, which was 1999-00, is the base for determining the size of the Local Government grant pool in each subsequent year. These arrangements will, in effect, leave Local Government no worse off financially in terms of general purpose Commonwealth funding than had the previous arrangements continued. In fact, real per capita maintenance of Commonwealth general purpose grants to Local Government is now guaranteed under legislation, whereas this was not previously the case.

Partnership Agreements

The State Government is committed to the development of Partnership Agreements as a key mechanism for strengthening working relations with Local Government. The State Government recognises that committed progressive local communities and sound local economies are fundamental to the social and economic development of the State. Hence the process for developing Partnership Agreements takes into account consultative mechanisms at the local level, encourages local input to community and economic development decisions and promotes shared responsibilities for improved targeting of service delivery.

A Partnership Agreement is a document that outlines the ways in which the State Government and a council or group of councils can find innovative ways of working together to improve the social, economic and environmental situation within a community by reaching mutually agreed goals. A Partnership Agreement can be formed around a particular issue, or may cover a range of different issues.

Partnership Agreements provide an opportunity to examine government service delivery arrangements and for the State and Local Government to jointly identify measures to improve their design and/or delivery. A key aspect is to ensure that there are effective service delivery arrangements to meet the reasonable needs of all residents including, where appropriate, options to improve coordination of joint State-local service delivery arrangements or to address gaps and overlaps in service delivery. Where State Government services can be more effectively and efficiently delivered at the Local Government level, agreement will be reached on appropriate funding arrangements, and any amendment of existing service delivery arrangements will be the subject of contractual arrangements between the parties to ensure appropriate accountability and transparency of implementation.

Results from the Partnership Agreements are measurable through agreed timeframes and outcomes. Each Partnership Agreement concluded with Local Government is accompanied by an action plan identifying council and State Government agency responsibilities. An inter-agency coordination group has been established to monitor progress in implementing Partnership Agreement commitments of the State Government.

Cabinet meetings regularly conducted around the State actively support the Partnership Agreements between State and Local Government. These Cabinet meetings form an additional strategy to draw upon key ideas for growth in local communities.

Objectives

The aim is that Partnership Agreements be developed in a cooperative manner based on the identification of shared objectives and ways in which both levels of government can work towards effectively meeting these objectives. The Government's objectives for the Partnership Agreements were outlined in its *Framework for Developing State-Local Government Partnership Agreements,* revised in October 2001.

In summary these objectives are to:

- identify opportunities to work in partnership with Local Government to progress agreed social, economic and environmental outcomes for Local Government areas; and
- ensure effective service delivery arrangements to meet the reasonable needs of all residents including, where appropriate, options to improve coordination and joint service delivery arrangements or address gaps and overlaps in service delivery.

More broadly, the State Government recognises that Partnership Agreements have a key role to play in facilitating the achievement of agreed social, economic and community development goals. In particular, they provide a vehicle to achieve the following whole-of-government strategic policy objectives:

- economic growth;
- social development; and
- environmental sustainability.

The Partnership Agreements will also have a role in facilitating the achievement of agreed social, environmental, economic and community development benchmarks identified in Tasmania *Together,* the 20 year plan to drive the strategic direction of the State. As far as possible, all schedules in Partnership Agreements are now linked to a specific Tasmania *Together* benchmark. Additionally, at a sectoral level the Partnership Agreements provide a framework for implementing the sector specific Industry Development Plans.

Background

The pilot phase of the program was launched in December 1998, commencing with the negotiation of a bilateral Partnership Agreement with the Circular Head Council, which was signed on 1 June 1999. The pilot phase concluded with the signing of a bilateral Partnership Agreement with the Launceston City Council on 10 December 1999. Partnership Agreements have since been commenced with councils in every region of the State.

Bilateral Partnership Agreements have been signed with Circular Head, Launceston City, Glenorchy City, Flinders, Hobart City, Kingborough and Break O'Day Councils. Negotiations have commenced with Burnie City, Central Highlands, Derwent Valley, Dorset, George Town, Glamorgan-Spring Bay, King Island, West Coast and West Tamar Councils.

Bilateral Partnership Agreements are also currently being developed with Burnie, Central Highlands, King Island, Derwent Valley, West Coast, Dorset, Glamorgan-Spring Bay, West Tamar and George Town Councils.

Following the pilot phase of the Partnerships program, a number of revised arrangements were introduced to improve the process. Amongst these was the introduction of regional Agreements to allow negotiations between the State Government and a number of councils in an area. Regional Partnership Agreements give the parties the opportunity to look broadly at issues that extend beyond the boundaries of a single council.

Every council in the State is currently involved in one of three regional Partnership Agreements. Eight northern councils are engaged in the Northern Tasmanian Municipal Organisation Partnership Agreement, which was signed in July 2001. Nine north western councils are involved in the Cradle Coast Authority Partnership Agreement, signed in October 2001. The twelve southern councils are involved in the development of the Southern Tasmanian Councils Partnership Agreement, to be completed in the near future.

Other changes introduced to the Partnerships program following the pilot phase were the introduction of a provision for the Premier or other elected Government members to be nominated to oversee negotiations and participate in discussion with council(s) and the provision for councils to use their strategic planning processes to identify issues for inclusion in negotiations.

Premier's Local Government Council

The Premier's Local Government Council (PLGC) was established in 2000 as a forum for high-level discussions with councils on issues of statewide significance. The Council meets four times a year, in both the north and south of the State.

The Council is chaired by the Premier and comprises the eight elected council representatives who make up the General Management Committee of the Local Government Association of Tasmania (LGAT). An Officials Committee with a membership of state and Local Government officers supports the Council.

Statewide Partnership Agreements are negotiated through the PLGC. These involve all councils and the State Government and are signed by the President of the LGAT on behalf of the councils.

Two statewide Partnership Agreements on waste management and simplifying planning schemes have been developed under the PLGC. Work on these Partnership Agreements has now entered the implementation phase. A new statewide Partnership Agreement on communication and consultation between State and Local Government is currently under development. In addition to Partnership Agreements, the PLGC maintains discussion on a range of issues that affect all councils in the State, including constitutional recognition of Local Government, State and Local Government financial relations, the implementation of Tasmania *Together*, the limited review of the *Local Government Act 1993*, public liability costs, forestry issues and other matters of topical interest.

FINANCIAL REFORM OF THE LOCAL GOVERNMENT SECTOR

There is currently a complex set of financial arrangements between State and Local Government, many of which could be considered a product of history rather than as a result of deliberate public policy decisions in the context of State-local financial relations more generally. These include:

- levies and charges on Local Government to fund services provided by the State in which Local Government has limited, if any, input;
- various fees and charging arrangements which are not commercially based and are therefore considered to distort decision making; and
- various taxation exemptions, concessions, specific purpose grants and subsidies which reduce accountability and distort decision making.

The aim of the State and Local Government financial reform project is to simplify and make more transparent financial arrangements between the two levels of government. In doing so, policy decision making will be enhanced by making it easier to assess the implications of policies under consideration.

The issue of reforming financial relations between the State and Local Government has been considered on a number of occasions in the recent past. Further information on past reform can be found in Chapter 13, *Budget Paper No 1, Budget Overview, 2001-02*.

Work on State and Local Government financial reform re-commenced in 1997 but was subsequently held in abeyance for a considerable period due to planned reforms to Local Government boundaries and the uncertainties created by the implementation of the Commonwealth's national taxation reform from 1 July 2000. At the Premier's Local Government Council (PLGC) meeting on 1 March 2001, it was agreed that the project to reform State and Local Government financial relations would be included on the PLGC's work program for 2001, given that the project is a matter that affects Local Government as a whole.

As State and Local Government financial matters are technical in nature and require significant and detailed input, the Premier's Local Government Council is being assisted by a Working Group to complete the tasks. The Working Group is comprised of representatives from the Department of Premier and Cabinet, Treasury, the LGAT and four councils. To date the PLGC has endorsed a number of important documents produced by the Working Group, including: a paper on principles for reform; a paper describing existing financial flows between the two levels of government (based on information obtained from a survey of all State and Local Government entities); and an *Issues Paper*, which established the range of financial transactions for which reforms would be considered.

The PLGC has endorsed three principles to be followed in the formulation and implementation of reforms from this project. These are: financial transparency; revenue neutrality; and non-discrimination. The general goal of the project is that financial transparency will be maximised subject to the revenue neutrality and non-discrimination principles, which act as constraints on the extent and nature of reforms that can be formulated. The revenue neutrality principle is of particular significance as it requires that reforms do not place either tier of government at a financial disadvantage. The need to satisfy this constraint may have a major impact on the final range of transactions that can be reformed.

The most significant recommendations of the *Issues Paper* were: reciprocal taxation should be pursued, including the removal of exemptions from State Government taxes and council rates; and State Government levies paid by councils in respect of library services and planning and Local Government services should be abolished.

The *Issues Paper* also recommended that a number of financial transactions would not be considered, including: bilateral and ad hoc grants, loans and subsidies; service fees and charges; the fire service levy; pensioner rates remissions; and Commonwealth NCP payments. The Working Group has recommended that a separate process be established to review the collection of the fire service levy.

The recommendation that the project develop reform options relating to the exemption of State Government entities from council rates is particularly significant, given the vast areas of Crown land for which currently no rates are charged. A proper investigation of this matter has required the production of separate discussion papers on the valuation and rating of Crown lands. These subject areas are relatively complex from a policy perspective, and include consideration of appropriate rating liability for Government Business Enterprises (GBEs) such as Forestry Tasmania and Hydro Tasmania. These entities receive an exemption from council general rates on much of the land because the land does not have an official valuation from the Valuer-General. The two main problems to be addressed are therefore (i) what types of land tenure should be valued (and the appropriate valuation approach to be taken); and (ii) how should council rates be applied to these GBEs, given that they manage land which has both a commercial and public good usage.

The valuation and rating of Crown land is the area to which the Working Group is presently devoting its attention. Once the PLGC has endorsed the appropriate way forward on council rating of Crown operations on Crown land, the potential impact on the financial positions of State and Local Government (both as a whole and at the level of individual entities) can be modelled. It will be at this stage that the proposed set of reforms can be tested against the revenue neutrality principle. Depending on the outcome of this process it may then be necessary to review the range of transactions to be included in the reforms.

The current intention is that the Working Group will provide the PLGC with final recommendations in time for any necessary legislative changes to be enacted by 1 July 2003.

The following is a brief description of the nature of the existing State-local financial arrangements.

State Subsidies on Local Government Costs

The State Government subsidises council costs by providing recurrent subsidies on the annual cost of water and sewerage schemes and by reimbursing pensioner concessions on property rates. In 2000-01, State water subsidies amounted to $34 460, sewerage subsidies amounted to $339 520 and the cost of pensioner rates remissions amounted to $12.3 million.

State Taxation Exemptions

Local Government is exempt from the payment of State Government taxes.

Local Government Rates Exemptions

State Government agencies, statutory authorities and a number of GBEs are currently exempt from Local Government rates on property holdings, although service rates for water and sewerage are generally paid.

State Levies and Charges on Local Government

The State Government receives contributions from local councils towards the cost of providing library, fire protection and planning services.

The Tasmanian Government provides public library services and seeks a contribution from Local Government towards this cost. In all other States, Local Government provides the service and receives a contribution from the State Government towards the cost. A contribution to library services is made annually by each municipality. It is equivalent to 0.35 cents per dollar of the adjusted assessed annual value of all leviable land, less a prescribed amount (collection fee) which is a maximum of 1.5 per cent of the gross assessed contribution. In 2000-01, the library contribution was $6.1 million, which represented about 38 per cent of total expenditure on library services by the State. The funds collected from the library levy are paid to the Consolidated Fund. The State is precluded by statute from imposing direct charges on library users. The levy partially recovers the cost of library services from the wider community.

The State is responsible for the provision of fire services through the Tasmanian State Fire Commission in accordance with the *Fire Service Act 1979*. However, before 1979, the responsibility for fire protection was shared between two statutory bodies and 22 individual fire brigade boards. In 2000-01, the State Fire Commission received $18.3 million from a levy imposed on Local Government, which was equivalent to approximately 49 per cent of the Commission's expenditure. This levy is based on the assessed annual value of rateable property. Councils may retain an administration (collection) charge not exceeding four per cent of the gross value of the levy and are permitted to recover the levy from individual property owners provided that the component of rates attributable to the contribution is separately identified. The funds collected from the fire service levy are paid direct to the State Fire Commission.

The State Government has involvement in the operation of Local Government through the Local Government Division of the Department of Premier and Cabinet and through the Department of Primary Industries, Water and Environment, which both have policy, regulatory and advisory roles. Local Government contributes to the cost of providing these services through a planning and Local Government levy equal to 0.15 cents per dollar of the total adjusted assessed annual value of all rateable (non-exempt) land in their municipality. In 2000-01, the Local Government contribution was $2.7 million.

State Grants

The State Government provides recurrent assistance to Local Government for specific purposes under the following arrangements:

- direct principal and interest subsidies under the *Public Bodies Assistance Act 1971* on borrowings for approved purposes, such as for new infrastructure or the redevelopment of existing facilities. However, no new loans have been made under this Act since July 1989;
- in 2000-01, the Department of Infrastructure, Energy and Resources distributed grants to councils totalling $1.5 million sourced from State Government heavy vehicle motor taxes (the 'National Road Transport Commission (NRTC) funds');

- in 2000-01, the Launceston City Council received $928 316 from the Department of State Development for the Queen Victoria Museum and Art Gallery;
- in 2000-01, the Department of Premier and Cabinet disbursed $128 000 to Local Government bodies under the Premier's Sundry Grants program; and
- in 2000-01, the Burnie City Council and the Devonport City Council received $40 000 each for the operation of their respective travel centres. The Launceston City Council, the Sorell Council and the King Island Council received $5 000 each from the Tourism Development Grants program.

Economic Reform and Local Government

At the April 1995 Council of Australian Governments (COAG) meeting, a National Competition Policy (NCP) for Australia was agreed. This policy, which is embodied in three inter-governmental agreements, has implications for all levels of government, including Local Government.

One of the three inter-governmental agreements, the Competition Principles Agreement (CPA), outlined five key principles relating to:

- the prices oversight of public sector trading activities with monopoly, or near monopoly, characteristics;
- competitive neutrality between the public and private sectors;
- the structural reform of public monopolies;
- the processes for reviewing legislation which restricts competition; and
- a legislated right for the provision of third party access to significant infrastructure facilities.

The CPA provides for these principles to apply to Local Government, notwithstanding that Local Government is not a signatory to the Agreement. Furthermore, each state and territory government is responsible for ensuring that these principles are applied to Local Government.

In addition, the *Conduct Code Agreement* (CCA) required the State Government to introduce legislation to ensure the wider application of the restrictive trade practices provisions of Part IV of the Commonwealth's *Trade Practices Act 1974* (TPA), to encompass all private and public sector business activities, including Local Government business activities. This was effected through the *Competition Policy Reform (Tasmania) Act 1996.*

In June 1996, as required under the CPA, the former Government submitted to the National Competition Council (NCC) a policy statement entitled *Application of National Competition Policy to Local Government* (Application Statement). This Statement was prepared by the then State Government, in consultation with Local Government, and provided a broad policy statement on how it was intended that the five competition principles, where appropriate, would be applied to Local Government. The Government, in conjunction with Local Government, is currently undertaking a review of the Application Statement.

In addition to the reforms required under the CPA, NCP requires jurisdictions to consider reform in the areas of water, electricity, transport and gas. These requirements are detailed in the *Agreement to Implement the National Competition Policy and Related Reforms.*

Progress to date in relation to the application of competitive neutrality, legislation review, monopoly prices oversight and water reform to Local Government is outlined below.

Competitive Neutrality

In accordance with the Application Statement, all councils have assessed their significant business activities to which full cost attribution (FCA) would apply. This was done during 1996. These lists were reviewed by a peer group (established by the LGAT).

Realising the advantages that competitive neutrality could deliver in increasing the efficiency of council operations, 18 of the 29 councils decided to apply FCA to all of their business activities. The majority of the remaining councils chose to apply FCA to their public trading enterprises (largely water and sewerage services) and road maintenance.

Further discussions, which commenced in mid-1998, led to an updated agreement on the application of NCP to Local Government in Tasmania. The revised Agreement incorporated a new implementation timetable and was approved by the LGAT General Management Committee in July 1998.

In accordance with the Application Statement, councils were required to:

- identify relevant business activities which were considered significant business activities;
- undertake public benefit assessments of the corporatisation of those business activities which are classified as Public Trading Enterprises (PTEs) under the ABS Government Finance Statistics Classification (generally water and sewerage); and
- corporatise those PTEs where a public benefit assessment indicates that the benefits outweigh the costs of doing so or apply full cost attribution to all other significant business activities.

Accordingly, councils undertook public benefit assessments of the corporatisation of their Public Trading Enterprises during 1999.

All councils found that corporatisation of their PTEs would not be in the public benefit, mainly due to the small size of Tasmanian councils and therefore of their business activities. These results were submitted to a peer review group consisting of LGAT and council representatives. The peer review group endorsed the results of the public benefit assessments and provided a recommendation to the Treasurer to this effect in November 1999. The Treasurer endorsed the public benefit assessment and the outcome of the peer review assessment on 3 December 1999.

It should be noted, however, that the joint bulk water authorities, the Hobart Regional Water Authority (HRWA), the Esk Water Authority (EWA) and the North West Water Authority (NWWA), were corporatised under the Local Government Act, independently of this process.

Councils are continuing to apply FCA to their business activities in a form appropriate to their size. Importantly, the Local Government Act was amended in 1999 to require councils to disclose the full cost of operating their significant business activities in their annual reports. In this regard, councils are required to disclose the operating, competitive neutrality and capital costs attributable to their significant business activities.

To comply with the competitive neutrality principles, the Local Government Division (LGD) of the Department of Premier and Cabinet has developed a Community Service Obligation (CSO) Policy and Guidelines framework for councils. This policy is consistent with the policy applying to the State Government's GBEs.

The main objectives of the CSO Policy are:

- to ensure that a council's social and other objectives are achieved without impacting on the commercial performance of its significant business activities;
- to improve the transparency, equity and efficiency of CSO service delivery; and
- to be consistent with NCP requirements.

The Policy was implemented in early 2001, in accordance with Tasmania's NCP obligations.

Competitive Neutrality Complaints Mechanism

The Application Statement required the establishment of a competitive neutrality complaints mechanism. Accordingly, a competitive neutrality complaints mechanism was established under the *Government Prices Oversight Act 1995*. Under regulations made under that Act, a person who believes that he or she has been adversely affected by a contravention of the competitive neutrality principles may lodge a complaint with the Government Prices Oversight Commission (GPOC), which has responsibility for investigating all alleged breaches of the competitive neutrality principles in the State.

During 2001, one complaint was received by GPOC. The complaint was against the Hobart City Council (HCC) in relation to HCC's off-street car parking business. The matter was referred to the Department of Treasury and Finance after GPOC found that it had no legal jurisdiction to investigate HCC's car parking business, since the business had not been formally endorsed as a significant business activity.

Following discussions between officers at the Department of Treasury and Finance and the HCC, the HCC has agreed to separate the financial performance of its off-street car parking business from its on-street car parking business. GPOC has advised that this would allow the HCC to meet its competitive neutrality obligations.

The Government is currently considering how the identification of all SBAs can be clarified to ensure that Tasmania continues to meet its competitive neutrality obligations. This issue is being addressed through a review that is currently underway of the former Government's policy statement of June 1996, titled *Application of National Competition Policy to Local Government*. The intent of the review is to assist Local Government in the continued application of competition principles to its activities. Following consultation with the LGAT, a revised policy statement will be finalised by mid-2002.

At the request of the Treasurer, the Department of Treasury and Finance is undertaking a review of the FCA Guidelines to provide additional guidance in regard to pricing. The result of this will be clearer guidelines for councils on the application of FCA.

More information on the competitive neutrality complaints mechanism is provided in the GPOC Annual Report and the *National Competition Policy Progress Report: May 2002*.

Prices Oversight

The Application Statement indicated that Local Government monopoly or near monopoly providers were to be brought under the prices oversight jurisdiction of GPOC. The *Government Prices Oversight Amendment Act 1997* extended the coverage of the *Government Prices Oversight Act 1995* to include Local Government monopoly or near monopoly services.

In addition, in accordance with the *Agreement to Implement the National Competition Policy and Related Reforms*, Tasmania is required to implement the COAG *Strategic Framework for the Efficient and Sustainable Reform of the Australian Water Industry* (Strategic Framework). The Strategic Framework requires metropolitan bulk water suppliers to charge on a volumetric basis to recover all costs. Metropolitan bulk water suppliers are to also earn a positive real rate of return on the written-down replacement cost of their assets.

Against this background, GPOC was required to undertake an investigation into the pricing policies associated with the provision of bulk water by the HRWA, the EWA and the NWRWA in 1998. As a result, GPOC recommended maximum prices (in the form of maximum revenues and pricing principles) to be charged by each of the State's three bulk water authorities for a three year period commencing from 1 July 1999. The Government endorsed GPOC's pricing principles for bulk water.

On 11 April 2001, the Treasurer provided GPOC with a requirement to conduct the second investigation into the pricing policies of three bulk water supply authorities, the HRWA, the EWA and the NWRWA. GPOC completed the investigation on 31 July 2001. In September 2001, following consideration of GPOC's report, the Government released a Determination setting the maximum allowable revenues and maximum volumetric prices for the three bulk water authorities for a three year period commencing 29 September 2001.

Legislation Review

The Local Government Division has implemented procedures for the review of all proposed or existing by-laws to ensure that any restrictions on competition are fully justified in the public benefit. The *By-Law Making Procedures Manual* was released in August 1997 and represents the by-law section of the Government's Legislation Review Program (LRP). All by-laws proposed since that date have been required to comply with the new procedures.

All by-laws made under the 1962 Act remained in force under the current Local Government Act (to the extent that they were consistent with the new Local Government Act) for a period of five years, and were due to expire on 17 January 1999.

A number of councils have been progressively reviewing their by-laws, a number of which have been repealed. As a result, there has been a continued decline in the overall number of by-laws. However, a significant number of councils were not prepared for the statutory expiry of all these by-laws on 17 January 1999. In December 1998, the Government therefore introduced the *Local Government (Savings and Transitional) Amendment Act 1998* to extend the expiry date until 31 March 1999. This resulted in the automatic expiry at the end of March 1999 of approximately 500 by-laws made under the 1962 Act.

All the 125 new by-laws gazetted under the current Local Government Act since the commencement of that Act in January 1994 have been subjected to the legislation review processes. Councils are now carefully considering the subject matter that they wish to deal with through by-laws, such that new by-laws are generally made to deal solely with matters of broad governance rather than relating to commercial operations. Tasmanian councils have repealed their obsolete by-laws and replaced them, where appropriate, with by-laws that focus on governance arrangements and comply with NCP principles.

Amendments to the Local Government Act in 1999 resulted in the further application of NCP principles to Local Government by-laws, with the requirement that any new by-laws with a significant impact on the community be subject to a Regulatory Impact Statement. This amendment formalised the procedure already required in the *By-Law Making Procedures Manual*.

By way of an example of the benefit of legislative review, the LRP review of the *Local Government (Highways) Act 1982* recommended that the by-law making power in that Act be removed along with certain anti-competitive elements. This was effected through the *Local Government (Highways) Amendment Act 2001* which received Royal Assent on 17 December 2001. Consequently, any by-laws that rely on the Act for their authority will cease to have effect from the proclamation date. It is intended that the Act be proclaimed by mid-2002, giving councils an opportunity to further consider the impact of the amendment and to take appropriate action. The few councils that may identify a need to have a by-law to control standards of highway construction will prepare new by-laws under the more rigorous review and consultation provisions of the Local Government Act.

Water Reform

As part of the Tasmanian water reform process, the HRWB was transferred in 1997 from State Government to Local Government ownership and established under the Local Government Act as a joint authority. In addition, the State Government's North Esk Regional and West Tamar Water Supply Schemes were also transferred to Local Government and, together with Launceston City Council's water supply scheme, re-established in 1997 under the Local Government Act as a joint authority entitled the Esk Water Authority.

The NWRWA was the last bulk water authority to be transferred to Local Government, being transferred on 10 August 1999 and now operates as Cradle Coast Water.

These joint authorities were established in accordance with the NCP corporatisation model and are subject to full taxation equivalent, dividend and loan guarantee fee regimes.

Among other things, the Strategic Framework requires the implementation of two-part (volumetric) pricing for urban water schemes where it is shown to be cost effective. In Tasmania, all urban retail water services are provided by Local Government. Accordingly, in 1999 councils undertook a significant amount of work in assessing whether two-part tariffs are cost effective for their urban water supply schemes.

To commence this assessment, in June 1999 GPOC set out a methodology for local councils to assess the cost effectiveness of introducing two-part tariffs for their urban water services in its report entitled *The Cost Effectiveness of Local Councils Implementing Two Part Pricing for Urban Water Services*.

Local councils were required to show that they had correctly applied the guidelines to assess whether two-part pricing was cost effective for their urban water service schemes. The submissions provided by councils were subsequently reviewed by an independent review panel comprising State and Local Government representatives and a representative of the LGAT.

A report on the assessments was provided to the State Government in December 1999. The report showed that two-part tariffs had already been, or would be, implemented in 24 of the 90 water schemes studied. In these cases, the implementation of two-part pricing for urban water delivers many benefits to councils and the broader community. Correct pricing sends the appropriate price signals to customers to promote water use that is economically efficient and environmentally responsible.

The *Local Government Regulations 2000* were amended in late 2000 to require councils to incorporate in their annual reports a statement of plans for the supply of domestic water and sufficient financial information to demonstrate that the Urban Water Pricing Guidelines for Local Government in Tasmania are being applied in relation to the supply of domestic water. The previous requirement was for a statement to appear in councils' operating plans for the forthcoming year.

Tasmania has been assessed by the NCC as having met all its NCP water reform commitments to date. The NCC has acknowledged Tasmania's progress in this area and recognised Tasmania's genuine commitment to implementing two-part pricing where cost effective.

To ensure that councils apply full cost recovery principles, the Government, in March 2001, issued revised Urban Water Pricing Guidelines originally issued by GPOC in 1999. The Guidelines provide councils with more explicit guidance for the development of two-part tariffs, and the appropriate treatment of Community Service Obligations, where applicable.

In February 2002, GPOC commenced an audit of Tasmanian councils to assess whether they complied with the NCP water reform obligations as they apply to urban water and wastewater services for the previous financial year. The current audit is due to be completed in May 2002, with the results provided in a report to the Premier, as Minister for Local Government, and the Treasurer, as the Minister responsible for NCP. It is intended that future audits be brought forward to coincide with Tasmania's reporting obligations to the National Competition Council.

For a full discussion of progress with NCP implementation in Tasmania, refer to the paper *National Competition Policy Progress Report: May 2002* issued by the Tasmanian Government.

FINANCIAL PERFORMANCE

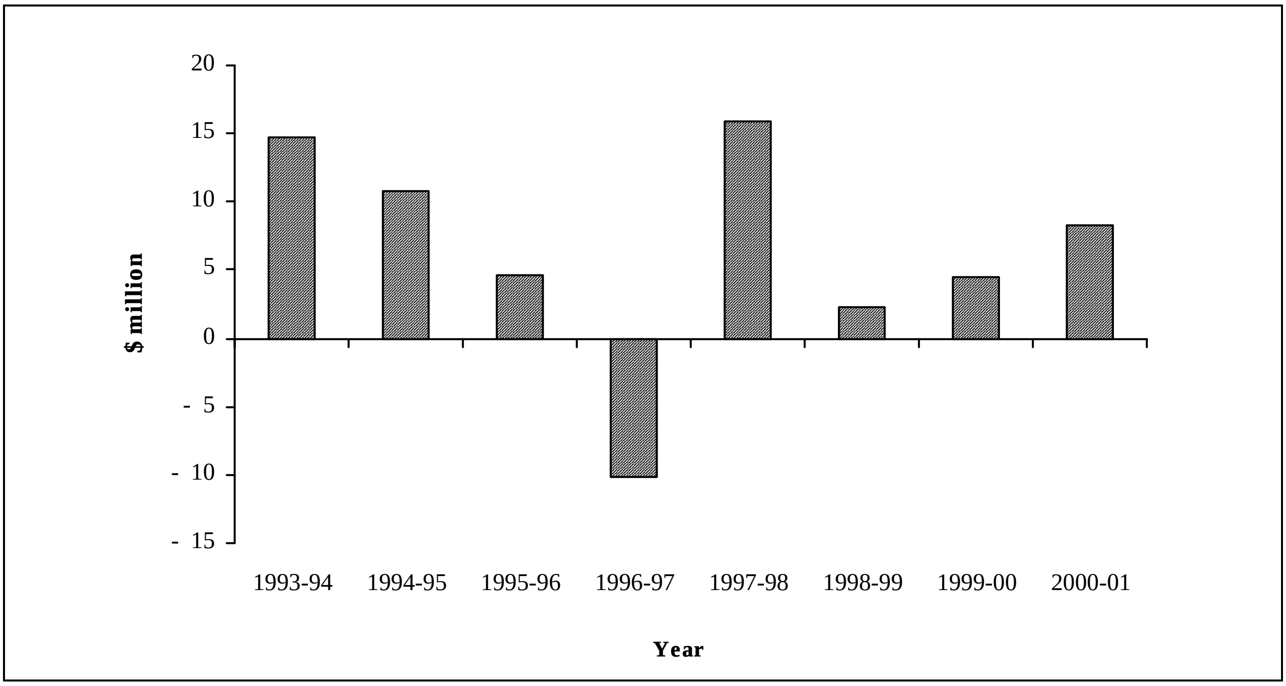
Local Government Sector Financial Aggregates

The Tasmanian Local Government sector returned a net operating balance of $9.0 million in 2000-01. Local Government own-source revenue in 2000-01 totalled $397.0 million (85.4 per cent of total revenue), of which $164.0 million or 41.3 per cent was from taxation revenue (the general rate component), $191.0 million was from the sale of goods and services, which includes the water, sewerage and garbage components of rates, accounting for 48.1 per cent of own-source revenue and other income of $42.0 million was the final component, which was equivalent to 10.6 per cent of own-source revenue.

Total grants and subsidies made up 15.9 per cent of total GFS revenue comprising current grants of 14.6 per cent and capital grants of 1.3 per cent. The largest expense area was housing and community amenities at 35.5 per cent of total GFS expenses, while interest comprises only 3.3 per cent of the total, reflecting the low debt level of the Local Government sector.

After a surplus of $4.0 million in 1999-00, the Local Government sector returned a surplus of $8.0 million in 2000-01 (in 2002-03 dollars). As shown in Chart 12.2, the Local Government sector surplus for 2000-01 has continued to increase towards levels similar to those experienced in, and prior to, 1994-95 (in 2002-03 dollars). This was before the transfer of the HRWB to the southern councils on 1 January 1997 and before an abnormal increase in capital outlays in 1996-97 due to major construction projects by the Hobart City Council, namely the Hobart Aquatic Centre and the Sandy Bay sewerage treatment project.

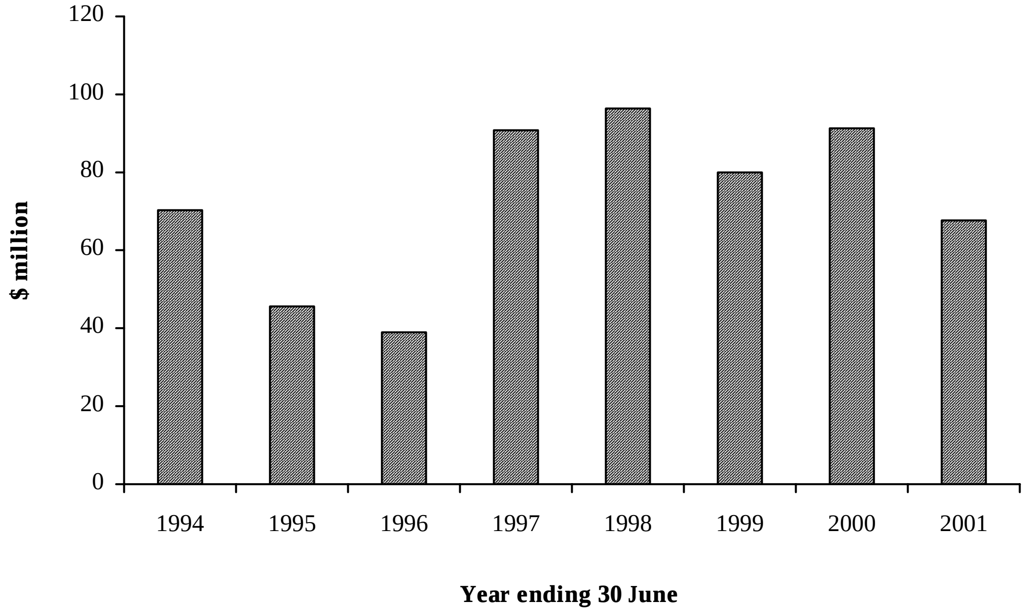
Chart 12.2: Local Government Surplus(+)/Deficit(-) (in 2002-03 dollars) - Tasmania, 1993-94 to 2000-01



Sources: *Government Finance Statistics,* Australia 2000-01, ABS Cat No 5512.0 and Consumer Price Index, Tasmania, Treasury and Finance Statistics.

Furthermore, Tasmanian Local Government sector net debt was also significantly affected by the transfer of the HRWB and the increase in capital expenditure between 30 June 1996 and 30 June 1997. More recently, there has been a reduction of $24 million in net debt in the period between the financial years of 1999-00 and 2000-01. This is shown in Chart 12.3.

Chart 12.3: Local Government Net Debt (in 2002-03 dollars) - Tasmania, 1994 to 2001



Sources: *Government Finance Statistics,* Australia 2000-01, ABS Cat No 5512.0 and Consumer Price Index, Tasmania, Treasury and Finance Statistics.

Table 12.3 details the net worth of each Tasmanian council as at 1999-00. The net worth is a measure of the full balance sheet financial position of each council. The Local Government sector balance sheet shows a net worth of $3 716.7 million as at 30 June 2000. Total Local Government net worth was made up of assets totalling $4 017 million, of which 95.0 per cent was land and fixed assets, less $304 million in liabilities.

The ABS cautions users to take care when interpreting the measure of net worth per head of resident population, as it can be influenced by the extent to which councils have recognised and valued their fixed assets, particularly roads. For example, councils with a heavy investment in roads relative to their population are likely to show a high net worth per head of resident population.

Table 12.3: Local Government Net Worth by Council, 1999-00

	Net Worth 1999-00	Net Worth per head of est. resident population 1999-00
	$'000	$
Break O'Day	**49 734**	**8 658**
Brighton	**58 904**	**4 538**
Burnie	**229 522**	**11 845**
Central Coast	**163 230**	**7 757**
Central Highlands	**37 029**	**14 835**
Circular Head	**60 622**	**7 136**
Clarence	**270 182**	**5 523**
Derwent Valley	**23 284**	**2 373**
Devonport	**251 731**	**10 302**
Dorset	**73 365**	**9 848**
Flinders	**41 682**	**44 155**
George Town	**36 568**	**5 427**
Glamorgan/Spring Bay	**43 163**	**10 228**
Glenorchy	**239 563**	**5 460**
Hobart	**586 969**	**12 782**
Huon Valley	**102 520**	**7 524**
Kentish	**24 238**	**4 383**
King Island	**23 859**	**13 441**
Kingborough	**170 641**	**6 000**
Latrobe	**40 924**	**5 059**
Launceston	**640 436**	**10 193**
Meander Valley	**120 795**	**6 879**
Northern Midlands	**107 130**	**9 069**
Sorell	**41 970**	**3 847**
Southern Midlands	**39 580**	**7 041**
Tasman	**16 977**	**7 596**
Waratah/Wynyard	**73 686**	**5 305**
West Coast	**44 183**	**7 890**
West Tamar	**104 263**	**5 213**
TOTAL	**3 716 749**	**7 902**

Sources: *Government Finance Statistics,* Tasmania 1999-00, ABS Cat No 5501.6 and *Regional Population Growth,* 2000-01, ABS Cat No 3218.0.

Comparison with Other States and the Northern Territory

Table 12.4 compares various indicators for the Local Government sector in all states and the Northern Territory for 2000-01.

LGAs within Tasmania have different expenditure priorities. These priorities are the result of the physical characteristics of the Local Government area and/or differing characteristics and needs of residents. Differences also stem from the policy approaches of individual councils. This is also the case when the Tasmanian Local Government sector, in aggregate, is compared to the aggregates of other states and the Northern Territory. In addition, the allocation of responsibilities and functions undertaken by the State and Local Government sectors varies considerably between jurisdictions.

Table 12.5 compares the relative proportion of each expenditure category to the total expenditure within each state and the Northern Territory. Again, care should be taken in comparing the relative importance of categories of expenditure between jurisdictions, as spending priorities will differ between jurisdictions as well as the allocation of funding responsibility between state and Local Governments.

Table 12.4: Key Indicators by State and the Northern Territory, 2000-01

State/Territory	Revenue per capita	Expenses per capita	Grants and Subsidies as a proportion of revenue	Local Government employment per thousand of population	Expenses as a proportion of GSP
	$	$	%		%
New South Wales	**888**	**799**	**9.6**	**7**	**2.2**
Victoria	**711**	**705**	**17.5**	**7**	**2.0**
Queensland	**1 288**	**1 117**	**10.2**	**10**	**3.7**
Western Australia	**632**	**647**	**13.7**	**5**	**2.2**
South Australia	**796**	**756**	**18.8**	**7**	**1.9**
Tasmania	**989**	**968**	**14.6**	**8**	**3.9**
Northern Territory	**818**	**1 225**	**25.5**	**13**	**2.8**
TOTAL	**863**	**802**	**12.7**	**7**	**2.3**

Sources: *Government Finance Statistics*, Australia 2000-01, ABS Cat No 5512.0; *Australian Demographic Statistics*, September Quarter 2001, ABS Cat No 3101.0; *Wage and Salary Earners*, November Quarter 2001, ABS Cat No 6248.0 and *Australian National Accounts: State Accounts* 1999–00, ABS Cat No 5220.0.

Table 12.5: Relative Importance of Categories of Expenditure, 2000-01 (Expenses by Purpose as a Share of Total Expenses (%))

	NSW	VIC	QLD	WA	SA	TAS	NT	Ave[1]
General Public Services	**16.0**	**11.1**	**23.5**	**15.8**	**8.6**	**13.4**	**28.2**	**16.3**
Public Order and Safety	**2.6**	**1.7**	**1.1**	**2.2**	**3.8**	**0.4**	**0.8**	**2.0**
Education	**0.1**	**0.9**	**....**	**....**	**0.3**	**....**	**0.4**	**0.3**
Health	**1.0**	**2.8**	**1.1**	**2.2**	**2.1**	**2.9**	**2.9**	**1.7**
Social Security and Welfare	**3.9**	**13.6**	**0.8**	**3.6**	**5.1**	**2.6**	**1.7**	**5.2**
Housing and Community Amenities	**24.5**	**18.3**	**27.7**	**18.5**	**15.7**	**35.4**	**19.9**	**23.1**
Recreation and Culture	**11.4**	**16.9**	**8.9**	**17.2**	**23.0**	**11.6**	**7.1**	**13.3**
Fuel and Energy	**....**	**....**	**....**	**0.5**	**....**	**....**	**0.8**	**0.1**
Industry Services	**1.3**	**0.9**	**1.7**	**1.8**	**....**	**....**	**....**	**1.2**
Transport and Communications	**33.7**	**25.0**	**26.9**	**25.6**	**31.7**	**23.3**	**14.5**	**28.8**
Other	**5.5**	**8.7**	**8.3**	**12.8**	**9.7**	**9.9**	**24.1**	**8.1**
TOTAL [2]	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Source: *Government Finance Statistics,* Australia 2000-01, ABS Cat No 5512.0.

Notes:

1. Weighted average.
2. Figures may not add to 100 due to rounding.

Table 12.6 shows the relative debt per capita as at 30 June 2001 and debt servicing levels per capita for 2000-01 of Local Government sectors in all states and the Northern Territory.

Table 12.6: Local Government Debt Statistics

	Net Debt per capita as at 30 June 2001[1]	Net Interest Payments per capita 2000-01
	$	**$**
New South Wales	**(304)**	**(18)**
Victoria	**(63)**	**(2)**
Queensland	**452**	**36**
Western Australia	**92**	**8**
South Australia	**(203)**	**(16)**
Tasmania	**138**	**23**
Northern Territory	**(361)**	**(10)**
AVERAGE	**(46)**	**(0)**

Sources: *Government Finance Statistics,* Australia 2000-01, ABS Cat No 5512.0 and *Regional Population Growth,* 2000–01, ABS Cat No 3218.0.

Note:

1. Equals deposits held, advances received and borrowing less cash and deposits, advances paid and investments, loans and placements.

Table 12.6 shows that in 2000-01 the Tasmanian Local Government sector's debt servicing burden per capita was the second highest among the states and the Northern Territory.

Key Performance Indicators

The Key Performance Indicator (KPI) project aims to provide all Tasmanian councils with a range of indicators to measure their organisational performance. It will enable councils to benchmark their operations and monitor their performance over time. Until now there has not been an industry-wide framework for measuring and comparing council performance.

The KPI project was initially funded by the Commonwealth Government and has been developed jointly by the State Government, the LGAT and Local Government Managers Australia. A committee has been established to manage the implementation of the KPIs. The committee consists of State and Local Government representatives with assistance where required from the Australian Bureau of Statistics. The indicators have now been established and data has been collected and analysed for the 1999-00 and 2000-01 financial years. Although participation in the project has been on a voluntary basis, all 29 councils have been involved and have provided information to the KPI committee. The performance indicators are contained in the report of the KPI Committee, *Measuring Council Performance in Tasmania 2000-2001*, Department of Premier and Cabinet, Hobart, April 2002.

In the following table, a selection from the 51 council performance indicators contained in the report is shown for the 2000-01 financial year. Local councils are grouped into three categories according to the Australian Local Government Classification (ALGC); that is cities; other urban and large rural (medium councils); and other smaller rural (small councils). The ALGC groupings have been made so that councils can benchmark against other councils of similar size and degree of urbanisation. However, caution should still be exercised when comparing one council with another, even within abridged ALGC classifications, as differences in demography, geography and land use will influence council comparisons.

It should be noted that as the table only contains information about the 2000-01 financial year, it may not be representative of the long-term situation for every council. For example, a council's high or low level of extraordinary expenditure on a particular purpose in 2000-01 may cause the ratios in the table for that council to be unrepresentative of its usual performance. Furthermore, the effects of rationalisation may have a significant impact on later year performance figures. The full value of information presented in this way will therefore not be realised until several years of data are available.

The meaning of each of the indicators is described in the section 'Description of Indicators', which follows Table 12.7.

Table 12.7: Key Performance Indicators, 2000-01

	Rates revenue/ Total revenue	Grants/ Total revenue	Revenue per capita	General rate per capita	Debt service ratio[1]	Capital exp./dep. Ratio[2]	State of asset[3]	Unit cost of water
	%	%	$	$	%	%	%	$ per Kl
Cities								
Clarence	77.0	12.9	756	340	8.2	78.7	65.4	0.73
Glenorchy	67.8	10.7	970	266	8.0	75.0	55.9	0.61
Hobart	70.3	4.7	1 476	682	4.3	69.1	75.1	0.65
Launceston	67.9	11.4	1 098	394	3.8	150.4	44.6	0.89
GROUP AVERAGE	70.8	9.9	1 075	420	6.1	93.3	60.2	0.72
Medium Councils								
Brighton	47.9	33.3	855	231	9.3	88.3	62.1	0.81
Burnie	66.3	11.4	1 212	497	4.5	96.0	50.0	0.63
Central Coast	60.0	18.5	820	321	2.2	92.4	72.3	0.82
Derwent Valley	60.9	27.2	851	297	7.5	109.5	42.7	0.75
Devonport	64.3	10.9	1 142	442	11.2	119.7	54.0	1.00
Huon Valley	51.8	30.4	932	302	7.7	38.0	42.8	0.33
Kingborough	67.4	20.4	834	306	2.4	122.0	61.8	0.80
Meander Valley	53.4	34.0	814	279	5.2	128.4	59.0	0.72
Northern Midlands	43.5	44.1	1 026	314	0.0	91.3	55.4	N/A
Sorell	59.2	20.9	856	401	8.8	106.6	39.5	0.93
Waratah/Wynyard	66.8	21.7	817	327	9.3	71.6	42.0	1.08
West Tamar	62.5	29.2	765	255	6.4	110.6	43.5	0.85
GROUP AVERAGE	58.7	25.2	910	331	6.2	97.9	52.1	0.79
Small Councils								
Break O'Day	53.9	33.7	1 062	331	6.3	64.5	57.5	0.41
Central Highlands	34.1	36.6	1 707	439	0.3	35.4	48.3	N/A
Circular Head	52.0	22.7	1 216	445	6.2	130.6	61.3	0.67
Dorset	45.8	36.5	978	287	2.8	104.4	40.3	0.44
Flinders	25.8	46.1	2 199	455	0.0	26.1	56.0	2.34
George Town	60.4	20.6	1 070	430	19.6	125.3	36.8	0.84
Glamorgan/Spring Bay	43.3	38.8	1 893	439	4.4	154.0	75.6	2.06
Kentish	43.1	49.6	817	234	4.5	60.0	54.3	0.89
King Island	31.1	43.4	2 485	554	1.0	54.3	25.2	0.95
Latrobe	61.6	23.7	984	324	2.8	206.7	54.2	0.82

Table 12.7: Key Performance Indicators, 2000-01 (continued)

	Rates revenue/ Total revenue	Grants/ Total revenue	Revenue per capita	General rate per capita	Debt service ratio[1]	Capital exp/dep. Ratio[2]	State of asset[3]	Unit cost of water
	%	%	$	$	%	%	%	$ per Kl
Small Councils (continued)								
Southern Midlands	**33.7**	**56.0**	**1 311**	**293**	**3.7**	**61.7**	**60.5**	**1.01**
Tasman	**29.0**	**52.2**	**1 722**	**462**	**1.7**	**66.5**	**33.3**	**N/A**
West Coast	**63.5**	**24.9**	**1 126**	**437**	**8.0**	**117.6**	**67.5**	**0.54**
GROUP AVERAGE	**44.4**	**37.3**	**1 424**	**395**	**4.7**	**92.9**	**51.6**	**1.00**

Source: KPI Committee, *Measuring Council Performance in Tasmania 2000-2001*, Department of Premier and Cabinet, Hobart, April 2002

Notes:

1. Interest payments plus loan repayments as a proportion of operating revenue.
2. Total capital expenditure as a proportion of total depreciation expenditure.
3. Written down value of roads and footpaths as a proportion of their replacement value.

Table 12.7 indicates that the reliance on Government grants is least for the city municipalities together with the councils of Devonport and Burnie, with these councils having a smaller proportion of revenue from Government grants than other municipalities. Reliance on grants is higher among the smaller councils with Southern Midlands, Tasman, Kentish and Flinders being the most reliant.

Debt servicing ratios tend to be higher among the cities and medium councils compared to the smaller councils, with the notable exception of George Town. This probably reflects greater capital investment occurring in the larger councils rather than poorer financial management.

Capital expenditure to depreciation expenditure ratios vary widely among councils in all three council classifications. As mentioned earlier, the results presented are for the year 2000-01. Capital expenditure will vary from year to year and will depend on a number of factors such as timing of projects, growth in the area, and stage of life of assets. It will be more useful to monitor this ratio over time to determine whether consistent trends are evident.

Description of Indicators

The indicators in Table 12.7 describe the following.

Rate Revenue as a percentage of Total Revenue

A measure of the level of financial independence. The higher the level of rate revenue in proportion to total revenue, the greater the level of financial independence the council has.

Government Grants as a percentage of Total Revenue

This indicator measures the reliance that a council has on external funding.

Total Revenue per capita

An absolute measure of a council's total revenue in relation to the population of the municipality.

General Rate per capita

A measure of the revenue collected from ratepayers to fund the cost of running a council and excludes user pays charges for services such as water and sewerage.

Debt Servicing Ratio

An indicator that measures the proportion of debt servicing charges (interest and loan repayments) as a proportion of total operating revenue. The greater the value of this indicator, the lower the council's budget flexibility and ability to undertake discretionary spending.

Capital Expenditure to Depreciation Expenditure Ratio

Measures the percentage of a council's capital expenditure as a proportion of depreciation expenditure. This measure is an indication of the potential rate of improvement or decline in asset conditions and standards.

State of Asset

This indicator measures the current condition of roads and footpaths by comparing the written down value with the current replacement value. Low levels of maintenance on roads and footpaths will be reflected in lower values for this ratio.

Unit cost of Water

This indicator measures the cost of providing this service to the community.

CONVENTIONS AND GLOSSARY OF TERMS

CONVENTIONS

Figures in tables and in the text have been rounded. Discrepancies in tables between totals and sums of component items reflect rounding. Percentage changes in all tables are based on the underlying unrounded amounts.

The notation for zero or rounded to zero figures is '….'.

Percentages in excess of 999 per cent are shown as '….'.

GLOSSARY OF TERMS

Accrual Accounting

Accrual accounting recognises revenue and expenditure at the time it is earned or incurred, rather than when money is actually received or paid.

Administered Payments

Administered Payments is a classification of expenditure that relates to payments or concessions made by the Government to individuals, groups or organisations. These include Community Service Obligations and Community Service Activities (CSOs and CSAs – see below) payments to Government Business Enterprises and State-owned Companies (GBEs and SOCs – see below). These payments are determined by the Government and are non-discretionary. In relation to the Output Methodology, these payments are not strictly Outputs, but rather Government purchases the administration of these payments from departments. Details of Administered Payments are included in relevant agency chapters in Budget Paper No 2.

Advances

Repayable, interest-bearing loans often provided on concessional terms.

Appropriation

An amount which may be expended from the Consolidated Fund under the authority of an Act of Parliament.

Auditor-General

A statutory office, established under the *Financial Management and Audit Act 1990*, responsible for the independent review of State financial matters. The Auditor-General is required to report annually to Parliament on the accounts of departments and other public bodies.

Benchmarking

The process of comparing the performance of Government agencies in producing goods and services with other governments or the private sector. This process enables analysis of the effectiveness and efficiency of the production of Outputs relative to best practice procedures in other jurisdictions and the private sector and, in turn, assists the Government in making decisions on the level and range of Outputs purchased from departments.

Budget Committee

A Cabinet Sub-Committee that is responsible for considering all Budget related matters and making appropriate recommendations to Cabinet.

Capital Investment Program

The Capital Investment Program (CIP) comprises major capital investment projects for all on-Budget agencies and is funded through the Works and Services section of the Consolidated Fund. The CIP was introduced to link Government investment in capital and maintenance projects with departmental corporate and asset management plans and specific Government policy objectives and Outputs. Details of projects included in the CIP are provided in Chapter 5 of Budget Paper No 1 *Budget Overview 2002-03*.

Cash Accounting

Cash accounting recognises revenue and expenditure only at the time cash is received or paid.

Chain Volume Measures

Whereas constant price estimates measure real changes in various economic statistics by removing the effect of rising prices through an index composed in terms of a constant base year, chain volume measures provide estimates of real change by factoring in changing price relativities from year to year. Chain volume measures have recently replaced constant price estimates as the adjustment mechanism preferred by the Australian Bureau of Statistics for the calculation of real prices.

Commonwealth Grants Commission

An independent body established by the Commonwealth Government to advise on the per capita relativities for distributing general revenue grants among the six states and two territories.

Community Service Activities (CSAs)

CSAs are non-commercial activities undertaken by State-owned Companies under contract with the Government. To qualify as a CSA, the activity must meet similar identification criteria and net cost conditions as CSOs.

Community Service Obligations (CSOs)

CSOs are activities undertaken by a GBE that would not be undertaken if it was a commercial entity operating in the private sector. In this regard, the GBE Act requires that CSOs can only be declared where the function performed, service provided, or concession allowed will result in a net cost to the GBE, is the direct result of a direction given under, or a specific requirement of, an Act of Parliament and would not be performed, provided or allowed if the GBE were a business in the private sector acting in accordance with sound commercial practice.

Competitive Neutrality

A policy under the *Competition Principles Agreement* (see National Competition Policy) to prevent any resource allocation distortions arising out of the public ownership of entities engaged in significant business activities. Competitive neutrality aims to ensure that Government businesses do not enjoy any net competitive advantage simply as a result of their public sector ownership.

Concessions

See State Government Concessions.

Consolidated Fund

The Fund established by Part II of the *Public Account Act 1986* to receive all taxes and the majority of other revenue received by the Government. All payments from the Consolidated Fund must be authorised by an Act of Parliament.

Consolidated Fund Appropriation Act

An Act which appropriates moneys from the Consolidated Fund for expenditure by the Government during the financial year. Appropriation Acts are generally in force from 1 July in one calendar year until 30 June in the subsequent year.

Consolidated Fund Surplus (CFS)

The CFS is the excess of Consolidated Fund receipts over the expenditure of these funds (net of loan repayments). A CFS represents funds which are available for the retirement of debt. A negative CFS is the same as the Net Financing Requirement (NFR).

Constant Price Terms

Constant price estimates provide a convenient way of measuring real changes in economic time series. Specifically, such estimates measure the change in a series after adjusting values to remove the effects of price movements over time using an index compiled in terms of a constant base year. In Australian Bureau of Statistics series, most measures of real changes are now estimated using chain volume measures.

See also: Chain Volume Measures; Real Terms.

Consumer Price Index

A measure of the change in prices, over time, of a basket of goods and services representing household expenditure patterns. It aims to measure the changes in the cost of living for the average household.

Department Operating Accounts

Accounts created in the Special Deposits and Trust Fund to record all department-related transactions. These accounts receive funds appropriated to departments from the Consolidated Fund and retain certain revenue that is not identified for return to the Consolidated Fund. Department Operating Accounts enable the consideration of the total resourcing of Government Outputs.

Equalisation Grants

See Fiscal Equalisation.

Fees

Fees from regulatory services are levies not primarily designed to raise general revenue, but which are associated with the granting of permit or privilege or for the regulation of activity. This distinguishes them from charges for services rendered to clients and receipts from the sale of goods and services provided by public sector agencies.

Financial Agreement Acts 1927 and 1994

Agreements between the Commonwealth Government and State Governments establishing the Loan Council and prescribing a framework for governmental borrowing and sinking fund arrangements.

Financial Assistance Grant (FAG)

Prior to 2000-01, the FAG represented the main form of general revenue assistance provided to the states and territories by the Commonwealth. The size of the FAG for each jurisdiction was determined by the Premiers' Conference each year, taking into account the pool of FAGs available for distribution between all jurisdictions in that year, which were indexed in line with national CPI and population growth, the per capita relativity factors agreed by the Premiers' Conference, the state or territory's share of the national population and special assistance for other jurisdictions funded out of the FAG pool. The FAG was abolished with effect from 2000-01 under the Commonwealth's National Tax Reform package. Information on the FAG is presented in Chapter 7 of Budget Paper No 1 *Budget Overview 2002-03*.

Financial Year

The financial year runs from 1 July in one calender year to 30 June in the following year.

Fines

Fines are civil and criminal penalties imposed on law breakers other than penalties imposed by tax authorities.

First Home Owners Scheme

Under the Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations (IGA), the states and territories were required to establish, administer and fund a First Home Owners Scheme. The scheme provides first home owners with a grant of $7 000 to offset the impact of the GST on house prices. In addition, the Commonwealth Government provides an additional grant of $3 000 for the purchase or construction of a new home. The additional grant expires 30 June 2002.

Fiscal Capacity

The capacity of a State to meet its financial responsibilities. It reflects the adequacy of the various tax bases available to that State, as well as the existence of any disabilities or advantages faced by that State in the provision of services and the raising of revenues.

Fiscal Equalisation

Also described as horizontal fiscal equalisation, it refers to the principle of allocating financial assistance to the states and territories which, as assessed by the Commonwealth Grants Commission, is designed to provide a jurisdiction with the capacity to provide services at a standard comparable to those of the other jurisdictions on average provided it makes the average revenue raising effort.

Full Time Equivalents (FTEs)

A measure of staffing levels which converts the total number of hours worked by all staff (including part time and casual staff) to an equivalent number of full time staff.

General Government Sector

For the purpose of reporting uniform information on Government Financial Statistics (GFS - see below), non-financial public sector bodies are categorised as belonging to either the General Government sector, the Public Trading Enterprises (PTEs) sector (see below) or the Public Financial Enterprises (PFE) sector (see below). General Government agencies are departments, bodies, or offices that provide services free of charge or at prices substantially below their cost of production.

General Revenue Assistance

Grants provided by the Commonwealth to the state and territory Governments and Local Governments, to be used for purposes determined by the recipients. Prior to 2000-01, the main form of general revenue assistance provided to the states and territories was the Financial Assistance Grant (FAG - see above). Other forms of general revenue assistance provided were National Competition Policy related payments and Identified Local Road Funds. Under the IGA, general revenue assistance grants will be provided in the form of GST revenue payments and transitional payments. In addition, National Competition Policy related payments will continue under the new arrangements.

Goods and Services Tax (GST)

This is a tax imposed by the Commonwealth Government from 1 July 2000 on most goods and services provided in Australia. All of the revenue raised from this tax is distributed to the states and territories using the principle of horizontal fiscal equalisation.

Government Business Enterprises

Government Business Enterprises (GBEs) are entities which operate outside the Public Account, principally on the basis of funds derived through their operations, and have no impact on Budget expenditure except in circumstances where they receive funding for CSOs or receive payments for services provided. GBEs also may provide returns to the Consolidated Fund in the form of dividends to shareholders (the State) and the payment of taxation equivalents and guarantee fees and are subject to their own enabling legislation and the GBE Act. GBEs prepare annual reports, with financial statements on a commercial, accrual accounting basis, which are tabled in Parliament and are subject to audit by the Auditor-General as the auditor appointed by the shareholders. Details of GBEs are provided in Chapter 10 of Budget Paper No 1 *Budget Overview 2002-03.*

Government Financial Statistics (GFS)

The Government Financial Statistics system employed by the Australian Bureau of Statistics is designed to provide statistics relating to all public sector entities such as government departments, statutory authorities, government businesses and local government authorities. The GFS is based on two international standards, the United Nations' *System of National Accounts* (SNA93) and the *Manual on Government Finance Statistics.*

Governor-in-Council

The Governor acting with the advice of the Executive Council, which consists of two or more Ministers of the Crown presided over by the Governor.

Grants

Non-repayable, non-interest bearing assistance.

Gross State Product

The total value added in production in the State economy in a year. Broadly, it equals the total value of goods and services produced less the cost of goods and services used in the production process.

GST Administration Costs

Under the IGA, the states and territories are required to meet the costs of administering the GST. These costs are those incurred through the Australian Tax Office and Australian Customs Service in the collection of the GST.

GST Law

Has the same meaning as defined in the *A New Tax System (Goods and Services Tax) Act 1999* of the Commonwealth.

Guarantee Fees

Guarantee fees are applied to GBEs and SOCs to compensate for the lower borrowing rates that GBEs and SOCs often receive due to their Government ownership. Guarantee fees apply to effectively increase the borrowing rate that GBEs and SOCs receive up to the market borrowing rate. In line with National Competition Policy principles, guarantee fees remove any competitive advantage that a GBE or SOC may receive in terms of reduced debt costs through Government ownership.

Guaranteed Minimum Amount

Under the Intergovernmental Agreement, the Commonwealth has guaranteed that no state or territory will be worse off financially under the new Commonwealth-State financial arrangements than they would have been had the National Tax Reforms not taken place. The guaranteed minimum amount is the minimum level of funding required by each state or territory to ensure that the guarantee provisions of the IGA are met.

Horizontal Fiscal Equalisation

See Fiscal Equalisation.

Implicit Price Deflator – GSP

An Implicit Price Deflator (IPD) is another means, in addition to the Consumer Price Index, by which changing prices can be measured. The IPD for Gross State Product (GSP) is a broad measure of price change used in the State Accounts. IPD indexes are obtained by dividing a current price value by its corresponding constant price value or chain volume measure.

Infrastructure Fund

A significant new initiative of the Government in the 2001-02 Budget was the introduction of the Infrastructure Fund (comprising a Social Infrastructure Fund and an Economic Infrastructure Fund) to provide funding for the development of major government social and economic infrastructure. The 2002-03 Budget includes the establishment of a new Social Infrastructure Fund and the establishment of a Major Projects Fund. For further information on the Infrastructure Fund see Chapter 5 of Budget Paper No 1 *Budget Overview 2002-03* and Chapter 3 of Budget Paper No 2 *Operations of Government Departments 2002-03*.

Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations (IGA)

This is the agreement signed by the Commonwealth and all state and territory Governments in June 1999 which provides for major changes to Commonwealth-State financial relations. Under the IGA, GST revenue is to be distributed to the states and territories on a horizontal fiscal equalisation basis. In return, the states and territories have agreed to forego revenue and accept additional expenditure responsibilities.

Loan Council

A body comprising the Commonwealth, state and territory Treasurers which meets, usually on an annual basis, to determine the Loan Council Allocation (see below) for the Commonwealth, states and territories for the forthcoming financial year.

Loan Council Allocation (LCA)

A state or territory's Loan Council Allocation is the borrowing level for the jurisdiction endorsed by the Loan Council, based on its combined General Government and PTE sector deficit (adjusted for financing transactions), plus a number of memorandum items. These items reflect public sector transactions which may have many of the characteristics of borrowings but do not constitute formal borrowings. One example is operating leases. Thus the LCA provides an indicator of the likely impact of the total State public sector's operations on the economy through its net call on national savings.

Major Works

Capital investment projects, including construction and maintenance, which have an estimated total value greater than $100 000.

National Competition Policy (NCP)

NCP involves a series of policy initiatives, agreed by all Australian governments, that are aimed at promoting free and open competition, where this is in the public benefit, which in turn will increase efficiency and productivity throughout the Australian economy. The basis of NCP is three intergovernmental agreements between the Commonwealth and state and territory Governments that were signed on 11 April 1995. These agreements are the *Conduct Code Agreement* (relating to the extension of Part IV of the Commonwealth's *Trade Practices Act 1974* to all businesses), the *Competition Principles Agreement* (relating to the implementation of a series of policy elements designed to improve competition in the Australian economy) and the *Agreement to Implement the National Competition Policy and Related Reforms* (relating to the sharing of the financial benefits expected to flow from the implementation of NCP).

NCP is not about competition for competition's sake and, in most areas, requires the use of the public benefit test to ensure that all government and community objectives are considered before specific action is taken to facilitate competition in the economy. For example, considerations include, but are not limited to, economic and regional development (including employment and investment growth) and the interests of consumers generally or a class of consumers, and social welfare and equity considerations (including community service obligations).

Net Debt

The State's Net Debt is defined as the difference between financial assets (claims the Government has on external organisations and individuals) and financial liabilities (claims of external organisations and individuals on the Government) held in the form of cash, deposits, non-transferable loans, transferable debt securities (eg Treasury notes and bonds) and finance leases. This definition does not include other financial assets and liabilities such as accounts receivable/payable, assets (such as shares) representing equity in other organisations (including public trading enterprises – see below), liabilities for unfunded employee entitlements and assets and liabilities in the form of long-term trade credit.

Net Financing Requirement (NFR)

The difference between Consolidated Fund receipts and the expenditure of these funds (net of loan repayments) is the Net Financing Requirement (NFR). An NFR is required to be funded by new borrowings. Previously, due to a deficit Consolidated Fund budget situation, the NFR has been the primary focus of the Budget outcome. A negative NFR is the same as the Consolidated Fund Surplus (CFS).

Net Interest Cost Ratio

The ratio of net interest costs met from the General Government sector (where net interest costs are defined as gross interest costs less interest recoveries and interest received from investments) to total recurrent receipts of the General Government sector net of total interest recoveries.

Nominal Terms

Values expressed in nominal terms are actual values at a point in time and reflect changing price levels over time. The term is used to contrast with 'real terms' (see below).

Outcomes

There are three different levels of outcomes.

- Community Outcomes are the long-term, high level objectives sought by the Government for the benefit of the Tasmanian community. These Outcomes are at such a high level that all of the activities of the State Service, along with contributions from the non-government sector of the Tasmanian community, contribute to their achievement.
- Government Policy Priorities are those policy directions which indicate a change in direction, an area of reform or a change in priority.
- Agency Outcomes are those Outcomes for which an agency can be held accountable, and the achievement of which contributes not only to the Government Policy Priorities but also to the Community Outcomes.

Output

An identifiable good or service produced by, or on behalf of, a department and provided to customers outside the department. The Government purchases Outputs in order to achieve policy objectives or Outcomes.

Output Expenditure

Expenditure over which a department has flexibility to reallocate funds to other Outputs within the limits of Budget allocation principles.

Output Methodology

A system of operating, budgeting and reporting which focuses attention on the Government's desired policy Outcomes and the level of Outputs required to be purchased by the Government in order to achieve those Outcomes.

Premiers' Conference

A meeting of the Prime Minister, State Premiers and the Chief Ministers of the two Territories, which prior to the year 2000 was held annually, to deal with Commonwealth-State financial relations issues. Under the IGA, this meeting has been replaced by the Treasurers' Conference (see below).

Public Account

The account established by the *Public Account Act 1986*. It consists of two separate Funds: the Consolidated Fund and the Special Deposits and Trust Fund.

Public Debt

The indebtedness to the Commonwealth for the State's share of loan raising under the Financial Agreement.

Public Financial Enterprises Sector

For the purpose of reporting uniform information on Government Financial Statistics (GFS - see above), non-financial public sector bodies are categorised as belonging to either the General Government sector, the Public Trading Enterprises (PTEs) sector or the Public Financial Enterprises (PFEs) sector. The PFE 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. Following agreement by the Australian Loan Council to the revised Uniform Presentation Framework in 2000 as a result of the shift from cash to accrual reporting and the Australian Bureau of Statistics' adoption of an accrual base framework for Government Finance Statistics reporting, this sector is known as the Public Financial Corporations (Public Financial Enterprises) Sector. The revised terminology is used in Chapter 11 of Budget Paper 1 *Budget Overview 2002-03.*

Public Trading Enterprises Sector

For the purpose of reporting uniform information on Government Financial Statistics (GFS - see above), non-financial public sector bodies are categorised as belonging to either the General Government sector, the Public Trading Enterprises (PTEs) sector or the Public Financial Enterprises (PFEs) sector. PTEs aim to recover the majority of their costs by revenue generated from user charges. Following agreement by the Australian Loan Council to the revised Uniform Presentation Framework in 2000 as a result of the shift from cash to accrual reporting and the Australian Bureau of Statistics' adoption of an accrual base framework for Government Finance Statistics reporting, this sector is known as the Public Non-Financial Corporations (Public Trading Enterprises) Sector. The revised terminology is used in Chapter 11 of Budget Paper 1 *Budget Overview 2002-03*.

Real Terms

Statistics measured in real terms remove the effects of rising prices or inflation to facilitate a more accurate measure of change over time. Such values are now most commonly referred to in terms of constant price estimates or chain volume measures (where changing price relativities are factored in from year to year). Except where otherwise stated, figures in the Budget documents expressed in real terms are calculated using the Gross State Product Implicit Price Deflator (GSP IPD).

Recurrent Services

That part of expenditure from the Consolidated Fund which relates to the 'ordinary annual' expenditures of the Government that are incurred in the production of Outputs. The major components of expenditure are salary and administrative and operating expenses, including building services and maintenance and furniture and equipment purchases. In addition, Recurrent Services include Administered Payments and Reserved by Law payments.

Reserved by Law Payments

Reserved by Law payments are recurrent expenditures that are made where there is a legislative requirement for funding to be provided for specific purposes without the necessity for an annual appropriation.

Royalty

A payment made for the use of publicly owned resources such as timber, water, fish, minerals or intellectual property.

Special Deposits and Trust Fund

A Fund established under the *Public Account Act 1986* which comprises various individual accounts designated for specific purposes.

Specific Purpose Payments (SPPs)

SPPs (also known as tied grants) are payments made by the Commonwealth to the states and territories, generally under section 96 of the Constitution, for the purposes, and on such terms and conditions, as may be specified by the Commonwealth. All SPPs of a recurrent nature are in the form of grants, while a small amount of assistance of a capital nature takes the form of advances.

State Capital Program

The State Capital Program comprises the capital programs of State authorities, GBEs and SOCs and the capital expenditure programs of Government departments. Details of the State Capital Program are provided in Chapter 5 of Budget Paper No 1 *Budget Overview 2002-03*. It provides information on the whole State public sector's capital expenditure in Tasmania.

State Debt

The total of debt incurred by the State under the Financial Agreement and borrowings through Tascorp.

State Government Concessions

A State Government Concession is a reduction, discount, subsidy, rebate or waiver/exemption provided by a State Government agency on the value of goods or services (associated fees) to an individual, family or household based on one or more of the following eligibility criteria:

- low income;
- in recognition of age or service to the country or community; and
- special needs or disadvantages.

Eligibility is usually, but not always, linked to the production by the recipient of a specified concession card to indicate their inclusion in one of the above groups.

State-owned Company

State-owned Companies (SOCs) operate outside the Public Account, principally on the basis of funds derived through their operations and are subject to Corporations Law. They have no impact on the Consolidated Fund except in circumstances where they receive payment for services provided by the SOC to the Government, or provide dividends, taxation equivalents or guarantee fees to the Government. Details of SOCs are provided in Chapter 10 of Budget Paper No 1 *Budget Overview 2002-03*.

State Public Sector Debt

The term used to describe the overall indebtedness of the Government and its State authorities, which includes repayable advances from the Commonwealth to the State for specific programs.

Statutory Authority

Statutory authorities are each established under specific legislation which defines the purpose for which they are established and the general functions for which they are responsible. Statutory authorities can be classified into two distinct categories, namely:

- those authorities that are subject to specific requirements contained in their enabling legislation; and
- those authorities which are subject to provisions contained in their enabling legislation and are also subject to the provisions of the *Government Business Enterprises Act 1995* (GBE Act). Authorities in this category are those which undertake commercial trading activities. These authorities are described as GBEs.

Statutory Office

A position established under an Act of Parliament, for example the office of Auditor-General.

Supply Act

The purpose of a Supply Act is to appropriate funds for payments necessary for the ongoing business of the Government during the period between the first day of each financial year and the passing of the Consolidated Fund Appropriation Bill. It lapses when the Consolidated Fund Appropriation Act is passed. In previous years, where the Budget was introduced into Parliament and finally passed by Parliament well into the Budget year, the Supply Act has played a very important role in the provision of funds to agencies. With the movement to a May Budget a Supply Act has not been required.

Tascorp

The Tasmanian Public Finance Corporation. Tascorp acts as the State's central borrowing authority for the Government and raises funds for State authorities, GBEs and SOCs. It also provides an investment facility for these entities.

Taxation

A compulsory levy or impost which the Government imposes on transactions, inputs, documents, property and certain activities for the purpose of raising revenue. Unlike a charge, fee or royalty, a tax does not carry a specific entitlement to goods and services.

Taxation Equivalents

Taxation equivalents are tax-like payments that are required to be paid to the Tasmanian Government by GBEs and SOCs, in line with National Competition Policy principles, to compensate for GBEs and SOCs being exempt from certain Commonwealth taxes. Taxation equivalents are applied to ensure that GBEs and SOCs are not placed at a competitive advantage due to their exemption from these taxes.

Territorial Revenue

Revenue arising from the sale, rent or other use of Crown land or property rights.

Transitional Payments

The difference between the Guaranteed Minimum Amount and the revenue from the GST distributed to a state or territory is referred to as the Transitional Payment. The Transitional Payment to be provided by the Commonwealth will be in the form of a grant.

Treasurers' Conference

Under the IGA, the Treasurers' Conference for Commonwealth-State Financial Relations is established, comprising the Treasurer of the Commonwealth and the Treasurers of the states and territories. The detailed responsibilities of the Council are provided in the IGA.

Treasurer's Reserve

An appropriation to the Treasurer to provide funds to meet expenditure which could not have been reasonably foreseen at the time of preparation of the Budget. The Treasurer's Reserve is comprised of a statutory amount of $10 million, as provided for in the *Public Account Act 1986*, together with any additional amount appropriated.

Uniform Presentation Framework (UPF)

The May 1991 Premiers' Conference agreed to the introduction of the Uniform Presentation Framework in 1991. The primary objective of the UPF is to ensure that Commonwealth, state and territory governments provide a common core of financial information in their Budget Papers to provide more meaningful comparisons of each government's financial results and projections.

The format of the UPF is based on the reporting standards of the Australian Bureau of Statistics Government Finance Statistics(GFS) framework. This ensures a high degree of consistency in the preparation and presentation of financial data.

Details of the 2002-03 Budget and Forward Estimates on the UPF basis are provided in Chapter 11 of Budget Paper No 1 *Budget Overview 2002-03.*

Vertical Fiscal Imbalance

An imbalance between the expenditure responsibilities of each tier of government and the own-source revenue resources available to that tier. Australia is characterised by significant vertical fiscal imbalance, since the Commonwealth raises around 72 per cent of national tax revenues but has direct responsibility for only approximately 54 per cent of all public sector outlays.

Works and Services

That part of Consolidated Fund expenditure relating to the construction, purchase and maintenance of major capital assets such as roads, public housing, schools, hospitals and equipment. Works and Services expenditure is reflected in the Roads, Housing and Capital Investment Programs and the appropriation of funds to the new Social Infrastructure Fund. For further information on the Infrastructure Fund see Chapter 5 of Budget Paper No 1 *Budget Overview 2002-03* and Chapter 3 of Budget Paper No 2 *Operations of Government Departments 2002-03*.