



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

Budget Paper No 1

The Budget

Presented by the Honourable
Michael Aird MLC, Treasurer, for the information of
Honourable Members, on the occasion of the Budget, 2007-08

Useful 2007-08 Budget and Government Web sites

www.treasury.tas.gov.au	Contains all Budget Papers and provides information on major Departmental initiatives, activities and publications.
www.media.tas.gov.au	Contains the Government's Budget related media releases.
www.tas.gov.au	Provides links to the Web sites of a wide range of Tasmanian public and private sector organisations.
www.service.tas.gov.au	Provides a comprehensive entry point to Government services in Tasmania.
www.tasmaniatogether.tas.gov.au	Provides detailed information on Tasmania <i>Together</i> , including the current status of this important initiative.

CONTENTS

- 1 The 2007-08 Budget**
- 2 Tasmanian Economy**
- 3 Fiscal Strategy**
- 4 Revenue and Expense Estimates, 2007-08**
- 5 Taxation Revenue**
- 6 Assets and Liabilities, 2007-08**
- 7 Infrastructure Investment**
- 8 Estimated Outcome, 2006-07**
- 9 Forward Estimates**
- 10 Commonwealth-State Financial Arrangements**
- Appendix 1 Uniform Government Reporting**
- Appendix 2 Consolidated Fund Estimates**

INDEX

1	The 2007-08 Budget	1.1
	The 2007-08 Budget	1.2
	Fiscal Outlook	1.3
	Revenue Summary	1.3
	Expenditure Summary	1.4
	Infrastructure Investment	1.4
	Economic Outlook	1.5
	Tax Reform	1.5
2	Tasmanian Economy	2.1
	Introduction	2.2
	Economic Outlook	2.2
	2006-07 Estimates	2.3
	2007-08 Forecasts	2.4
	Recent Economic Performance	2.6
	Overview	2.6
	Gross State Product	2.7
	State Final Demand	2.8
	Consumption	2.8
	Wages	2.10
	Labour Market	2.10
	Investment	2.14
	Overseas Export Activity	2.17
	Demographic Trends	2.19
	Economic Issues Affecting Tasmania	2.21
	Structural Change in the Tasmanian Economy	2.21

Productivity	2.23
Demographic Change	2.24
3 Fiscal Strategy	3.1
The Fiscal Strategy	3.2
Fiscal Strategy Targets	3.3
Budget Position	3.3
Debt and Liability Reduction	3.3
Competitive Business and Taxation Environment	3.4
Infrastructure Development	3.4
Risk Management	3.5
Progress on the Fiscal Strategy Targets	3.5
Credit Status of the State Public Sector	3.7
Financial Accountability Reforms	3.8
4 Revenue and Expense Estimates, 2007-08	4.1
Introduction	4.2
Operating Statement	4.2
Net Operating Balance	4.3
Fiscal Balance	4.3
Revenue	4.4
Grants and Subsidies	4.5
Taxation Revenue	4.7
Sale of Goods and Services	4.9
Interest Income	4.11
Dividend, Tax Equivalent and Rate Equivalent Income	4.11
Other Revenue	4.13
Expenses	4.14
Depreciation	4.14
Employee Expenses	4.14
Other Operating Expenses	4.14

Nominal Superannuation Interest Expense	4.15
Other Interest Expense	4.15
Grants and Transfers	4.16
Net Acquisition of Non-Financial Assets	4.16
Purchase of Non-Financial Assets	4.16
Sale of Non-Financial Assets	4.17
Policy and Parameter Statement	4.17
5 Taxation Revenue	5.1
Introduction	5.2
Tax Competitiveness	5.2
Budget Initiatives	5.3
Estimated Taxation Revenue	5.5
Estimated Taxation Revenue for 2007-08	5.7
Financial Transaction Taxes	5.8
Debits Duty	5.8
Duties	5.8
Gambling Taxes	5.9
Betting Exchange Revenue	5.10
Casino Tax	5.11
Lottery Tax	5.12
Guarantee Fees	5.12
Land Tax	5.13
Motor Tax	5.15
Payroll Tax	5.15
State Fire Commission Receipts	5.16
Vehicle Registration Fees	5.16
Major Legislative and Other Changes	5.16

6	Assets and Liabilities, 2007-08	6.1
	Introduction	6.2
	Balance Sheet	6.2
	Net Worth	6.4
	Net Financial Worth	6.4
	Net Financial Liabilities	6.4
	Net Debt	6.4
	Interest Costs of the Government	6.7
	Assets	6.9
	Cash Assets	6.9
	Other Non-Equity Assets	6.10
	Equity Investments	6.10
	Land and Fixed Assets	6.11
	Other Non-Financial Assets	6.12
	Liabilities	6.12
	Gross Debt	6.13
	Superannuation Liability	6.14
	Other Employee Provisions	6.15
	Other Non-Equity Liabilities	6.15
	Strategies to Reduce Major Liabilities	6.16
	Superannuation Liability	6.16
	Tasmanian Risk Management Fund	6.18
7	Infrastructure Investment	7.1
	Introduction	7.2
	Infrastructure Investment	7.3
	Infrastructure Investment Framework	7.4
	Funding Sources	7.5
	Major Areas of Infrastructure Investment	7.6
	Education	7.7

Health	7.8
Housing	7.9
Law and Order	7.9
Roads, Rail and Communications	7.9
Tourism, Recreation and Culture	7.10
Infrastructure Investment Project Details By Agency	7.10
Housing Program	7.15
Roads Program	7.17
8 Estimated Outcome, 2006-07	8.1
Introduction	8.2
Net Operating Balance	8.2
Fiscal Balance	8.2
Revenue	8.4
Explanation of Estimated Revenue Variations	8.4
Expenses	8.6
Explanation of Estimated Expense Variations	8.6
Net Acquisition of Non-Financial Assets	8.7
Contributions to Cash Surplus, 2006-07	8.8
9 Forward Estimates	9.1
Forward Estimates 2008-09 to 2010-11	9.2
The Forward Estimates Concept	9.2
Assumptions Underlying the Forward Estimates	9.2
Forward Estimates Operating Statement	9.3
Revenue	9.5
Explanation of Major Revenue Variations	9.5
Expenses	9.6
Explanation of Major Expense Variations	9.6
Net Acquisition of Non-Financial Assets	9.6
Forward Estimates Balance Sheet	9.7

Net Worth	9.8
Net Financial Worth	9.9
Net Financial Liabilities	9.9
Net Debt	9.9
Forward Estimates Cash Flow Statement	9.9
Policy and Parameter Statement	9.11
10 Commonwealth-State Financial Arrangements	10.1
Introduction	10.2
Summary of Revenue Transfers from the Australian Government	10.3
Major Issues in Commonwealth-State Financial Relations	10.6
2007 Treasurers' Conference	10.6
General Purpose Payments	10.7
Specific Purpose Payments	10.11
Major Specific Purpose Payment Issues	10.14
Total Revenue Transfers from the Australian Government	10.17
Appendix 1 Why Revenue Transfers from the Australian Government are Essential	10.20
Appendix 2 The Facts About Horizontal Fiscal Equalisation (HFE)	10.23
Appendix 3 The Commonwealth Grants Commission	10.26
Appendix 1 Uniform Government Reporting	A1.1
Introduction	A1.2
Government Financial Estimates	A1.3
Trend in Fiscal Measures	A1.14
Fiscal Balance	A1.14
Net Debt	A1.15
Cash Surplus/(Deficit)	A1.15
Loan Council	A1.16
Loan Council Arrangements	A1.16
Loan Council Allocations	A1.17
Consolidation of Transactions	A1.18

Appendix 2	Consolidated Fund Estimates	A2.1
Introduction		A2.2
Estimated Outcome, 2006-07		A2.3
Estimated Consolidated Fund Surplus		A2.3
Estimated Receipts, 2006-07		A2.4
Estimated Expenditure, 2006-07		A2.5
Explanation of Estimated Major Expenditure Variations		A2.6
Budget Estimates, 2007-08		A2.10
Consolidated Fund Surplus, 2007-08		A2.10
Consolidated Fund Receipts, 2007-08		A2.11
Consolidated Fund Expenditure, 2007-08		A2.18
Recurrent Services		A2.18
Works and Services		A2.18
Explanation of Estimated Major Expenditure Variations		A2.19
Reserved by Law		A2.20
Forward Estimates		A2.24

1 THE 2007-08 BUDGET

Features

- The Tasmanian Government's 2007-08 Budget focuses on sustaining the strength of the Tasmanian economy and continuing to provide financial stability by expanding opportunities, addressing challenges, and investing in the delivery of essential services and infrastructure for the benefit of all Tasmanians.
- The Budget continues to honour the commitments made by the Government to the Tasmanian people during the 2006 Election.
- The Budget and Forward Estimates reflect continued improvements in the State's financial position and are consistent with the Government's Fiscal Strategy targets.
- In 2007-08, a General Government Net Operating Deficit of \$39 million and a Fiscal Deficit of \$31 million is budgeted.
- Record funding is provided by the State Government for the delivery of essential services including health, education and public safety.
- Infrastructure investment of \$289 million will occur during 2007-08, including funding for the redevelopment and refurbishment of hospitals, schools, libraries and roads throughout the State.
- The General Government Sector will remain Net Debt free.
- The 2007-08 Budget will reduce motor tax for light vehicles, duties on transfers for heavy vehicles and complete the abolition of mortgage duty.

THE 2007-08 BUDGET

The 2007-08 Budget continues the Government's commitment to shape a strong and vibrant future for all Tasmanians.

It is a Budget which addresses fundamental issues including health service reform, educational reform, transport reform, communications reform, climate change, and water and sewerage services in Tasmania.

The 2007-08 Budget shows a sound improvement in the Government's finances since the 2006-07 Budget estimates. The Budget shows that in less than a decade, the Government has transformed Tasmania from a State with the worst financial status of all states into a State with a Aaa/AA+ rated financial position.

The Government is aware of the benefits that strong and responsible financial management provides the community. A strong financial position provides the foundation on which community and business confidence grows and provides the capacity to increase community services and to renew and develop economic and social infrastructure.

Through responsible economic and financial management, the Government has supported improved business confidence and investment, which in turn has stimulated structural change in the Tasmanian economy.

The completion of Basslink and the gas pipeline, new telecommunications infrastructure, and greater sea and air access has integrated the Tasmanian economy even more closely with the rest of Australia.

This, together with the Government's focus on water and sewerage reform, the commercialisation of its optic fibre network, the establishment of the new Brighton transport hub, and a resolve to address the challenges of demographic change and to improve education outcomes, will enhance productivity and ensure the Tasmanian economy continues to grow strongly.

The forecast for the Tasmanian economy in 2007-08 is positive with a projection of continuing sound economic growth over the coming years.

Since the Government was elected in 1998, the Tasmanian economy has seen:

- over 30 000 new jobs created;
- a record low unemployment rate;
- new record levels of consumer spending, fuelled by sustained jobs growth; and
- has recorded five consecutive years of population growth, a stark contrast to the population decline in the late 1990s.

FISCAL OUTLOOK

The Budget and Forward Estimates show that the Government is achieving the targets established in the current Fiscal Strategy. The Government remains committed to meeting a challenging Fiscal Strategy which has helped deliver credit rating upgrades and will ensure that these upgrades are maintained.

A General Government Net Operating Deficit of \$39 million and a Fiscal Deficit of \$31 million is budgeted for 2007-08. This follows an estimated outcome for 2006-07 of a Net Operating Deficit of \$72 million and a Fiscal Deficit of \$52 million.

The 2007-08 Budget and Forward Estimate projections reflect an improvement on the projections in the 2006-07 Budget and are consistent with the Government's Fiscal Strategy targets.

The General Government Sector Net Debt position continues to improve with the financial assets associated with Net Debt expected to exceed gross debt by \$456 million by 30 June 2008, increasing to \$946 million by 30 June 2011.

Table 1.1 lists the Key Budget and Forward Estimate aggregates.

Table 1.1 Key Budget and Forward Estimate Aggregates

	2006-07 Budget	2006-07 Estimated Outcome	2007-08 Budget	2008-09 Forward Estimate	2009-10 Forward Estimate	2010-11 Forward Estimate
	\$m	\$m	\$m	\$m	\$m	\$m
GENERAL GOVERNMENT						
Revenue	3 532	3 627	3 747	3 873	3 956	4 004
Expenses	3 622	3 699	3 786	3 851	3 939	3 987
Net Operating Balance - Surplus/(Deficit)	(90)	(72)	(39)	22	17	17
Fiscal Balance - Surplus/(Deficit)	(84)	(52)	(31)	(1)	47	85
Net Debt at 30 June	(232)	(350)	(456)	(586)	(746)	(946)
Infrastructure Investment	279	239	289	269	193	170

Revenue Summary

In 2007-08, General Government Sector operating revenue is estimated to be \$3 747 million, an increase of \$215 million or 6.1 per cent above the 2006-07 Budget of \$3 532 million.

The budgeted growth in revenue reflects:

- an increase in the size of the GST Revenue pool, offset by a decline in the State's share of the national population and a decrease in Tasmania's relative need for Commonwealth financial assistance, as assessed by the Commonwealth Grants Commission and expressed in Tasmania's GST relativity;

- a rise in conveyance duties as a result of continuing turnover in the residential and commercial property markets. However, the increase in conveyance duties is partially offset by the reduction in the rate of duty on the transfer of heavy vehicle registrations from 1 October 2007, and a decrease in mortgage duty due to the Government's decision to completely abolish the duty from 1 July 2007;
- an increase in revenue from Sales of Goods and Services raised through the provision of goods and services by agencies; and
- additional dividend, tax and rate equivalent returns from Government Business Enterprises and State-owned Companies.

Chapter 4 of this Budget Paper provides a detailed explanation of the major revenue items in 2007-08, whilst Chapter 9 details movements in the Forward Estimates.

Expense Summary

In 2007-08, General Government Sector operating expenses are estimated to be \$3 786 million, an increase of \$164 million or 4.5 per cent above the 2006-07 Budget of \$3 622 million.

The budgeted growth in expenses reflects:

- an increase in Employee Expenses as a result of the impact of the Government's 2006 Election commitments and a new provision of 3.5 per cent for agencies to meet the cost of future salary increases;
- an increase in Other Operating Expenses due to the continued implementation of the Government's Election commitments and new initiatives;
- a higher depreciation charge as a result of a revaluation of assets by the Department of Education and the Department of Infrastructure, Energy and Resources; and
- additional expenditure allocated for Grants including the Australian Government and State contribution for Non-Government Schools Grant; Local Government Grants; the First Home Owner's Grant; the Community Service Obligation Payment to Metro Tasmania; payments to School Bus Operators; National Action Plan for the National Water Initiative and Natural Resource Management land conservation projects; and Arts Grants Funding. These increases are partially offset by the abolition of Petroleum Subsidies from 1 October 2007.

Chapter 4 of this Budget Paper provides a detailed explanation of the major expense items in 2007-08, whilst Chapter 9 details movements in the Forward Estimates.

Infrastructure Investment

The planned level of infrastructure investment in the General Government Sector in 2007-08 is \$289 million, an increase of \$10 million or 3.6 per cent above the 2006-07 infrastructure investment Budget of \$279 million.

The major components of infrastructure investment include:

- progressing the \$30 million Kingston High School redevelopment which will cater for approximately 700 secondary students from Years 7 to 10 and will be equipped with modern information and technology systems and include multi-purpose learning areas;

- implementing the \$30 million Building for the Future infrastructure program through the Department of Education with initial spending of \$5 million in 2007-08 to refurbish and redevelop a number of schools and libraries across the State;
- completing construction of the Infill Building and finalising the new Department of Emergency Medicine at the Royal Hobart Hospital;
- redeveloping and refurbishing hospital infrastructure throughout the State including the Mersey Campus of the North West Regional Hospital, Launceston General Hospital and the George Town and Smithton District Hospitals; and
- implementing the Government's new Road Safety Strategy.

Chapter 7 of this Budget Paper provides a detailed explanation of infrastructure investment by the Government.

ECONOMIC OUTLOOK

Economic conditions in Tasmania continue to be favourable.

It is forecast that Tasmania's economy will grow by 3½ per cent (in real terms) in 2007-08. The solid economic growth is expected to be sustained by continued growth in exports, consumer spending and investment, including several tourism and energy projects.

The international and national environment in 2007-08 is likely to provide continued support for the Tasmanian economy, whilst a return to higher levels of private investment in Tasmania is expected in 2007-08, driven, in part, by some major new investment projects.

Based on year-to-date data, Treasury estimates that employment will increase by ½ per cent in 2006-07, which follows very solid growth of 3.3 per cent in 2005-06. It is expected that employment growth will increase substantially in 2007-08, with forecast growth of 2¼ per cent and an additional 6 000 jobs.

The underlying economic fundamentals for both the national and Tasmanian economies are considered to be robust.

Chapter 2 of this Budget Paper provides a detailed examination of the Tasmanian economy.

TAX REFORM

The 2007-08 Budget builds upon the significant tax relief initiatives delivered in Budgets since 2005.

Motor tax on light vehicles will be reduced by 21 per cent from 1 October 2007, representing \$7.0 million in tax relief in 2007-08 and full-year relief of \$9.4 million from 1 July 2008.

Duty on the transfer of heavy vehicle registrations will be reduced from three per cent to one per cent from 1 October 2007, representing \$3.6 million in tax relief in 2007-08 and full year relief of \$4.9 million from 1 July 2008.

To assist in funding these initiatives, the subsidy arrangements for petrol and on-road diesel will cease from 30 September 2007, as discussed in Chapter 4 of Budget Paper No 2 *Government Services*.

The tax cuts implemented in the 2007-08 Budget will bring the total amount of annual tax cuts provided by the Government to \$170 million per annum.

In addition to tax cuts, the Tasmanian Government will pursue the harmonisation of payroll tax arrangements across jurisdictions. The Government has been a leader amongst Australian states in pursuing this and other tax reform. The Government is keen to reduce the compliance costs facing Tasmanian business. This initiative builds on previous strategies implemented by the Government, such as the re-write of stamp duty legislation and the implementation of Tasmanian Revenue Online, that streamline the taxation administration arrangements in Tasmania.

Chapter 5 of this Budget Paper provides a detailed explanation of State taxation.

2 TASMANIAN ECONOMY

Features

- Economic conditions in Tasmania continue to be very favourable. However, Tasmania's overall economic performance in 2006-07 is not expected to match the very high growth rates of the previous three years.
- Tasmania's economic performance in recent years has been characterised by:
 - jobs growth, mostly full-time positions, in all regions of the State;
 - a substantial reduction in unemployment, and in the number of long-term unemployed persons;
 - high levels of private sector investment, though this eased in the first half of 2006-07;
 - very strong export earnings, that have contributed to growth in real income;
 - sustained population growth; and
 - a buoyant construction industry, reflecting strong demand for dwelling investment and major infrastructure projects.
- Many of Tasmania's export industries, especially mineral-related industries, are benefiting from the favourable international conditions, especially the economic growth in China.
- In the 2007-08 financial year, it is expected there will be:
 - a return to stronger economic growth;
 - an additional 6 000 jobs, in year-average terms;
 - an increase in private investment;
 - further growth in export earnings; and
 - low and stable inflation.

INTRODUCTION

The first section of this Chapter presents an overview of Tasmania's economic outlook, including forecasts for 2007-08. The second section of the Chapter provides an analysis of the State's recent economic performance and compares Tasmania's performance with that of the Australian economy. The third section covers some additional economic issues relevant to Tasmania's future economic prospects, namely structural change in the Tasmanian economy, productivity and future demographic changes in Tasmania.

All data in this Chapter are measured in Australian dollars and, unless otherwise indicated, are expressed in chain volume measures with 2004-05 as the reference year. For this reason, some data for 2004-05 in this Chapter will not correspond with the data for that year contained in earlier Budget Papers.

ECONOMIC OUTLOOK

Table 2.1 outlines Treasury's estimates for key economic indicators for Tasmania for the current financial year, forecasts for 2007-08 and projections to 2010-11. The forecasts show that economic growth for 2007-08 is expected to be greater than for 2006-07, supported by favourable world and national economic conditions and some major investment projects.

Table 2.1 Tasmanian Economic Estimates, Forecasts and Projections

	MYFR ¹		Budget 2007-08				
	2005-06	2006-07	2006-07	2007-08	2008-09	2009-10	2010-11
	Actual	Estimate	Estimate	Forecast	Projections ²		
State Economic Activity ^{3,4,5}	....	2¾	2½	3½	2½	2½	2½
Employment ⁶	3.3	¾	½	2¼	1¼	1¼	1¼
Level of Employment ⁷	223	225	224	230	233	236	239
Labour Force Participation							
Rate ⁸	61.0	60¾	60½	61	61	61	61
Unemployment Rate ⁸	6.5	6¼	6	5½	5	5	5
Consumer Price Index							
(Hobart) ⁶	3.2	3	2½	2½	2½	2½	2½
Population ⁶	0.7	0.6	0.6	0.7	0.6	0.6	0.6

Sources: Actual data - *Australian Bureau of Statistics*.

Estimates, Forecasts and Projections – *Department of Treasury and Finance*.

Notes:

1. The Mid-Year Financial Report (MYFR) was released on 15 February 2007.
2. Beyond 2007-08, forward estimates are not forecasts, but projections based on long-term averages.
3. Treasury's estimates, forecasts and projections of growth in real state economic activity focus on the underlying movements in output and are based on trends in key indicators, especially employment. These estimates are not designed to be consistent with the experimental Gross State Product (GSP) series produced by the Australian Bureau of Statistics (ABS), or to forecast the ABS GSP estimates.
4. Real, percentage change.
5. Actual unavailable. See note 3.
6. Year-average, percentage change.
7. Year-average, '000s.
8. Year-average, percentage level.

2006-07 Estimates

At the time of the 2006-07 Budget, the forecasts for 2006-07 included employment growth of 2¾ per cent and economic growth of 3½ per cent. These forecasts were based on a number of factors, including:

- a favourable international environment that would support Tasmania's export sector;
- an improvement in national economic conditions, with the Australian Treasury forecasting economic growth of 3¼ per cent for that year; and
- continued growth in investment and consumer spending.

Tasmania's economic performance over the first half of 2006-07 was not as strong as anticipated. Over this period, there was a decline in private investment and only modest growth in consumer spending, resulting in an easing in State final demand.

The decline in investment reflected several factors. Some major investment projects were completed in the 2005-06 financial year, such as Basslink, while there was a winding down of investment in other industries, such as electricity generation and gas reticulation. Dwelling investment, which had been growing at above trend levels for several years, grew very modestly in the 12 months to December 2006. Part of the easing in investment may also reflect the cyclical nature of private investment, following the very strong investment in earlier years.

Other factors that have impacted on Tasmania's economic performance in 2006-07 include the weaker than expected national economic conditions, the increases in interest rates and the drought and late frosts.

The emergence in recent years of China and India as key growth markets for Tasmanian exports has led to strong overseas export growth in nominal terms. While Hong Kong is the largest single importer of Tasmanian goods in the year to March 2007, accounting for 18.1 per cent of the State's total exports, most of the recent growth in exports to Hong Kong is due to its position as the gateway to China. Exports have rebounded since mid 2004. In the nine months to March 2007, compared to the same period one year earlier, the nominal value of exports was 29.9 per cent higher.

In light of the favourable global economic conditions, it is estimated that exports will contribute positively to economic growth for the remainder of 2006-07.

Employment in Tasmania is expected to grow by ½ per cent in 2006-07. According to the Australian Bureau of Statistics (ABS), employment decreased in the first four months of 2006-07, due to the decrease in part-time employment offsetting the increase in full-time employment. However, since December 2006, employment has been increasing due to growth in both full-time and part-time employment. Despite the reduction in total employment in the first half of 2006-07, total hours worked increased over this period. This suggests that the overall level of economic activity has been increasing, which has been reflected in an increase in growth in consumer spending.

Consistent with the subdued performance of total employment in the first half of 2006-07, the participation rate decreased in the first four months of 2006-07 and has been stable in the subsequent six months to April 2007. The participation rate has averaged 60.4 per cent in the first ten months of 2006-07. The year to date average is lower than the same period a year earlier and lower than the 2006-07 Budget forecast rate of 61¾ per cent. The unemployment rate is expected to be six per cent in 2006-07, slightly lower than the 2006-07 Budget forecast of 6¼ per cent.

Population growth has been easing since 2003-04, when net interstate in-migration reached its peak. In recent quarters, interstate in-migration and out-migration flows have been very similar, with the result that population growth has been due to natural population increase and net overseas in-migration. According to data for the quarter ending in September 2006, Tasmania's population grew by 3 120 compared to September 2005 (an increase of around 0.6 per cent in Tasmania's total population). Population growth of 0.6 per cent for 2006-07 is expected.

Treasury expects that growth in the Tasmanian economy for 2006-07 will be 2½ per cent. Treasury's estimates of real state economic activity are designed to reflect the underlying changes in economic activity and are not directly comparable to the ABS estimates of GSP, which are not considered reliable for a small economy such as Tasmania.

2007-08 Forecasts

State Economic Activity

The international and national environment in 2007-08 is likely to provide continued support for the Tasmanian economy.

Global economic conditions are very favourable, with most commentators expecting above trend growth in 2007 and 2008. Continued high economic growth is forecast for China and other major trading partners. Tasmania's mineral-related industries, in particular, are expected to benefit from these conditions. While there may be some easing in commodity prices in the year ahead as global supply responds to the high level of demand, the sector is expected to continue to face historically high prices and strong demand.

While prospects for the global economy are strong, there are nevertheless risks emerging. One source of risk is the weaker economic conditions in the United States of America, due in part to the weaker housing sector. However, most analysts are not forecasting a sustained US downturn in the coming financial year.

A further risk is a major depreciation in the US dollar if there is nervousness in global markets over the recent strong growth in the US current account deficit. This could lead to inflation growth in the United States and higher interest rates, which could dampen economic activity. The US Federal Reserve has recently expressed concern about risks to inflation due to the tightness of the labour market. Financial markets, however, do not appear to be pricing in any interest rate increases or major decline in the economy.

A further risk is oil price increases leading to lower global economic growth. This risk however appears small, as oil price rises to date have been driven by demand, or by unintended supply interruptions. The Organisation of the Petroleum Exporting Countries has been focusing on preventing large oil price falls rather than further price increases.

Prospects for the Australian economy have improved in recent months, supported by high growth in private investment and rising consumer confidence. Australia has experienced a large improvement in its terms of trade, largely as a result of high commodity prices, which has flowed through to higher domestic income and spending. The Australian Government Budget forecasts a national economic growth rate of 3¾ per cent for 2007-08.

A return to higher levels of private investment in Tasmania is expected in 2007-08, driven, in part, by some major new investment projects. In determining economic forecasts for each Budget, Treasury makes independent and objective assessments about which investment projects are likely to proceed in the year

ahead, based on information available at the time. In some cases, this assessment is made before regulatory processes have been completed or there has been financial close. For 2007-08, Treasury's economic forecasts include, for example, the impact of the proposed pulp mill project at Longreach, assuming construction commences in the second half of 2007-08.

Other significant new projects scheduled to start in 2007-08 include the Alinta Power Station at Bell Bay and the Musselroe Bay eco-tourism project. For other projects, such as the Solis golf course development at Triabunna, a substantial increase in construction activity is expected.

Consumer spending is expected to remain strong in 2007-08, driven by employment growth, continued high levels of consumer confidence and the real income gains resulting from the strong terms of trade.

Risks to the consumption outlook include the impact of any further large increases in interest rates and a large decline in employment levels if investment declines significantly. It appears that households across Australia have generally adjusted well to the interest rate increases over the past year. National economic conditions do not suggest that interest rates are likely to increase significantly in the near term as inflation pressures appear to be well contained. Furthermore, the risk of a decline in investment appears low, given the favourable economic environment faced by businesses in Tasmania.

It is forecast that Tasmania's economy will grow by 3½ per cent (in real terms) in 2007-08 as a result of the factors listed above.

The high level of investment in recent years has deepened Tasmania's capital stock and contributed to the growth in labour productivity in recent years, though it remains well below the national average. The forecast economic growth rate for 2007-08 includes an estimate for continued productivity growth.

If construction of the pulp mill did not commence in 2007-08, economic growth of 3 per cent is expected for that year. The relatively small change in the growth estimate is based on the proposed schedule of construction activity relating to the pulp mill, under which the construction activity commences at a relatively modest rate and then increases substantially after the first year.

The small increase in the forecast population growth to 0.7 per cent for 2007-08 is also due to the anticipated impact of the pulp mill, as a proportion of the workforce (particularly in the construction phase) is expected to be drawn from interstate and overseas. Without the pulp mill construction in that year, the forecast population growth for 2007-08 is 0.6 per cent.

The projections for 2008-09 to 2010-11 are based on longer term trends, providing a guide to likely underlying movements of key economic indicators based on national and international economic conditions. However, they should not be interpreted as economic forecasts, as Tasmania-specific influences have not been factored in. They do not include, for example, the impact of the construction and subsequent operation of the pulp mill. This approach is consistent with that adopted for projections in the Budget papers of other jurisdictions.

Labour Market and Prices

Based on year-to-date data, Treasury estimates that employment will increase by ½ per cent in 2006-07, which follows very solid growth of 3.3 per cent in 2005-06. It is expected that employment growth will increase substantially in 2007-08, with forecast growth of 2¼ per cent. This compares to the Australian Government's 2007-08 Budget forecast for national employment growth of 1½ per cent in 2007-08. Employment growth in 2007-08 is not expected to be as high as in 2005-06 due, in part, to the continuing

tight Tasmanian labour market, especially for skilled labour, but it is expected to be above the long-run average.

While there is some risk to the employment outlook, especially in relation to major projects that are yet to commence, the underlying economic fundamentals for both the national and Tasmanian economies appear sufficiently robust to prevent any major decline in economic activity and employment.

The State's participation rate is forecast to average 61 per cent for 2007-08, up from the estimated 2006-07 participation rate of 60½ per cent. Treasury is forecasting a year-average unemployment rate of 5½ per cent in 2007-08, following an estimated year-average of 6 per cent in 2006-07. These very low levels of unemployment are due primarily to sustained jobs growth in the Tasmanian economy, but are also influenced by Tasmania's relatively low participation rate.

If construction of the pulp mill does not occur in 2007-08, the forecast growth in employment in 2007-08 becomes two per cent. Other estimated impacts include a marginally lower participation rate for 2007-08 of 60¾ per cent, and a slightly increased unemployment rate of 5¾ per cent.

On the basis of CPI data to date, Hobart's inflation rate is expected to be marginally lower in 2006-07 than for Australia as a whole. Hobart's CPI is forecast to increase by 2½ per cent in 2007-08, consistent with the forecast of national inflation in the Australian Government's 2007-08 Budget. The stronger labour market conditions in 2007-08 are expected to contribute to continued growth in average and total earnings, especially in the construction sector.

Summary

Solid economic growth is expected for 2007-08, sustained by continued growth in exports, consumer spending and investment, including several tourism and energy projects.

Tasmania's economy has been undergoing major structural changes in recent years, as discussed in the Investment section below, that have been contributing to the underlying strength in Tasmania's economic performance. The benefits of these changes are expected to continue in future years.

RECENT ECONOMIC PERFORMANCE

Overview

Tasmania's economy is small and open, with an industry structure that is broadly similar to that of Australia as a whole. The primary sector is more important in Tasmania than nationally, and accounts, directly or indirectly, for most of Tasmania's exports. The contribution of the manufacturing sector is similar to that nationally, though the range of industries within that sector is not as broad. The finance and insurance and property and business sectors contribute less to Tasmania's economy than is the case nationally, though both sectors have experienced relatively strong growth in recent years.

It is estimated that just over one half of Tasmania's total output is produced for the local market, with around 30 per cent being exported to mainland Australia and 17 per cent being exported overseas. Demand for almost one half of Tasmania's goods and services is therefore vulnerable to changes in global and national economic conditions. Movements in exchange rates and world commodity prices, in particular, have a significant influence on the value of Tasmania's overseas exports and on real income levels in Tasmania.

The mining sector in Tasmania is not as significant as in the resource rich states of Western Australia or Queensland. Tasmania has therefore not benefited from the global commodity boom to the same extent as these states. However, the very favourable market conditions have benefited Tasmania's mining industries and have led to increased exploration and development. Mining activity is also increasing, with the resumption of production at the Hellyer mine and the new Allegiance Mining nickel mine at Avebury, scheduled to commence operations in late 2007.

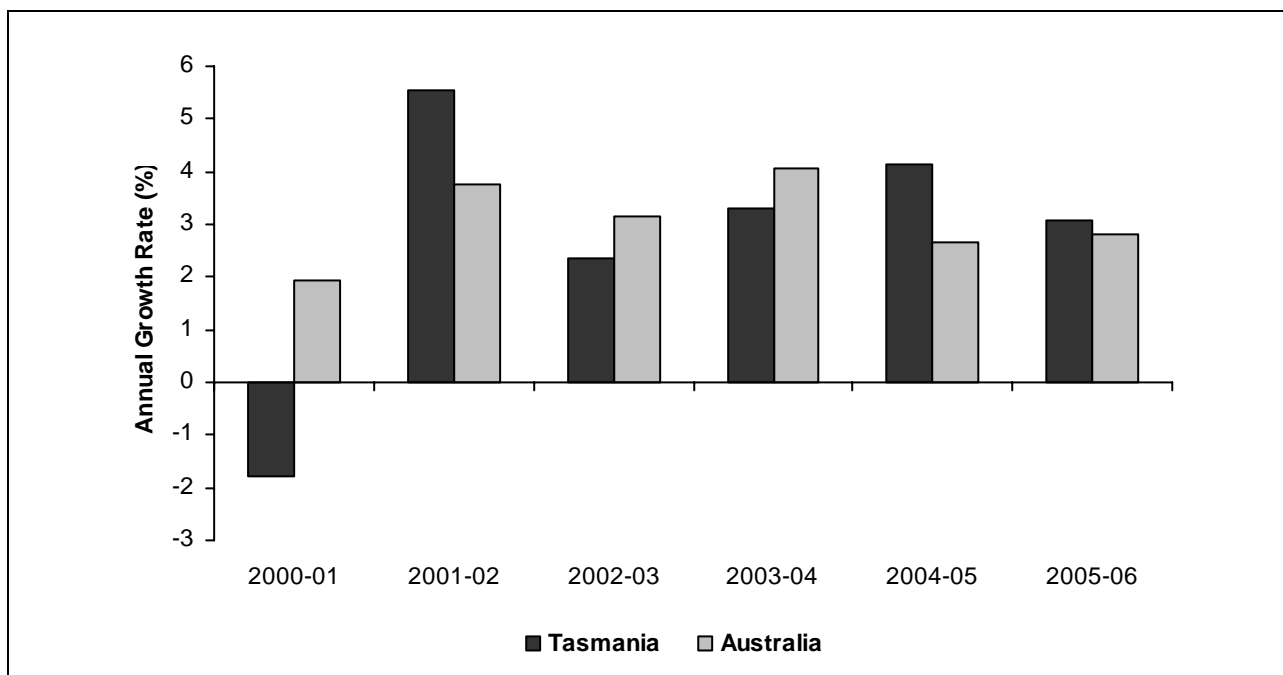
Gross State Product

Gross State Product (GSP) measures the value added of goods and services produced in each state and territory, and is the local equivalent of Australia's Gross Domestic Product (GDP). It is designed to be the principal indicator of economic performance and is the measure used by most economic commentators, ratings agencies and the media. Annual GSP estimates are released by the Australian Bureau of Statistics (ABS) in November of each year. The ABS describes these estimates as experimental.

Treasury urges caution in the use of ABS GSP data for Tasmania when comparing economic performance from year to year. State GSP data, especially for a small economy such as Tasmania, tend to be quite volatile and movements in GSP can be inconsistent with movements in other major economic indicators, such as employment and total hours worked. Furthermore, GSP estimates are often subject to substantial revision. It is likely, however, that the longer term trends in economic performance are adequately reflected in GSP data.

The estimates published by the ABS show that, over the past five years, Tasmania's estimated average GSP growth rate has been 3.7 per cent per annum, compared with the equivalent Australian figure of 3.3 per cent. During this period, only Western Australia and Queensland have had higher average annual growth rates.

Chart 2.1: Gross State/Domestic Product: Tasmania and Australia



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

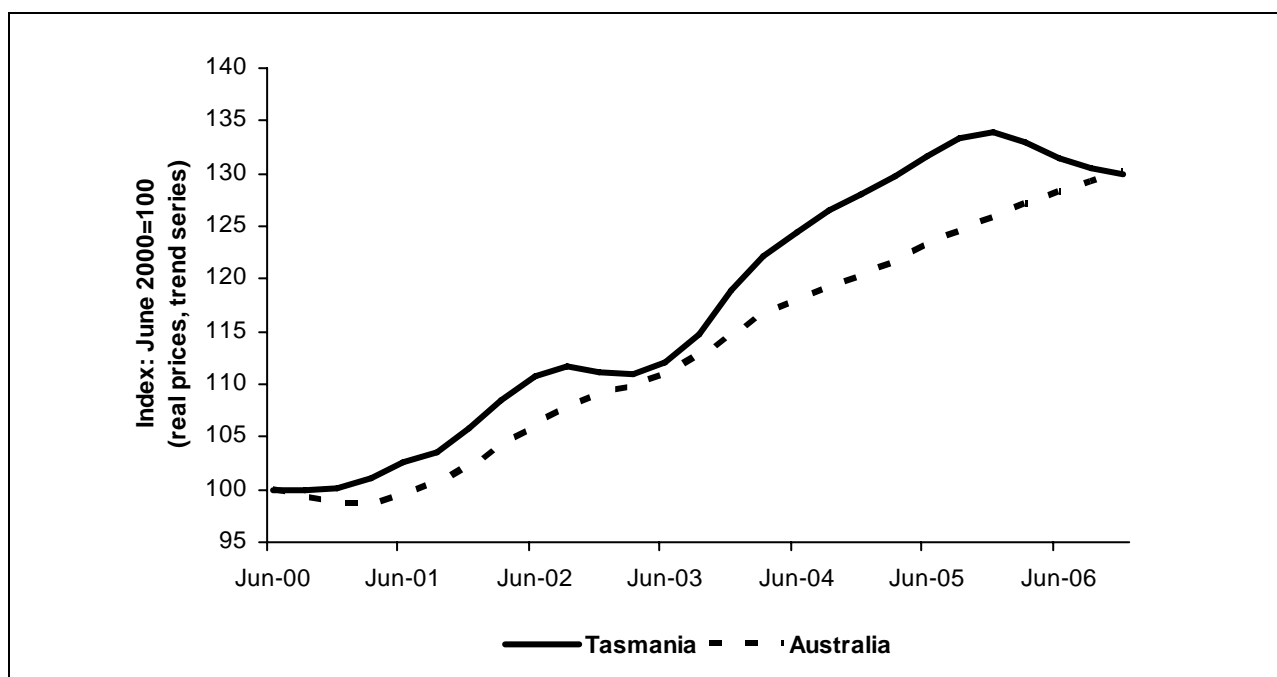
State Final Demand

State Final Demand (SFD) is an alternative indicator of economic activity. Treasury considers that the ABS estimates of SFD are more robust than the estimates of GSP, though SFD does not measure total activity as it excludes Tasmania's exports to the mainland and overseas. An advantage of SFD estimates is that they are released quarterly.

The components of state and national final demand are consumer spending, private sector investment and public sector expenditure (both investment and consumption). Each of these is discussed in more detail later in this Chapter.

The growth in Tasmania's final demand over recent years has been largely due to the increases in investment spending, principally dwelling investment and major infrastructure investment. Chart 2.2 shows that while there has been an easing in Tasmania's SFD in recent quarters, the growth in Tasmania's final demand since June 2000 has been almost identical to that of Australia as a whole.

Chart 2.2: Final Demand: Tasmania and Australia



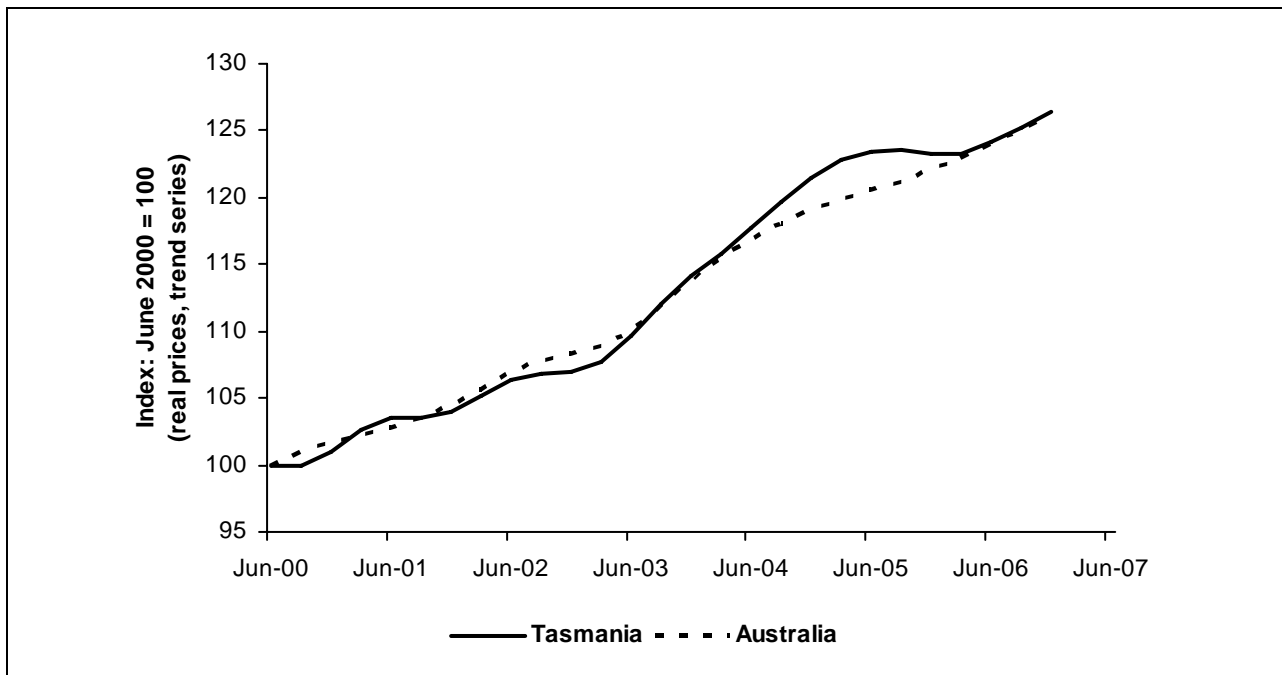
Source: *Australian National Accounts: National Income, Expenditure and Product*, ABS Cat No 5206.0

Consumption

Consumer spending, also known as household final consumption expenditure (HFCE), represents almost 60 per cent of SFD. In 2005-06, consumer spending increased by a relatively modest 1.1 per cent, compared to the previous year, which is below the increases in previous years.

Consumer spending in Tasmania has risen at an annual average rate of 3.4 per cent since 2000-01, as shown in Chart 2.3, close to the national growth rate of 3.7 per cent over this period.

Chart 2.3: Consumer Spending: Tasmania and Australia



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

Retail trade accounts for approximately 40 per cent of consumer spending in Tasmania. Retail spending has grown by an average annual rate of 7.2 per cent in the five years to 2005-06, compared to the national average annual growth of 6.3 per cent over the same period.

Part of the increase in real consumer spending has been due to the growth in household wealth from increased property values. The median house price in Hobart, as estimated by the Real Estate Institute of Australia, has increased 148.1 per cent since 2000-01 (in nominal terms), to an average of \$284 900 as measured in the four quarters to December 2006.

The value of personal finance commitments made by Tasmanians increased at a very fast rate from 2000-01 to 2004-05 but has since grown more slowly. Fixed loan facilities, which comprised approximately 55 per cent of total personal finance commitments in 2005-06, grew at an average annual rate of 10.7 per cent since 2000-01. Revolving personal credit (such as credit cards and lines of credit) makes up the remainder of personal finance commitments and has grown at an average annual rate of around 8.5 per cent since 2000-01.

Tourism Tasmania estimates that visitor expenditure increased by 14.2 per cent in the 12 months to December 2006. Over this period, total visitor expenditure was equivalent to 11.2 per cent of total consumer spending in Tasmania.

Net expenditure interstate is the value of consumer spending by Tasmanian households in mainland states less the value of spending by interstate households in Tasmania. This figure has been negative, according to the ABS, since 1994-95, providing a net benefit to consumption in Tasmania. In 2005-06, the ABS estimate of net expenditure interstate was \$258 million.

Public Sector Consumption

Public sector consumption, also known as Government Final Consumption Expenditure (GFCE), has grown by an average annual growth rate of 3.5 per cent between 2000-01 and 2005-06. GFCE includes the purchase of goods and services by all three levels of government, and the salaries and wages paid to public servants.

In 2005-06, GFCE grew by 3.2 per cent, and comprised around 24 per cent of GSP (in real terms) in Tasmania. This compares to around 18 per cent (in real terms) nationally. Part of this difference is due to the public ownership of the major electricity entities in the State.

Wages

In 2005-06 average total earnings in Tasmania were estimated to be \$718.75 per week, or 88 per cent of national average earnings of \$815.68 per week. This difference in average total earnings is due, in part, to the greater importance of part-time labour in Tasmania relative to Australia as a whole. In 2005-06, part-time positions accounted for 32.4 per cent of all jobs in Tasmania, compared to 28.7 per cent nationally.

In 2005-06, full-time average weekly ordinary time earnings (AWOTE) in Tasmania were \$923.75 per week, compared with \$1 032.00 per week nationally. The lower levels of AWOTE in Tasmania reflect, in part, lower average labour productivity.

While the change in AWOTE is the benchmark measure for growth in wage rates, changes in total earnings provide a better guide to movements in average income levels, as this measure includes overtime earnings, the hours worked by those in part-time employment and wages paid to juniors and casual workers. It is also particularly relevant in the Tasmanian context, given the relatively high proportion of employed persons in part-time work.

In the five years to 2005-06, Tasmanian average total earnings rose by an average annual rate of 5.8 per cent in nominal terms, compared to growth in AWOTE of 4.4 per cent. The corresponding national growth rates are 4.5 per cent and 5.0 per cent respectively. It is generally expected that growth in AWOTE will be stronger than growth in average total earnings, as AWOTE-based estimates are not affected by the underlying growth in the share of employees in part-time work. It is likely that that higher growth of AWE in Tasmania reflects the increase in hours worked by those in part-time and full-time employment.

Labour Market

The Tasmanian labour market in 2005-06 was characterised by sustained growth in the level of employment and in the participation rate. This trend was reversed in early 2006-07, though there has been a subsequent recovery in employment growth rates. Many employers are currently facing a tight labour market due to renewed strength in employment and low levels of unemployment.

Employment and Hours Worked

In the year to April 2007, Tasmanian employment grew by 1 900 persons, or 0.9 per cent, despite the four months of decline, in trend terms, in early 2006-07. Employment increased for the fifth consecutive month in April 2007 (in trend terms) to a record level of 225 200. Since the employment upswing began in April 2002, Tasmanian employment has grown by 13.7 per cent, a level of growth exceeded only by Queensland and Western Australia over the same period.

Table 2.2 illustrates the very high employment growth in Tasmania over the recent past.

Table 2.2: Tasmanian Employment

	2001-02	2002-03	2003-04	2004-05	2005-06
Total Employment (original, year-average, '000s)	198.4	201.4	210.1	216.2	223.3
Total Employment (original, year-average, per cent change)	(1.1)	1.5	4.3	2.9	3.3

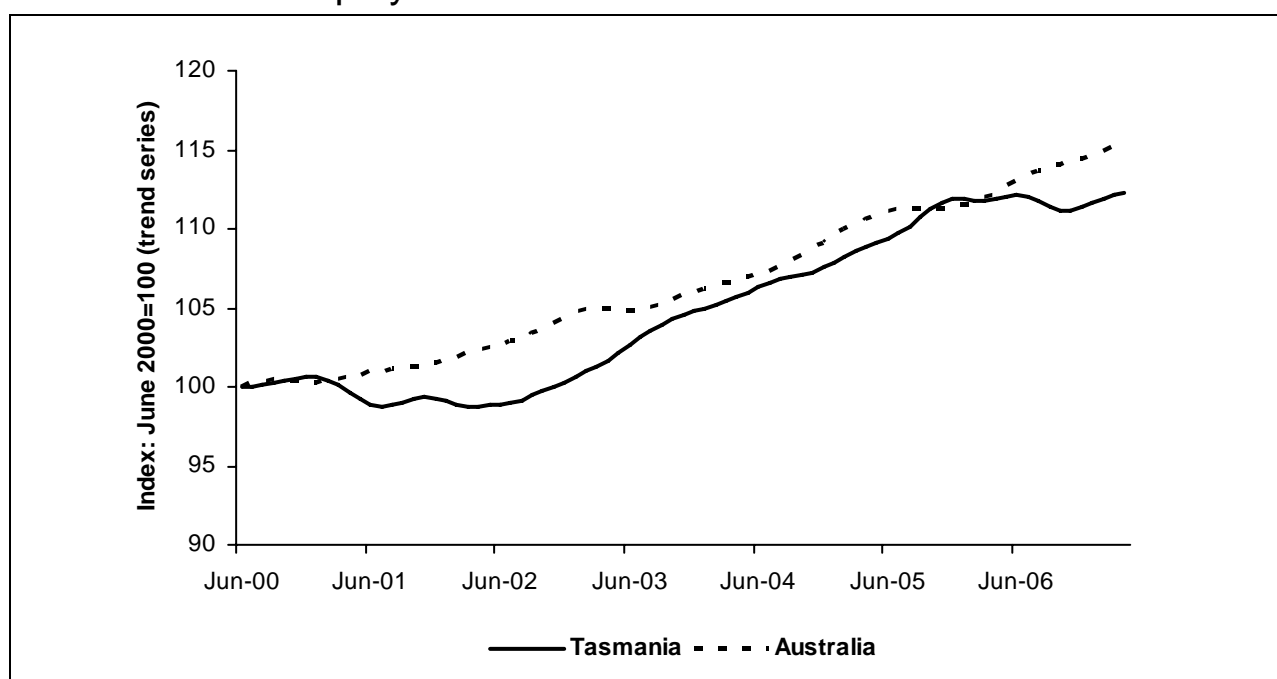
Source: *Labour Force, Australia, Spreadsheets*, ABS Cat No 6202.0.55.001

Reversing the long-term trend, part-time employment declined by 2.4 per cent in the year to April 2007 and accounted for a falling share of total employment. In April 2007, the ABS estimated that 31.4 per cent of employed persons were employed part-time, compared with 32.3 per cent in April 2006. Although there has been some growth in part-time employment since December 2006, the level of part-time employment in April 2007 was 3 200 persons below the record level of 74 000 recorded in December 2005.

Tasmanian full-time employment increased by 2.4 per cent, or 3 600 persons, in the year to April 2007. In trend terms, full-time employment has increased in 16 consecutive quarters to April 2007. The level of 154 400 persons in April 2007 was the highest level of full-time employment since September 1990.

In year-average terms, the growth in employment in the past year has been entirely from female employment, which increased by 2.1 per cent in the year to April 2007, with male employment falling by 0.2 per cent over the same period. However, on a monthly trend basis, female employment has eased from the record highs recorded in early 2006-07, while there was some recovery in male employment.

Chart 2.4: Employment: Tasmania and Australia



Source: *Labour Force, Australia, Spreadsheets*, ABS Cat No 6202.55.001

There has been growth in the average and total number of hours worked per week due, primarily, to continual growth in full-time employment. In the four quarters to March 2007, total hours worked in Tasmania were estimated to be 2.3 per cent higher than in the four quarters to March 2006. This is slightly below the growth of 2.5 per cent nationally over the same period.

Average hours worked increased by 1.6 per cent in the four quarters to March 2007, the highest level since the four quarters to September 2003. The majority of the growth in average hours worked has been due to the increase in the average hours worked by part-time employees, who worked an average of 16.8 hours per week in the four quarters to March 2007, an increase of 2.9 per cent from the previous four quarters and a record for the series. In comparison, full-time employees worked an average of 40.6 hours per week in the four quarters to March 2007, an increase of 0.7 per cent from the previous four quarters.

Labour Force Participation

The participation rate measures the proportion of the population aged 15 years and above either working, or actively seeking work. The measure has no upper age limit and therefore includes people aged over 65 years.

Tasmania's participation rate in 2005-06 reached levels not seen since the early 1990s. The participation rate increased by 1.7 percentage points in 2005-06, compared to a national increase of 0.5 percentage points over the same period. The first half of 2006-07 has seen some easing in the participation rate, with a rate of 60.2 per cent recorded in April 2007, 4.7 percentage points below the national rate. Research undertaken by Treasury in 2005 suggests that the higher proportion of Tasmania's working age population in older age categories accounts for approximately 40 per cent of the difference between the national and Tasmanian participation rates.

Much of the recent decline has been in female participation, which has fallen by 1.1 percentage points through the year to April 2007 and currently stands at 53.2 per cent, which is 1.5 percentage points below the series record of 54.8 per cent recorded in July 2006. The male participation rate fell by 0.9 percentage points to 67.5 per cent through the year to April 2007.

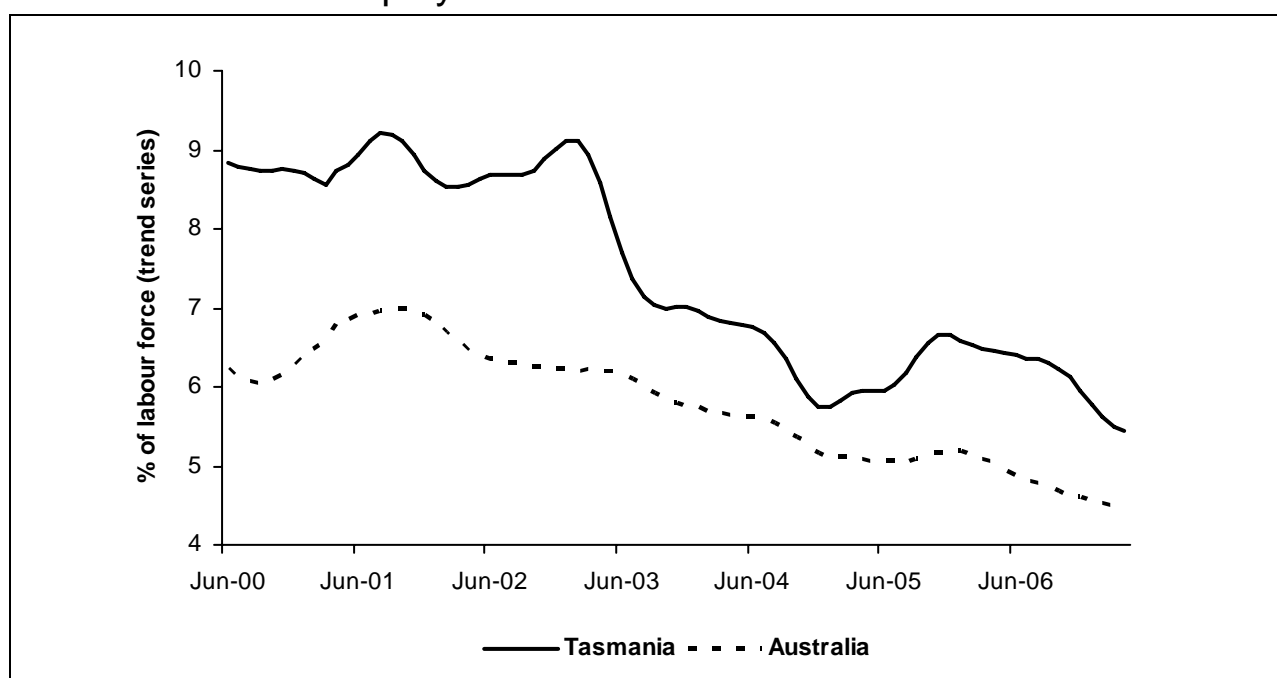
Unemployment

The unemployment rate was estimated to be at the record low level of 5.4 per cent in April 2007. This reflects the sustained employment growth in recent years and also Tasmania's relatively low participation rate. Tasmania's unemployment rate in April 2007 was 0.9 percentage points above the national rate and was the equal highest of all jurisdictions, along with South Australia.

The number of unemployed persons in Tasmania in April 2007 was estimated at 13 000, 2 500 persons fewer than in April 2006 and the lowest level of unemployed persons since June 1981. There has also been a slight decrease in the number of Tasmanians who are long-term unemployed (considered unemployed for more than 52 weeks), with 3 800 persons being long-term unemployed in the year to April 2007. The number of long-term unemployed Tasmanians has fallen significantly since 2000-01 when around 6 900 Tasmanians were estimated to be long-term unemployed.

In the 12 months to April 2007, 2 300 persons were classed as very long-term unemployed (defined as being unemployed for more than two years), 200 persons fewer than in the 12 months to April 2006. Further details on Tasmania's long term unemployment can be found in a Treasury research paper titled *Long Term Employment in Tasmania: A Statistical Analysis*, which is available on Treasury's website (under Tasmanian Economy – Reports).

Chart 2.5: Unemployment Rate: Tasmania and Australia



Source: *Labour Force, Australia, Spreadsheets*, ABS Cat No 6202.0.55.001

Regional Employment

Table 2.3 summarises the State's regional labour market performance in the year to April 2007. ABS data indicate that employment growth was restricted to the Southern region in the year to April 2007, with growth of 2.6 per cent. The Southern region was also the only region to experience a fall in the unemployment rate over this period and an increase in the participation rate.

Table 2.3: Regional Labour Market Statistics

	South	North	North West	Total State
Employment				
Average in 12 mths to April 2007 ('000)	112.5	62.5	49.1	224.1
% change from year to April 2006	2.6	(0.6)	(1.2)	0.9
Participation Rate				
Average in 12 mths to April 2007 (%)	60.8	59.8	61.1	60.6
%-point change from year to April 2006	0.3	(0.4)	(0.5)	(0.1)
Unemployment Rate				
Average in 12 mths to April 2007 (%)	5.1	5.8	8.5	6.1
%-point change from year to April 2006	(1.3)	0.6	1.1	(0.2)

Source: *Labour Force, Australia, Detailed*, ABS Cat No 6291.0.55.001

Historically there have been large differences in participation rates across Tasmania's three regions. However, rates have converged over the recent past. The participation rate in the North West region experienced significant growth from 2003-04, and although this trend has recently been reversed, the region had the highest participation rate in the year to April 2007 at 61.1 per cent.

The Southern region has replaced the Northern region as the region with the State's lowest unemployment rate, with an estimated rate of 5.1 per cent in the year to April 2007, 1.3 percentage points lower than the rate in the previous year. The North West region's higher unemployment rate is due, in part, to the region's higher participation rate.

Investment

A key feature of the Tasmanian economy over the past five years has been the very high growth in investment.

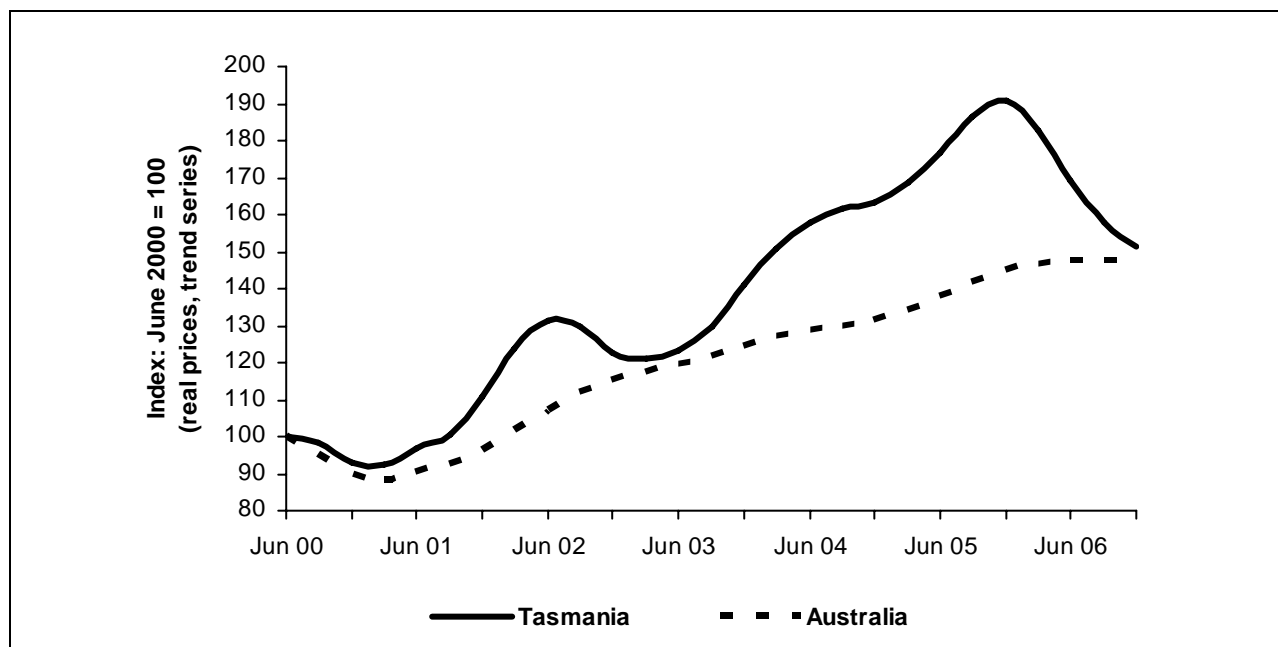
Private sector investment (incorporating business investment and dwellings investment and also known as Private Gross Fixed Capital Formation), has recovered since 1998 and, while not at record levels, was at historically very high levels in the first half of 2006-07. This growth reflects improved investment opportunities in Tasmania, together with an increased capacity of businesses in Tasmania to fund investment projects as a result of improved profitability and low interest rates over most of this period.

Chart 2.6 below shows that private investment has been more volatile in Tasmania than nationally over recent years. This is due to the small size of the State and the timing of a small number of large investment projects, particularly energy-related projects.

The decline in private investment in recent quarters has resulted in the decline in State final demand over these periods and may also have contributed to easing in employment in the first half of 2006-07.

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

Chart 2.6: Private Sector Investment: Tasmania and Australia



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

Dwelling Investment and Construction

Dwelling investment in the year to December 2006 was at above average levels but is estimated to have grown by only 0.9 per cent in that year. The outlook for residential construction is positive, with both the number and value of building approvals reaching record levels in the past year. Recent trends in dwelling investment are shown in Chart 2.7 below.

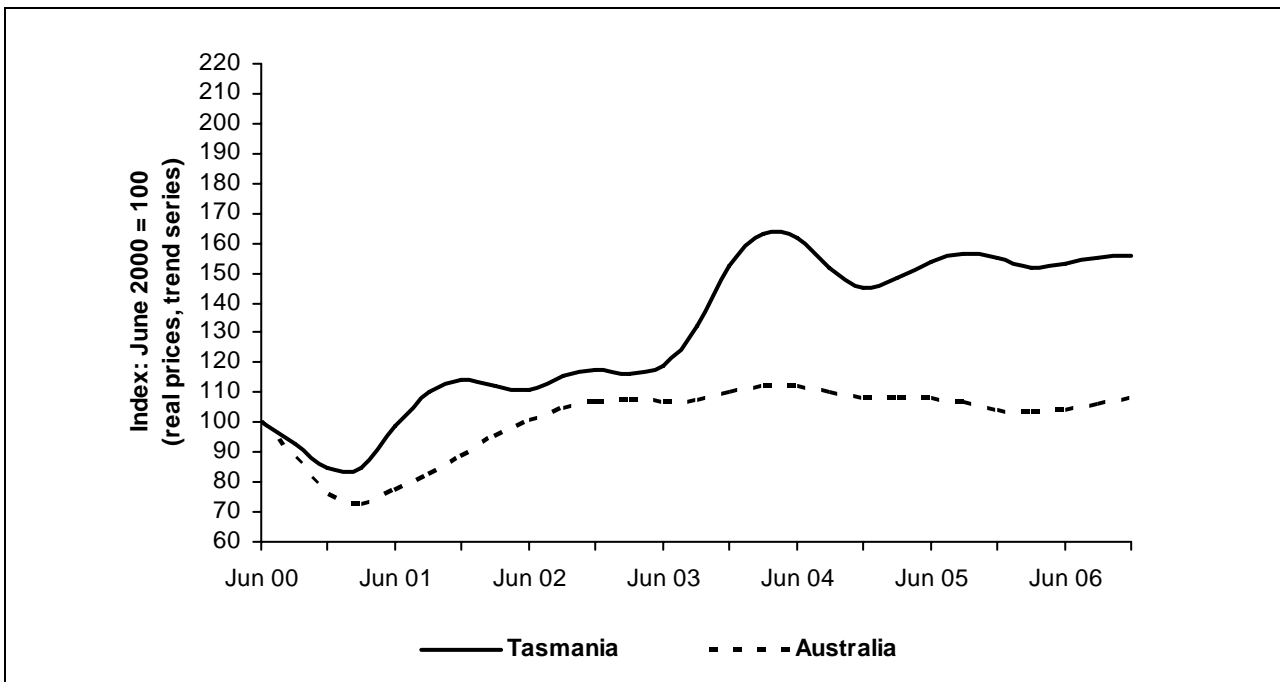
Secured housing finance commitments have also been increasing in the past year. Residential vacancy rates have been low and, as a result, rental rates have been increasing. These trends are likely to support growth in dwelling investment in the year ahead.

In the year to March 2007 the number of residential building approvals in Tasmania increased by 9.4 per cent, compared with a decline of 2.3 per cent nationally.

Some of the factors that have stimulated dwelling investment in recent years, such as the growth in house prices, employment growth and rising real incomes in Tasmania and strong consumer confidence, are set to continue. There is also some evidence of an increase in house purchases by first home owners, following a decline in recent years.

This points to a continued positive outlook for dwelling investment in Tasmania, though investment is not expected to grow at the strong rates experienced in the first years of this decade.

Chart 2.7: Dwelling Investment: Tasmania and Australia



Source: Australian National Accounts: National Income, Expenditure and Product, ABS Cat No 5206.0

Business Investment

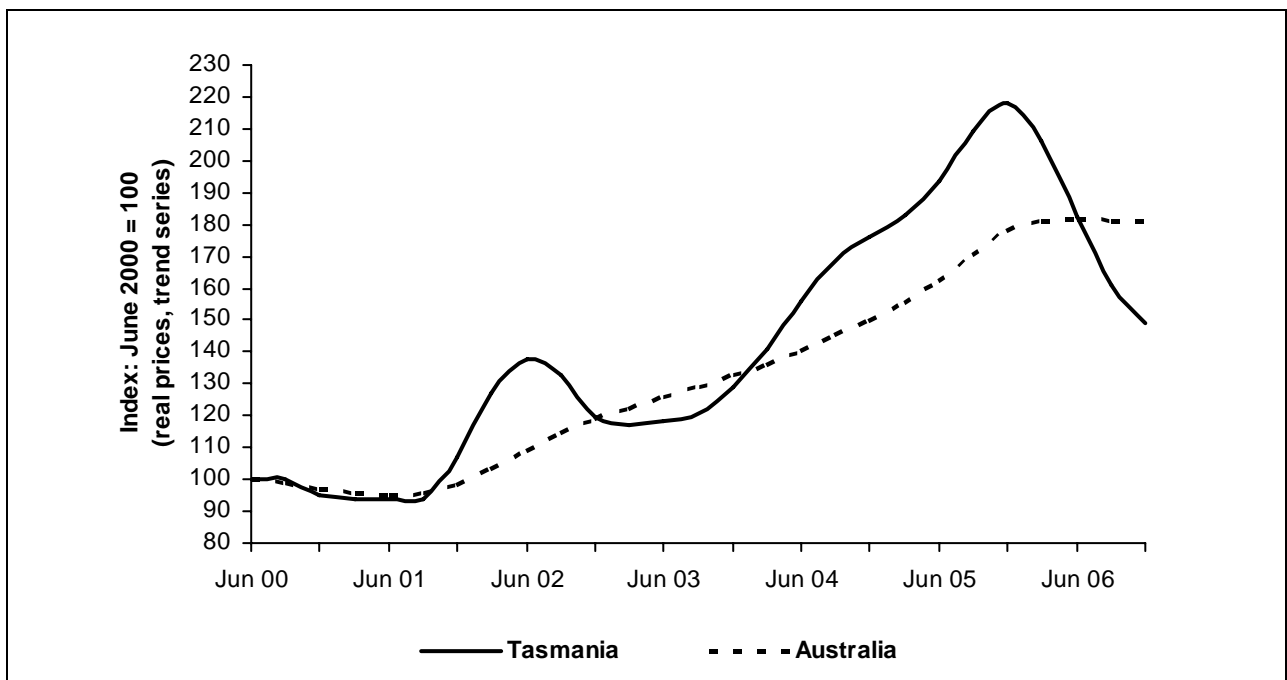
Business investment, which includes investment in machinery and equipment, buildings and structures and intangible assets such as software, is important for the Tasmanian economy, both as a component of economic activity and as a source of productivity improvement.

Over the past five years, business investment in Tasmania has been very strong, with growth exceeding the national rate for a large part of that time, as shown in Chart 2.8.

A component of investment spending is always cyclical by nature. In the case of small jurisdictions, the total level of investment can be strongly influenced by changes in investment activity for major projects, such as was the case for Basslink and other energy-related infrastructure projects. This was evident in 2002-03, for example, when total investment in Tasmania declined almost entirely due to the completion of the transmission phase of the Tasmanian Natural Gas Project the year before. For this reason, the longer term trends in investment provide a better guide to underlying conditions than year-on-year fluctuations.

Investment in Tasmania's resource sector has been very high over the past three years, reflecting the very favourable market conditions. However, the appreciation of the Australian dollar has adversely affected other export industries in Tasmania, such as those in the agriculture, forestry and manufacturing sectors, which together form a relatively large part of Tasmania's economy. This is likely to have had a dampening effect on investment in these industries.

Chart 2.8: Business Investment: Tasmania and Australia



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

Prospects for a return to higher levels of private investment in 2007-08 are strong. Some major infrastructure projects are currently being assessed, including the pulp mill, the Alinta power station at Bell Bay, the Lauderdale Quay residential development and the Austexx Direct Factory Outlet close to Hobart International Airport. Most of these projects are due to commence in 2007-08, subject to planning and other regulatory approvals.

More generally, the improving national and international conditions are expected to promote business investment in the year ahead. In particular, there appears to be increasing confidence that the global resource boom is likely to be sustained and that the Australian economy is set to grow at above trend rates for several years.

The constraint on future investment growth in Tasmania may be on the supply side. There are increasing reports of skills shortages across Australia, particularly in Western Australia where investment levels have been exceptionally high. Many states are planning some very large public infrastructure projects, including new hospitals and water-related projects, that will lead to further demands on the construction sector.

This is leading to strong wage inflation in the construction sector, increased construction costs and, in some cases, a shortage of large construction firms available to take on new major projects. With the high level of mobility of labour between states, this is becoming an increasingly important issue in Tasmania, despite the record numbers in apprenticeships in Tasmania in the past year.

Public Sector Investment

Public sector investment was \$926 million in 2005-06, an increase of 5.1 per cent on the previous year. The investment was shared equally by public corporations (\$460 million) and the general government sector (\$461 million).

Public sector investment projects in 2005-06 included the Royal Hobart Hospital upgrade, completion of Hydro's Woolnorth Windfarm development, the Risdon Prison re-development and the Affordable Housing Strategy.

This investment, a record for the series, represented 5.6 per cent of GSP, significantly higher than the equivalent national rate of 4.0 per cent. The public ownership of Tasmania's electricity entities is one of the reasons for this difference.

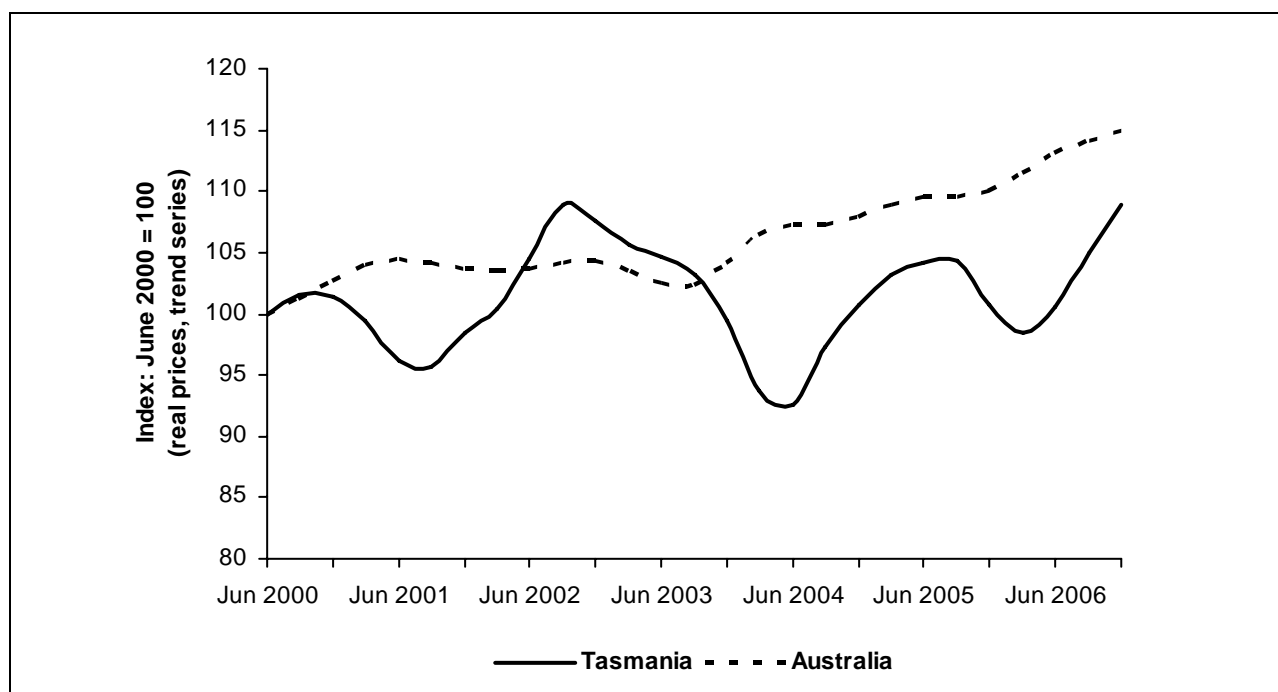
Overseas Export Activity

Exports to overseas markets make a significant contribution to Tasmania's overall economic performance. Recent trends in Tasmania's overseas export performance are shown in Chart 2.9 below. The chart shows there has been significant variation in Tasmania's exports, in volume terms, from year to year. One reason is the very high value of each Incat vessel sold overseas.

In 2005-06, overseas exports in volume terms were down by 1.1 per cent from the previous year. There was strong growth in export sales of non-ferrous metals and metallic ores, However, this was outweighed by declines in exports of meat and vegetable products and exports in the 'other and confidential category', which is likely to include opiate products from Tasmania's poppy industry.

In the first half of 2006-07, exports on a volume basis have returned to growth, reflecting continued strength in the minerals-related sectors. Exports sales to China and Hong Kong have increased significantly in recent years and now form Tasmania's largest export market, accounting for around 26 per cent of Tasmania's overseas export sales in the year to March 2007. This compares with Japan's share of around 18 per cent, which is down from around 24 per cent five years earlier. There has also been recent strong growth in exports to Taiwan, Korea, the United States of America and India.

Chart 2.9: Real International Merchandise Exports – Tasmania and Australia



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

The outlook for Tasmanian export sector continues to be positive for a number of reasons, most notably, favourable economic prospects for Tasmania's main trading partners and a favourable price outlook for key Tasmanian commodities.

The continued strong economic growth in East-Asia, most notably China and India, are expected to continue driving improved export performance in 2007-08. Tasmania's other major export markets in the region, such as Japan, also have favourable economic outlooks.

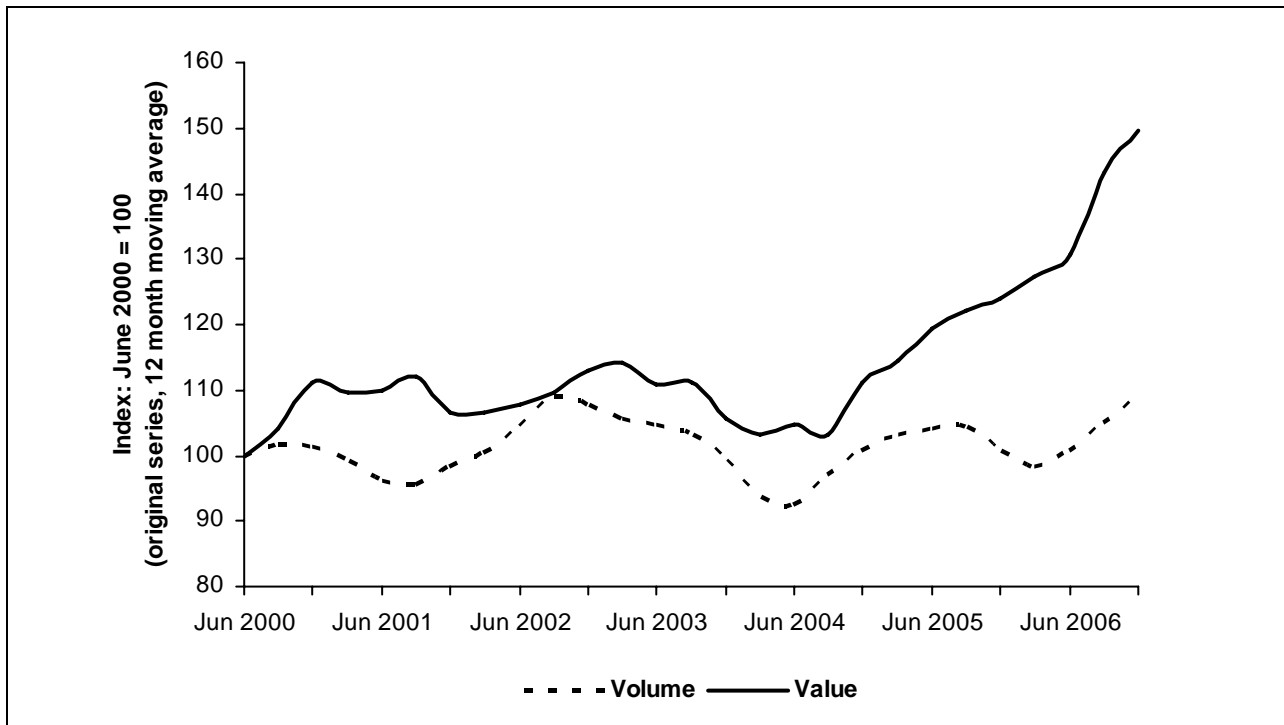
The Australian Bureau of Agricultural and Research Economics (ABARE) has forecast raw material prices to ease over 2007-08 as global supply responds to the sustained high mineral prices in recent years. However, this easing is expected to be moderate, with the prices for key Tasmanian exports likely to remain at high levels in 2007-08, especially for aluminium, zinc, copper, nickel and gold.

The supply of mineral exports will be boosted by the commencement of production at the Allegiance Mining nickel mine in late 2007, the processing of tailings at the Hellyer mine at Rosebery and the recent recommencement of production at the Beaconsfield gold mine.

The ABS estimates of export sales in volume terms do not fully reflect the contribution of exports to real incomes in Tasmania through changes to the terms of trade. When export prices increase by more than the increase in import prices, the terms of trade improve, together with real incomes.

Chart 2.10 shows the difference between changes in the volume of international exports and in the value of these exports over the past six years, in original terms. As can be seen from the chart, the value of Tasmania's exports has increased much more significantly than the volume of exports since mid-2004, and the difference has been increasing in recent quarters. Tasmanian real incomes, on average, have therefore been growing by more than the growth in volume-based indicators, such as GSP per capita.

Chart 2.10: Tasmanian International Merchandise Exports – Real and Nominal



Source: *Australian National Accounts: National Income, Expenditure and Product*, ABS Cat No 5206.0; *International Trade in Goods and Services, Australia*, ABS Cat No 5368.0

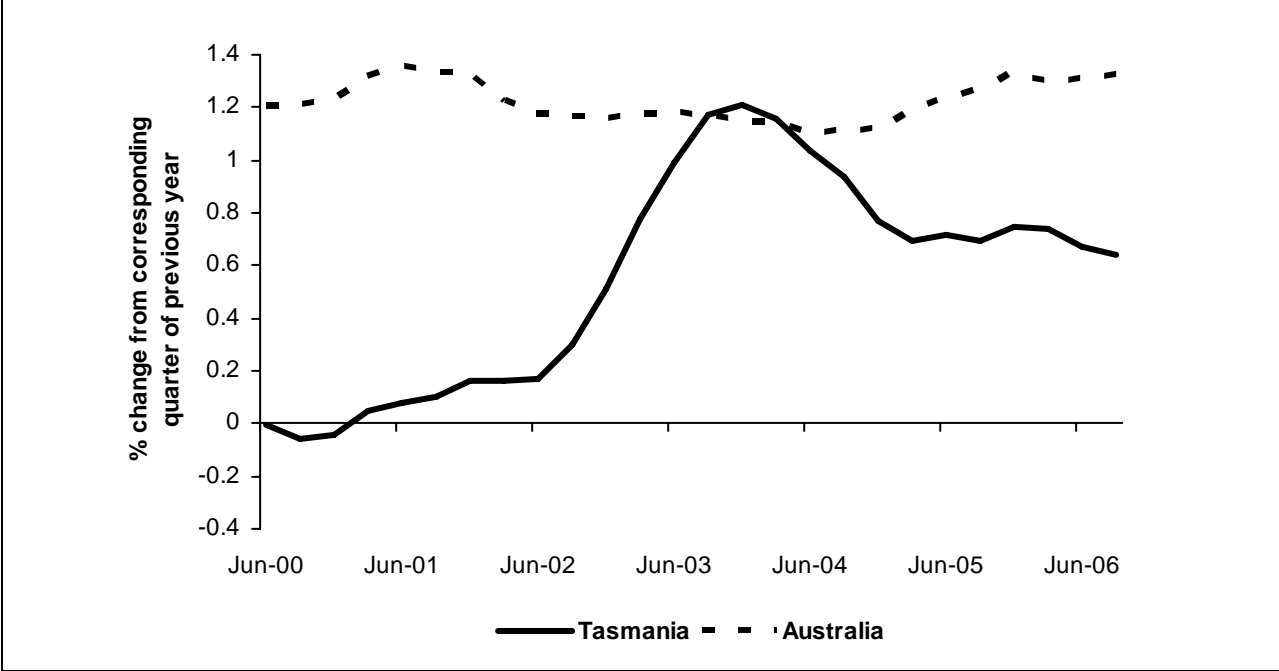
The value of the Australian dollar is expected to remain high over the medium term. While this is not likely to impose a constraint on mineral-based exports, it will continue to have an adverse effect on other export industries that face less favourable market conditions, such as agricultural products that are in strong competition with New Zealand and some Asian countries, woodchips, textiles and wool.

Demographic Trends

Through the year to September 2006 (latest data available), Tasmania's population rose by 3 100 persons (or 0.64 per cent), to 489 637 persons. Since June 2000, Tasmania's growth in population has been positive, which contrasts with the late 1990s when Tasmania's population declined. Tasmania's growth rate peaked in 2004 at 1.2 per cent, before easing to remain steady at around 0.6 per cent since early 2005. Recent trends are illustrated in Chart 2.11, which shows that Tasmania's population growth remains significantly below the national rate.

The recent growth in Tasmania's population is due, in part, to a recent surge in the natural population growth (births minus deaths). Natural population growth in the year to September 2006 increased by 10.5 per cent, the largest increase of all states and territories.

Chart 2.11: Population Growth: Tasmania and Australia

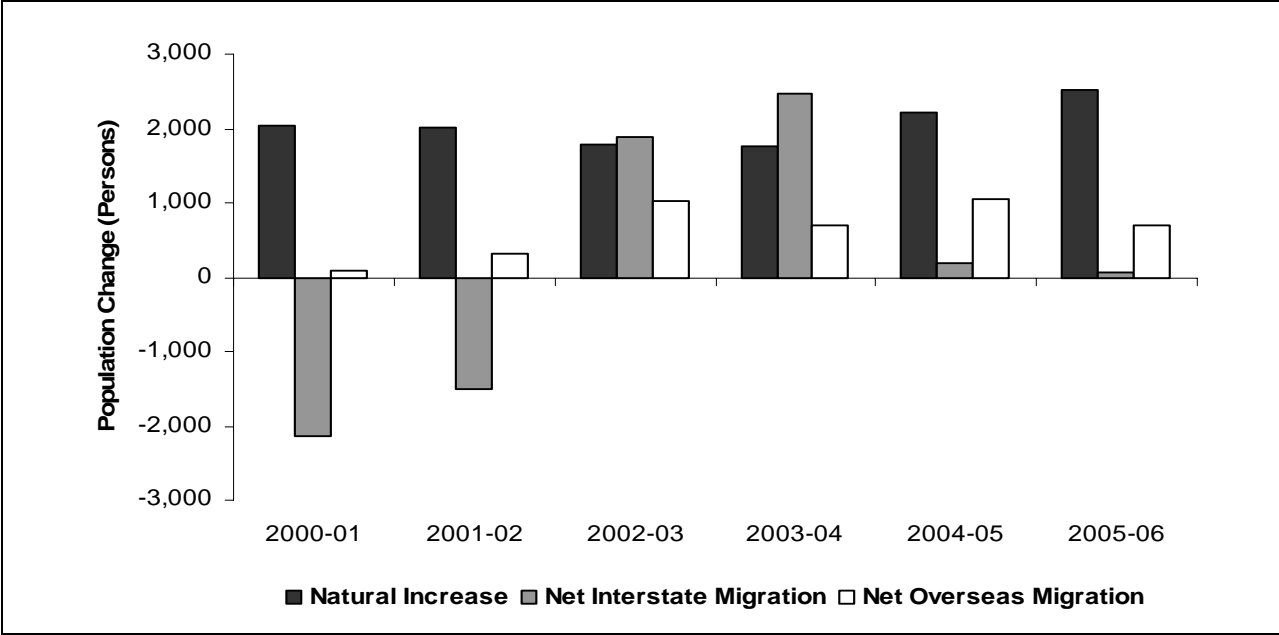


Source: Australian Demographic Statistics, ABS Cat No 3101.0

Until recently, net interstate in-migration (interstate arrivals minus interstate departures) had been positive. In the year to December 2003, net interstate migration was 3 035 people, the highest level on record. There has since been an easing in interstate in-migration, which accounts for the decline in the population growth rate. Currently interstate in-migration and out-migration flows have been at very similar levels, with the result that all population growth has been due to natural increase and overseas migration.

Chart 2.12 shows the contributions of natural increases, interstate and overseas migration to Tasmania's population growth.

Chart 2.12: Components of Tasmania's Population Growth



Source: Australian Demographic Statistics, ABS Cat No 3101.0

Overseas migration has made a positive, but small, contribution to population growth since 1971-72. In the past five years, there has been a significant increase in net overseas in-migration, including 713 persons in the year to September 2006. However, Tasmania continues to receive around 0.5 per cent only of all overseas migrants into Australia.

ECONOMIC ISSUES AFFECTING TASMANIA

This section covers three economic issues that will have significant impacts on Tasmania's future economic performance, namely structural change in Tasmania, Tasmania's productivity performance and demographic changes in Tasmania. These three issues are related. In particular, both Tasmania's industrial structure and future population trends are likely to impact on Tasmania's overall level of productivity.

Structural Change in the Tasmanian Economy

The rapid growth in the Tasmanian economy in recent years has been stimulated by, and has been reinforcing, some major changes to the economic environment in Tasmania.

These changes include:

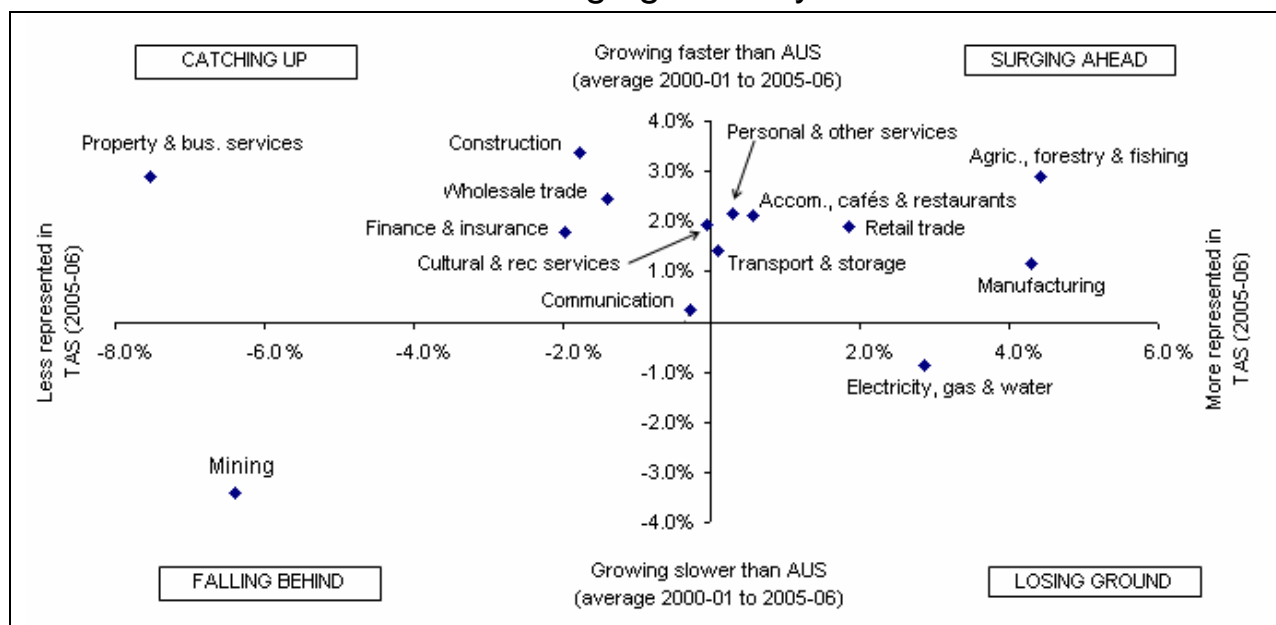
- the growth in Tasmania's total productive capacity, and potential to improve Tasmania's productivity, through increased private and public investment;
- the significant increase in household wealth, which has occurred due to the strong growth in property prices. The adjustment to higher property prices is largely a realignment with prices in other states and territories;
- the structural shift in the airline market with the growth of budget airlines and increased competition;
- access to natural gas as an energy source and competition in the electricity and gas retail markets;
- the establishment of a single Tasmanian port authority, which has the capacity to undertake major infrastructure to promote efficiency and improve Tasmania's port services;
- the transformation of the State's fiscal position, including the elimination of State net debt, which has led to improved tax competitiveness and higher levels of business confidence; and
- the substantial reforms undertaken as part of National Competition Policy.

With Basslink, the gas transmission pipeline, new telecommunications access, and greater sea and air access, including for business travel, Tasmania's economy is becoming even more closely integrated with the mainland economy.

The effect of these changes has been a changing of Tasmania's industrial base. Importantly, sectors that tend to be high growth nationally, such as finance and insurance, and property and business services, are becoming increasingly important in Tasmania.

This is shown in Chart 2.13 below, where the horizontal axis measures the difference in the relative importance of private sector industries between Tasmania and Australia as a whole. The chart shows, for example, that Tasmania is more reliant on agriculture, forestry and fishing, and manufacturing, and is relatively under-represented by property and business services, and mining.

Chart 2.13 Tasmania's Changing Industry Structure



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

The vertical axis measures the difference in sectoral growth rates between Tasmania and Australia as a whole, using the five year average from 2000-01 to 2005-06. It shows that, over this period, there were only two sectors where the average growth rate in Tasmania was below the national average growth rate, namely electricity, gas and water, and mining.

Industries in the top right quadrant represent those that have been growing faster than the Australian average and, in Tasmania, represent a larger share of the economy than nationally. Some of these sectors have made a very significant contribution to Tasmania's economic growth over this period.

Of more interest, in relation to Tasmania's changing industrial base, are those industries in the 'Catching Up' quadrant. These industries account for a smaller share of the Tasmanian economy than nationally, but they have been growing at a faster rate in Tasmania than in Australia. An encouraging sign for the Tasmanian economy is that the high productivity and high-skilled sectors of property and business services and finance and insurance fall into this quadrant.

Industries in the bottom right quadrant account for a larger proportion of the Tasmanian economy, relative to Australia, but have not been growing as fast; in this case the only sector is electricity, gas and water. The share of the total economy accounted for by these sectors, and by the sectors in the top left quadrant, has been moving towards the national average.

Industries in the bottom left quadrant are 'Falling Behind'. They contribute a smaller proportion to the Tasmanian economy relative to Australia and they have not been growing as fast. The mining industry falls into this quadrant, despite being the third fastest growing sector in Tasmania over this period, behind construction and finance and insurance. This reflects the exceptionally strong national growth in mining activity since 2000-01. The share of the total economy accounted for by these sectors, and by the sectors in the top left quadrant has been moving away from the national average.

Productivity

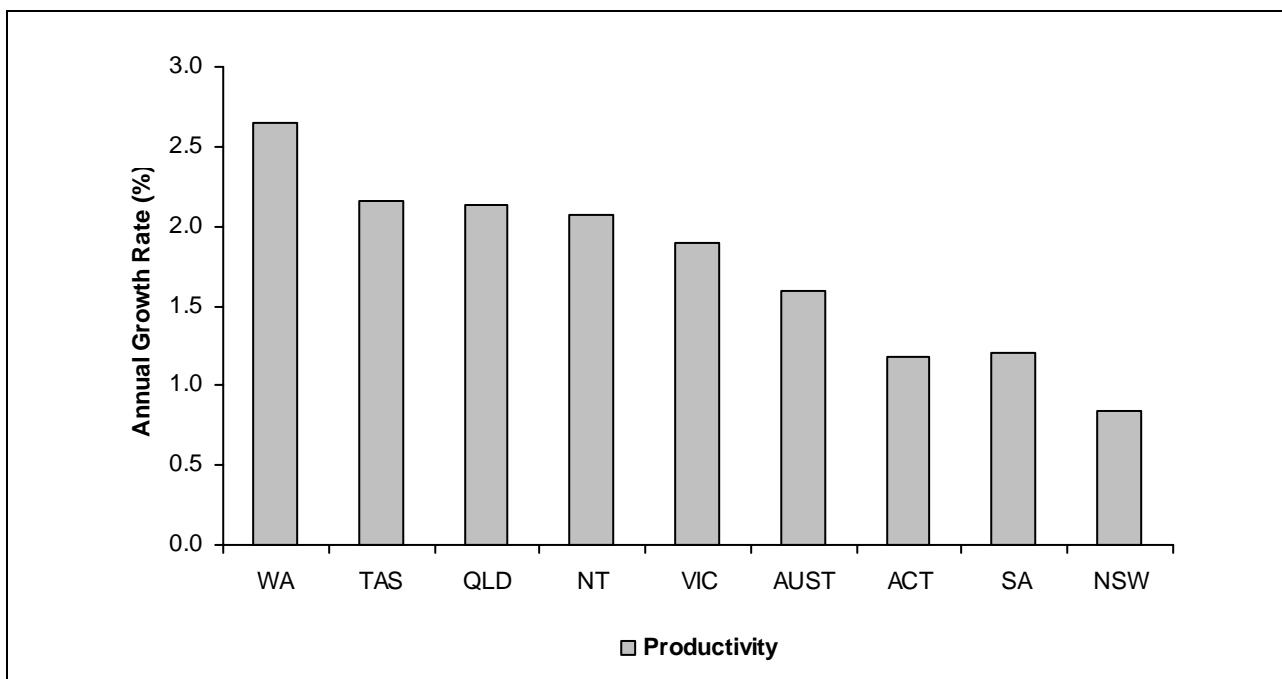
In the long run, productivity growth is a key determinant of economic growth and also of living standards, as this determines real income levels. Factors that influence Tasmania's productivity include the quality and quantity of the State's capital stock, the education and skills of the workforce and the share of high productivity industries in Tasmania.

A key difference between the economic performance of Tasmania and Australia as a whole over the past 15 years has been labour productivity. Tasmania's labour productivity in 2005-06 remains the lowest of all states and is around 85 per cent of the Australian level.

Over the longer term, Tasmania's labour productivity has been growing at around 1.5 per cent annually, compared with national growth of around 2.75 per cent annually.

Consistent with the overall improvement in economic conditions in the past five years, there has been recent growth in Tasmania's productivity. Using the measure of real GSP per hour worked, there was an average annual increase of 2.2 per cent over this period in Tasmania, compared with the average annual growth of 1.6 per cent nationally. Chart 2.14 shows that Tasmania's productivity growth has been higher than all states and territories except Western Australia over the past five years.

Chart 2.14: Average Productivity Growth in Australian States and Territories - 2001-02 to 2005-06



Source: *Australian National Accounts: State Accounts* ABS Cat No 5220.0;
Labour Force, Australia, Spreadsheets, ABS Cat No 6202.55.001;
Labour Force, Australia, Selected Summary Tables, ABS Cat No 6291.0.55.001

The lower productivity in Tasmania accounts, in part, for Tasmania's low level of GSP per capita, which provides a measure of living standards. In 2005-06, Tasmania's GSP per capita was the lowest of all states and only 75 per cent of the Australian level.

Improving Tasmania's productivity is particularly important in the context of:

- the State's ageing population, which is likely to reduce the working age population, and therefore the potential labour supply in the economy, after the next five years or so;
- increasingly competitive national and global capital markets, which make it harder to attract and retain business investment in regions that have low labour productivity rates; and
- increasingly competitive national and global labour markets, which make it difficult to recruit and retain skilled labour, particularly in occupations of high demand.

With the aim of improving Tasmania's productivity growth, the Government has embarked on a range of initiatives such as water and sewerage reform, the telecommunications infrastructure project and transport reform, including the Brighton Transport Hub.

Demographic Change

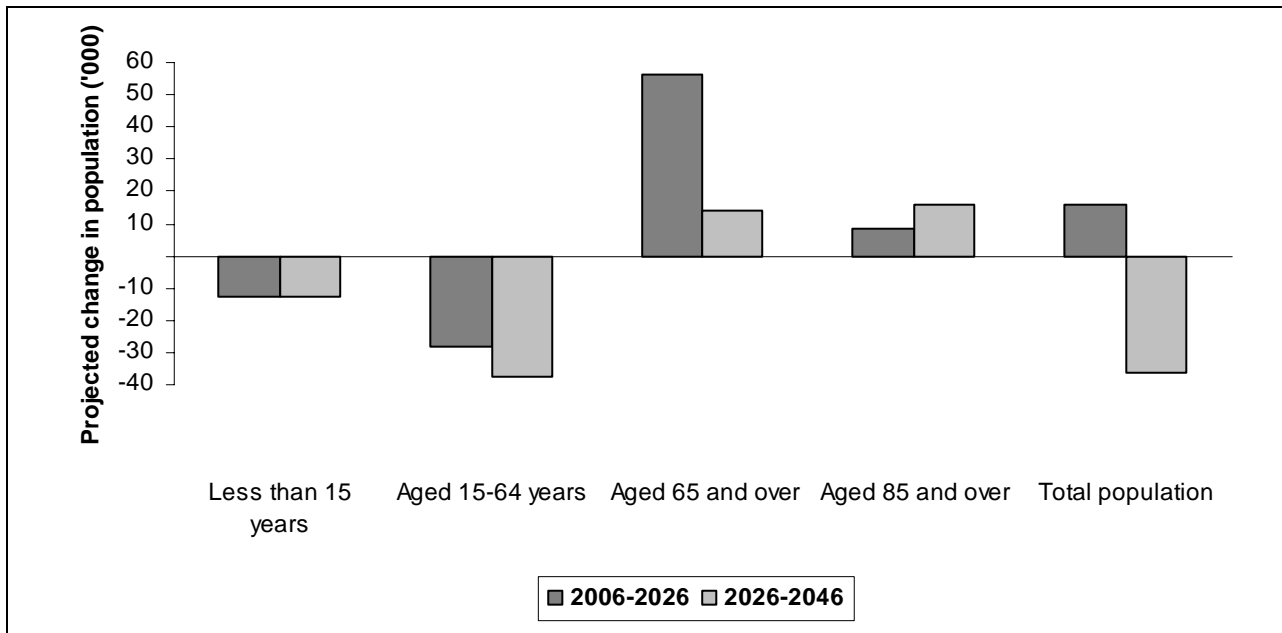
Some major changes to Tasmania's population are expected in future decades. This presents a set of challenges and opportunities for the Tasmanian Government, the business community, the current and future workforce and other organisations in the community.

These include changes in the size of the population, the average age (including of those in the work force), and the number of people in different age groups (such as those under 15 and those in ages where people tend to enter or leave the work force). In particular:

- most ABS population projections suggest that Tasmania's total population will continue to increase for the next 10 to 20 years, after which it will start to decline;
- the Tasmanian population is ageing at a faster rate than any other Australian state or territory. It currently has the equal highest median age with South Australia and is expected to have the highest median age in the year ahead;
- approximately 40 per cent of Tasmanians employed in 2006 were aged 45 years or over, compared with 25 per cent two decades earlier. The share of the workforce aged 45 years or over is expected to increase further in future decades;
- there are currently around 8 000 persons in Tasmania aged over 85 years. Chart 2.15 below shows that, under one ABS projection, this number is estimated to increase by a further 8 000 over the next 20 years, and by an additional 16 000 over the following two decades; and
- the current decline in the proportion of the population aged under 15 years is expected to continue. The absolute number of children is also projected to decline. For example, under the same ABS projection, over the next ten years the number of children in this age group is projected to decline by 8 740.

The ABS emphasises that these projections are not forecasts as they are based on past trends. It is possible, for example, that Tasmania's population growth over coming decades may be influenced by new factors, such as the impact of changed weather conditions and water availability in some mainland states or the development of significant new industries in Tasmania, that are not reflected in the projections.

Chart 2.15: Projected Changes in Tasmania's Population Structure 2006 - 2046



Source: *Population by Age and Sex, Australian States and Territories, ABS Cat No 3201.1;*
Population Projections, Australia, 2004 to 2101, ABS Cat No 3222.0

While the ageing of Tasmania's population is not a new phenomenon, this ageing is expected to accelerate in the decades ahead, due in part to improvements in living standards and life expectancy.

The types of challenges that the community is likely to face include:

- economic challenges – such as the impact of a smaller and ageing work force, changes to labour force participation rates and potential skill shortages, all of which can significantly impact on economic growth and living standards;
- social challenges – such as changes in the composition of households and the informal care sector, the distribution of wealth within families and the community more broadly, the community's changing needs regarding transport and other services, and financial and health-related issues for older Tasmanians; and
- fiscal challenges – such as the increasing pressure on governments to provide more and better quality services, especially in the health and human services sector.

Demographic changes may also provide many benefits and opportunities, such as:

- growth in industries that supply goods and services in demand by older Tasmanians;
- more potential volunteers as people enjoy a longer and healthier period of retirement;
- improved viability of clubs and other organisations that cater for older Tasmanians;
- a potential decrease in involuntary unemployment, especially for school leavers; and
- the opportunity for more informal care provided by older family members.

Through the Demographic Change Advisory Council and other initiatives, the Government is taking a proactive and whole-of-community approach on this issue. This will allow the Government, the business community and community organisations in Tasmania to share their knowledge regarding the potential impacts of demographic change and develop strategies to address the emerging issues.

3 FISCAL STRATEGY

Features

- The Government's ability to set and implement credible fiscal strategies has delivered four credit rating upgrades for Tasmania.
- During 2006, Moody's Investors Service upgraded Tasmania's credit rating to Aaa, its highest credit rating, while Standard & Poor's maintained the State's credit rating at AA+ with a stable outlook.
- The Tasmanian Government's current Fiscal Strategy extends over a five-year period to 2010-11.
- The Government is on track to meet the Fiscal Strategy targets in 2006-07 and 2007-08.
- As announced in the Premier's 2006 *State of the State* address, legislation will be enacted to introduce a Charter of Budget Responsibility. The Charter will enshrine sound fiscal management principles into Government decision-making, ensuring transparency and accountability.

THE FISCAL STRATEGY

A fiscal strategy is an effective planning tool for the Government and it provides clear signals to financial markets, the business sector and the community of the Government's direction in financial management.

Tasmania has had a number of fiscal strategies since 1990, which have evolved with the changing circumstances of the State.

The Government's current Fiscal Strategy extends over a five-year period from 2006-07 to 2010-11. It is a reflection of the State's more mature financial position, following the elimination of General Government net debt, and continues fiscal responsibility. The Strategy is based on guiding principles and is target focused. Consistent with this approach, some of the Fiscal Strategy targets focus on outcomes over rolling four-year periods, rather than on year-to-year outcomes.

The Fiscal Strategy is based on the following principles:

- maintaining a sustainable Budget position;
- continuing to reduce the debt and liability burden on the Tasmanian community;
- maintaining a competitive business and taxation environment;
- maintaining investment in core General Government infrastructure in real terms to support the delivery of government services and to foster economic and industry development; and
- providing adequate mechanisms and financial provisions to minimise risks to the Tasmanian Government.

The Fiscal Strategy will continue to compliment the Government's priority areas 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, a competitive tax environment and infrastructure development.

FISCAL STRATEGY TARGETS

The targets that form the basis of the Fiscal Strategy are outlined below.

Budget Position

- Principle* – *To maintain a sustainable Budget position.*
- Target* – *A Net Operating Surplus to be achieved, on average over a rolling four-year period, for the General Government sector.*
- *A Fiscal Surplus to be maintained on average over a rolling four-year period in the General Government Sector.*
- *The Consolidated Fund will be maintained in surplus.*

A key to maintaining a sustainable fiscal position is aligning expenditure growth and the need for infrastructure renewal and development with long-term trend growth in revenue. This requires the maintenance of a Budget Net Operating Surplus, which ensures that recurrent services can be funded from recurrent revenue.

The Net Operating Surplus reflects the on-going sustainability of a government's financial position. However, it is subject to some degree of volatility due to the cyclical nature of revenue, which is contrasted by the relatively steady nature of expenditure. Of greater potential volatility is the Fiscal Surplus, which is influenced by the variability of a government's capital program.

For this reason, the measures of Net Operating Surplus and Fiscal Surplus are most appropriately considered on an average basis over a rolling four-year period, rather than being focused on year-to-year outcomes.

To ensure continued fiscal discipline, the Government is committed to maintaining the Consolidated Fund in surplus.

Debt and Liability Reduction

- Principle* – *The debt and liability burden on the Tasmanian community will continue to be reduced.*
- Target* – *The State's net unfunded superannuation liability will be extinguished by 2033.*
- *The ratio of Total State Sector Net Debt to revenue will decline, on average, over a rolling four-year period.*
- *The General Government Sector will remain Net Debt free.*

Debt and liability reduction continues to be a focus in the Fiscal Strategy. The Government remains committed to eliminating its unfunded superannuation liability and to addressing debt and revenue risks associated with Government businesses.

The savings from interest payments that are no longer required to service General Government net debt have delivered increased Budget capacity for the Government to provide services to the Tasmanian community. Having put considerable time and effort into achieving this position, the new Fiscal Strategy commits to maintaining it.

The Fiscal Strategy's target is to extinguish the State's net unfunded superannuation liability by 2033. The target balances the Government's commitment to put aside funds to meet the unfunded superannuation liability without placing an onerous burden on the current and next generation of Tasmanians.

In a zero General Government net debt environment, a declining Total State Sector Net Debt to revenue ratio indicates that rational decisions in relation to borrowing are being made in the Government businesses sector. That is, within the existing structural confines of the Government business sector, appropriate approaches to debt management and risk mitigation are being undertaken.

Competitive Business and Taxation Environment

- Principle* – *A competitive business and taxation environment will be maintained.*
- Target*
- *Tasmania's average tax severity is to be maintained below the average of all states (as measured by the Commonwealth Grants Commission).*
 - *No new taxes and no increase in the rate of any existing State taxes.*
 - *Tasmania will be assessed as among the leading states and territories in meeting its COAG economic reform obligations that influence the business environment.*

A competitive business and taxation environment is important to ensure that Tasmania is an attractive place for businesses to invest and people to live.

A competitive tax regime, which raises sufficient revenues to fund infrastructure and service delivery needs while not hindering business expansion and economic growth, is seen as a key factor in fostering robust economic growth. The Fiscal Strategy provides the potential to consider reforms to State taxes, where those reforms are assessed to deliver more efficient outcomes for Government and business. Any reforms to State taxes will be revenue neutral.

Tasmania will maintain the competitiveness of the State's business environment by meeting the Council of Australian Governments' (COAG) economic reform obligations, including those established under National Competition Policy. At its meeting on 10 February 2006, COAG agreed to work towards delivering a new National Reform Agenda. COAG has now agreed on institutional arrangements supporting the implementation of some areas of the reform agenda, which are aimed at raising living standards by improving efficiency, promoting increased labour force participation and increasing the nation's productivity.

Infrastructure Development

- Principle* – *Investment in core General Government infrastructure will be maintained in real terms to support the delivery of Government services and to foster economic and industry development.*
- Target*
- *Capital expenditure will at least equal depreciation costs, on average, over rolling four-year periods.*

Appropriate investment in infrastructure is necessary for effective delivery of services to the community, to promote economic growth and to avoid asset erosion and the creation of financial burdens for future generations.

The focus of infrastructure development within the Fiscal Strategy reflects the Government's commitment to provide, at a minimum, funding for infrastructure assets to ensure that the real value of those assets is maintained.

Risk Management

- Principle* – Adequate mechanisms and financial provisions will be in place to minimise the risks to the Tasmanian Government.
- Target* – Prudent management of risks to the State's finances will continue, consistent with maintaining a AA+ credit rating.

It is prudent financial management to reduce the impact that risks, other than financial liabilities, could have on the overall Budget position of the State.

PROGRESS ON THE FISCAL STRATEGY TARGETS

Table 3.1 shows the Fiscal Strategy targets and an assessment of the current position against those measurable targets, based on Budget estimates.

The Table shows the actual outcome of the 2005-06 financial year and estimates for 2006-07 to 2010-11. The yearly and the four-year average estimates are provided for the Net Operating Surplus, Fiscal Surplus and Capital Expenditure targets. However, it is the four-year average estimates on which a number of the fiscal targets are measured.

The Table shows that all Fiscal Strategy targets will be met for 2006-07 and the 2007-08 Budget year.

The outlook for two of the Fiscal Strategy targets, relating to Net Operating Surplus and Fiscal Surplus, at the time of the 2006-07 Budget, indicated that strategies were required to meet the set targets in 2008-09 and 2009-10. The current outlook for both these targets has improved substantially. The targets are projected to be achieved in 2008-09 and 2010-11, whilst only marginal deficits are currently projected in 2009-10.

Nonetheless, as the Forward Estimates are determined on a no-change policy basis, continued Budget strategies will still be required in order to achieve all Fiscal Strategy outcomes over each of the Forward Estimate years.

Table 3.1: Fiscal Strategy Targets

Tactical Target	2006-07						Assessment of Progress
	2005-06 Actual	Revised Estimate	2007-08 Estimate	2008-09 Estimate	2009-10 Estimate	2010-11 Estimate	
Net Operating Surplus on average over four-year rolling period							
Net Operating Surplus (\$ million)	120	(72)	(39)	22	17	17	
Four-year rolling average (\$ million)	217	146	62	8	(18)	4	⊖
Fiscal Surplus on average over rolling four-year period							
Fiscal Surplus (\$ million)	83	(52)	(31)	(1)	47	85	
Four-year rolling average (\$ million)	229	153	53	0	(9)	25	⊖
Consolidated Fund maintained in surplus (\$ million)							
	17	5	10	11	16	18	✓
Net Unfunded Superannuation Liability to be extinguished by 2033 (\$ million)							
	2 147	2 416	2 439	2 453	2 447	2 422	✓
Ratio of Total State Sector Net Debt to Revenue to decline, on average, over four-year rolling period (%)							
	30.14	24.71	19.48	16.73	15.02	12.95	✓
General Government Sector to remain Net Debt free							
Net Debt / (Negative Net Debt)	(259)	(350)	(456)	(586)	(746)	(946)	✓
Tasmania's Tax Severity (as measured by the Commonwealth Grants Commission) to be maintained below the average of all states (Avg=100)							
	96.91	na	na	na	na	na	✓
Capital Expenditure will at least equal depreciation, on average, over four-year rolling period							
Capital expenditure in excess of depreciation (\$ million)	87	36	65	61	8	(29)	
Four-year rolling average (\$ million)	45	48	65	62	43	26	✓

Source: Department of Treasury and Finance, Commonwealth Grants Commission and the Australian Bureau of Statistics (ABS).

Key: ✓ On Target, ⊖ Issues to be addressed, X Remedial action required, na data not available

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 AAA rated sovereign debt. Ratings, therefore, impact on interest paid on State debt and thus on the State Budget.

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

In October 2004, S&P announced the upgrade of Tasmania's credit rating to AA+, from AA. This is the second highest rating assigned by S&P. The upgrade came only three years after S&P's previous upgrade from AA-. In S&P's latest rating opinion of November 2006, Tasmania's rating outlook remained stable.

In December 2006, Moody's Investor Service (Moody's) announced a credit rating upgrade for the State of Tasmania, from Aa1 to Aaa. This upgrade was only three years after Tasmania was rated Aa1 in July 2003. This latest rating upgrade formed part of the application of Moody's Joint Default Analysis methodology to the State of Tasmania.

Tasmania now has the highest credit rating assigned by Moody's, recognising the ongoing prudent economic and financial management of the State. The current credit ratings for long-term domestic debt of the states and the territories are detailed in Table 3.2.

Table 3.2: Government Ratings

	Moody's	Standard & Poor's
New South Wales	Aaa	AAA
Queensland	Aaa	AAA
Australian Capital Territory	Aaa	AAA
Western Australia	Aaa	AAA
Victoria	Aaa	AAA
South Australia	Aaa	AAA
Tasmania	Aaa	AA+
Northern Territory	Aa2	na

The ability of a state to manage and service its debt is reflected in the credit rating assigned to that 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 the outlook for the

state's economy. The rating agencies have reinforced the need for all state governments to maintain prudent financial management policies.

FINANCIAL ACCOUNTABILITY REFORMS

Sound financial management frameworks are essential to promote accountability, transparency, responsibility and good governance from elected representatives.

In the 2006 *State of the State* address, the Premier announced a package of financial management reforms, including:

- a Charter of Budget Responsibility;
- separate Budget appropriations for independent Government agencies including Parliament, Office of the Governor, Auditor-General and the Ombudsman;
- new financial management legislation for the State;
- improved accountability for government procurement contracts; and
- agreements between the Premier and Heads of Government agencies on achieving departmental objectives within specific timeframes.

A legislated Charter of Budget Responsibility will provide a framework to improve fiscal policy outcomes and to ensure that Tasmania's financial position is sustainable. The Government introduced the *Charter of Budget Responsibility Bill 2007* into Parliament in April 2007.

The key elements of the Charter of Budget Responsibility Bill are:

- the establishment of accepted principles of sound fiscal management;
- a requirement for the Government and opposition parties to develop fiscal strategy statements consistent with the principles of sound fiscal management;
- the preparation of a pre-election fiscal outlook report by the Secretary of the Department of Treasury and Finance outlining the state of public finances just prior to a State election; and
- a process for election commitments made by the Government and opposition parties to be independently costed by the Department of Treasury and Finance.

The first element of the Charter is the establishment of a set of principles to both underpin and govern sound fiscal management. These principles will provide a framework for transparent and accountable financial decision-making by the government of the day. In particular, the principles of sound fiscal management are to:

- ensure transparency and accountability in developing, implementing and reporting on fiscal objectives;
- ensure the efficient and effective allocation and sustainable use of resources in achieving objectives;
- ensure that policy decisions have regard to their financial effects on future generations;
- formulate spending and taxation policies that ensure a reasonable degree of equity, stability and predictability; and
- manage financial risks prudently.

The Charter of Budget Responsibility Bill is currently before Parliament for its consideration.

4 REVENUE AND EXPENSE ESTIMATES, 2007-08

Features

- The Net Operating Balance is estimated to be a deficit of \$38.8 million in 2007-08.
- The Fiscal Balance is estimated to be a deficit of \$31.4 million in 2007-08.
- The Underlying Fiscal Balance is estimated to be a surplus of \$13.3 million in 2007-08.
- Total revenue is estimated to be \$3 746.6 million in 2007-08, an increase of \$214.9 million or 6.0 per cent on 2006-07 budgeted revenue of \$3 531.7 million.
- Total expenses are expected to be \$3 785.5 million in 2007-08, an increase of \$163.4 million or 4.5 per cent over 2006-07 budgeted expenses of \$3 622.1 million.

INTRODUCTION

This Chapter provides detailed information on the major categories of revenues and expenses within the General Government Sector. Details of the components of the net acquisition of non-financial assets and the impact on the Government's headline Budget measures, the Net Operating Balance and the Fiscal Balance, are also provided.

OPERATING STATEMENT

The Operating Statement is designed to capture the composition of revenues and expenses and the net cost of the General Government Sector's activities within a fiscal year. Table 4.1 details the General Government Sector Operating Statement for 2006-07 and 2007-08.

Table 4.1: Operating Statement, 2006-07 and 2007-08

	2006-07 Budget Estimate	2007-08 Budget Estimate	Variation
	\$'000	\$'000	%
Revenue			
Grants and Subsidies	2 253 404	2 391 439	6.1
Taxation Revenue	727 958	751 927	3.2
Sale of Goods and Services	295 542	317 423	7.4
Interest Income	32 668	45 102	38.0
Dividend, Tax and Rate Equivalent Income	146 869	148 923	1.3
Other Revenue	75 223	91 806	22.0
Total Revenue	3 531 664	3 746 620	6.0
Expenses			
Depreciation	195 779	209 034	6.7
Employee Expenses	1 715 379	1 820 405	6.1
Other Operating Expenses	887 170	892 071	0.6
Nominal Superannuation Interest Expense	157 589	187 662	19.0
Other Interest Expense	22 889	16 912	(26.2)
Grants and Transfers	643 324	659 369	2.5
Total Expenses	3 622 130	3 785 453	4.5
NET OPERATING BALANCE	(90 466)	(38 833)	(57.1)
Less			
Net Acquisition of Non-Financial Assets			
Purchase of Non-Financial Assets	262 132	273 590	4.3
less Sale of Non-Financial Assets	72 333	72 011	(0.5)
less Depreciation	195 779	209 034	6.7
Total	(5 980)	(7 455)	24.6
FISCAL BALANCE	(84 486)	(31 378)	(62.9)

Net Operating Balance

In 2007-08, the Net Operating Balance is estimated to be a deficit of \$38.8 million. The 2007-08 Net Operating Balance reflects expenditure that will be incurred as the Government continues to implement its 2006 Election commitments and other 2007-08 Budget initiatives. Further information on this expenditure is provided later in this Chapter.

Fiscal Balance

In 2007-08, the Fiscal Balance is estimated to be a \$31.4 million deficit. Like the Net Operating Balance, the 2007-08 Fiscal Deficit also reflects the significant level of expenditure that will be incurred as the Government continues to implement its 2006 Election commitments and 2007-08 Budget initiatives.

Capital expenditure in 2007-08 is budgeted at \$273.6 million. This level of capital expenditure reflects an \$11.5 million or 4.3 per cent increase on the 2006-07 Budget estimate of \$262.1 million.

The major elements of capital expenditure are detailed in the Purchase of Non-Financial Assets section of this Chapter. Further information on Infrastructure Investment is provided in Chapter 7 of this Budget Paper.

Underlying Fiscal Balance

Due to strong economic growth, General Government Sector revenues in recent years were higher than anticipated and resulted in above Budget Cash and Fiscal Surpluses. A significant proportion of these surpluses were allocated to the Special Capital Investment Funds, such as the Economic and Social Infrastructure Fund and the Royal Hobart Hospital Redevelopment Fund. This enabled the Government to set aside funds to invest in the State's social and economic infrastructure over the short to medium-term, while maintaining recurrent services.

The 2006-07 and 2007-08 Budgets include significant capital expenditure from the Special Capital Investment Funds representing the deployment of funds set aside in earlier years. This is evident in expenditure on the Purchase of Non-Financial Assets in the 2007-08 Budget Operating Statement. This one-off capital expenditure through Special Capital Investment Funds is reflected in a reduction in the Fiscal Balance for the current period.

Table 4.2 adjusts the 2006-07 Budget and 2007-08 Budget Fiscal Balance to reflect the Underlying Fiscal Balance, by removing the timing impact of these one-off capital expenditures. The resulting 2007-08 Budget Underlying Fiscal Balance is a surplus of \$13.3 million.

Table 4.2: Underlying Fiscal Balance, 2006-07 and 2007-08

	2006-07 Budget	2007-08 Budget
	\$'000	\$'000
FISCAL BALANCE - SURPLUS / (DEFICIT)	(84 486)	(31 378)
Add Special Capital Investment Funds Capital Expenditure ¹	45 326	44 668
UNDERLYING FISCAL BALANCE - SURPLUS / (DEFICIT)	(39 160)	13 290

Note:

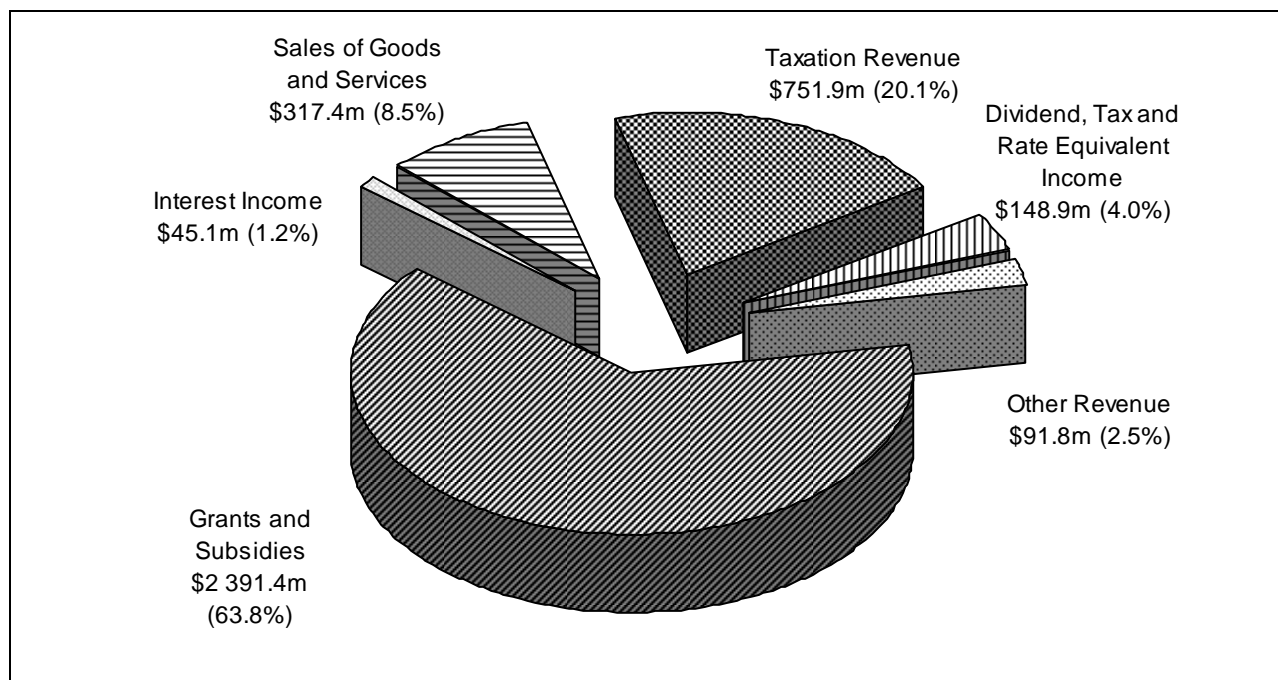
1. The Budget estimate of the 2006-07 Special Capital Investment Funds Expenditure item was incorrectly stated in the 2006-07 Budget Papers. This figure has been corrected to enable an accurate comparison of the 2006-07 and 2007-08 Budget estimates.

REVENUE

Total revenue is estimated to be \$3 746.6 million in 2007-08, an increase of \$214.9 million or 6.0 per cent on the 2006-07 Budget estimate of \$3 531.7 million.

Chart 4.1 shows the estimated total revenue in 2007-08 and a percentage breakdown of the revenue categories.

Chart 4.1: Total Revenue, 2007-08



The single most important source of revenue for the State is Grants and Subsidies. Grants and Subsidies consist entirely of revenues from the Australian Government, through a range of General and Specific Purpose Payments, and these will account for 63.8 per cent of the State's revenue in 2007-08. The remainder of the State's revenue comes from own sources, including Taxation Revenue (20.1 per cent), Sales of Goods and Services (8.5 per cent), Dividend, Tax and Rate Equivalent Income (4.0 per cent), Other Revenue (2.5 per cent) and Interest Income (1.2 per cent).

Grants and Subsidies

Grants and Subsidies for 2007-08 is estimated to be \$2 391.4 million, an increase of \$138.0 million or 6.1 per cent on the 2006-07 Budget estimate of \$2 253.4 million. Detailed information on Grants and Subsidies is provided in Table 4.3.

Table 4.3: Grants and Subsidies, 2006-07 and 2007-08

	2006-07 Budget \$'000	2007-08 Budget \$'000
Recurrent Revenue		
General Purpose Payments		
GST Revenue	1 557 300	1 646 400
Total General Purpose Payments	1 557 300	1 646 400
Specific Purpose Payments		
Education		
National Child Care Strategy	217	230
Primary and Secondary Education	60 944	62 439
Technical and Further Education	26 765	27 550
Finance-General		
Assistance for Concessions	6 449	6 634
Grant to the State for Local Government	54 632	57 361
Health and Human Services		
Commonwealth-State Housing Agreement	21 849	21 422
Disability Services Grant	20 754	21 124
Health Care Grant	196 396	203 549
High Cost Drugs	11 505	13 412
Home and Community Care Program	22 142	24 114
Public Health Outcomes Funding Agreement	5 784	5 900
Supported Accommodation Assistance Program	7 354	7 245
Police and Emergency Management		
Natural Disasters Organisations	228	234
Tourism, Arts and the Environment		
World Heritage Area	3 400	3 400
Total Specific Purpose Payments	438 419	454 614
Total Recurrent Revenue	1 995 719	2 101 014

Table 4.3: Grants and Subsidies, 2006-07 and 2007-08 (continued)

	2006-07 Budget	2007-08 Budget
	\$'000	\$'000
Capital Revenue		
Specific Purpose Payments		
Education		
Primary and Secondary Education	7 501	7 984
Technical and Further Education	4 420	4 420
Health and Human Services		
Housing	3 275	3 986
Infrastructure, Energy and Resources		
National Highway System	37 726	32 326
Rail	...	17 300
Total Capital Revenue	52 922	66 016
Other Grants and Subsidies¹	204 763	224 409
TOTAL GRANTS AND SUBSIDIES	<u>2 253 404</u>	<u>2 391 439</u>

Note:

1. Other Grants and Subsidies primarily relates to payments to the State for on-passing to other bodies including non-government organisations.

Recurrent Revenue

Recurrent transfers from the Australian Government is estimated to total \$2 101.0 million, an increase of \$105.3 million or 5.3 per cent above the 2006-07 Budget estimate of \$1 995.7 million. This revenue is paid directly into the Consolidated Fund and consists of GST Revenue and Specific Purpose Payments.

General Purpose Revenue

GST Revenue is anticipated to be \$1 646.4 million in 2007-08, an increase of \$89.1 million or 5.7 per cent above the 2006-07 Budget estimate of \$1 557.3 million. The increase is due to growth in the size of the GST Revenue pool, offset by a decline in the State's share of the national population and a decrease in Tasmania's relative need for Commonwealth financial assistance, as assessed by the Commonwealth Grants Commission and expressed in Tasmania's GST relativity. For a detailed explanation of this issue refer to Chapter 10 of this Budget Paper.

While Tasmania's GST revenue will increase in 2007-08, it should be noted that, in real per capita terms, the expected growth represents a gain of less than 1.6 per cent. Revenue from the GST is now the only revenue transfer from the Australian Government that has no restrictions placed on the purposes to which it is applied.

Specific Purpose Payments

Specific Purpose Payments are anticipated to be \$454.6 million, an increase of \$16.2 million or 3.7 per cent above the 2006-07 Budget estimate of \$438.4 million. The additional funding from the Australian Government primarily relates to the following grants:

- Primary and Secondary Education (\$1.5 million);
- Grant to the State for Local Government (\$2.7 million);
- Health Care Grant (\$7.2 million);
- High Cost Drugs (\$1.9 million); and
- Home and Community Care Program (\$2.0 million).

Capital Revenue

Specific Purpose Payments

Specific Purpose Payments are anticipated to be \$66.0 million, an increase of \$13.1 million or 24.8 per cent above the 2006-07 Budget estimate of \$52.9 million. The increase primarily relates to new additional funding from the Australian Government to reflect its share of the Tasmanian Rail Rescue Package, partially offset by a decrease in funding for National Highways. Further information on Infrastructure Investment is provided in Chapter 7 of this Budget Paper.

Other Grants and Subsidies

Other Grants and Subsidies is anticipated to be \$224.4 million in 2007-08, an increase of \$19.6 million or 9.6 per cent above the 2006-07 Budget estimate of \$204.8 million. A majority of Other Grants and Subsidies reflect payments made directly to agencies and not paid into the Consolidated Fund.

In 2007-08, the increase in Other Grants and Subsidies reflects additional Australian Government funding to:

- the Department of Health and Human Services of \$8.2 million for vaccines provided under the Australian Immunisation Agreement and for radiation oncology services at the W.P. Holman Clinic of the Launceston General Hospital; and
- the Department of Primary Industries and Water of \$4.5 million for the National Action Plan that supports the National Water Initiative, and Natural Resource Management land conservation projects.

Taxation Revenue

Total Taxation Revenue for 2007-08 is anticipated to be \$751.9 million, an increase of \$23.9 million or 3.2 per cent above the 2006-07 Budget estimate of \$728.0 million.

Chart 4.2 illustrates the estimated total Taxation Revenue in 2007-08 and a percentage breakdown of the Taxation Revenue categories.

Chart 4.2: Taxation Revenue, 2007-08

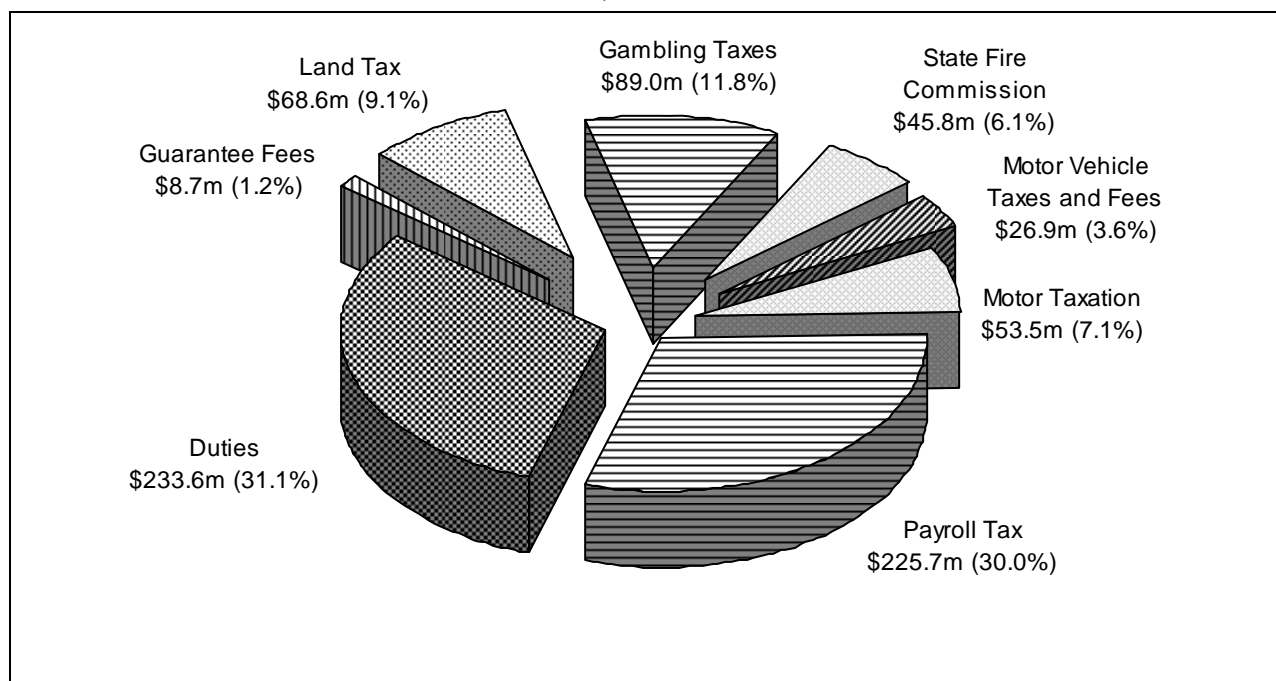


Table 4.4 lists the categories of Taxation revenue.

Table 4.4: Taxation Revenue, 2006-07 and 2007-08

	2006-07 Budget	2007-08 Budget
	\$'000	\$'000
Financial Transaction Taxes		
Duties	225 568	233 622
Gambling Taxes		
Betting Exchange Taxes and Levies	12 860	6 672
Casino Tax and Licence Fees	56 181	58 177
Lottery Tax	23 401	24 181
Land Tax	60 520	68 600
Motor Taxation	58 841	53 531
Motor Vehicle Taxes and Fees	25 775	26 937
Payroll Tax	211 430	225 738
Receipts from GBEs, SOCs and State Authorities		
Guarantee Fees	9 564	8 689
State Fire Commission Revenue	43 818	45 780
TOTAL TAXATION REVENUE	727 958	751 927

The major elements of Taxation Revenue for the 2007-08 Budget are discussed below:

- Duties revenue is anticipated to be \$233.6 million, an increase of \$8.0 million or 3.5 per cent above the 2006-07 Budget estimate of \$225.6 million. The increase reflects a rise in conveyance duties as a result of continuing turnover in the residential and commercial property markets. However, the increase in conveyance duties is partially offset by the reduction in the rate of duty on the transfer of heavy vehicle registrations from 1 October 2007, and a decrease in mortgage duty due to the Government's decision to completely abolish the duty from 1 July 2007;
- Gambling Tax is anticipated to be \$89.0 million, a decrease of \$3.4 million or 3.7 per cent below the 2006-07 Budget estimate of \$92.4 million. The is primarily due to a reduction in Betting Exchange Taxes and Levies as a result of advertising bans experienced by Betfair Australia in other Australian jurisdictions;
- Land Tax is anticipated to be \$68.6 million, an increase of \$8.1 million or 13.4 per cent above the 2006-07 Budget estimate of \$60.5 million. The increase in Land Tax reflects a general rise in land valuations;
- Motor Taxation is anticipated to be \$53.5 million, a decrease of \$5.3 million or 9.0 per cent below the 2006-07 Budget estimate of \$58.8 million. This reflects expected underlying growth in the number of registered motor vehicles, offset by tax relief of \$7.0 million resulting from a reduction in the rates of motor tax on light vehicles from 1 October 2007. Details of this taxation reduction are provided in Chapter 5 of this Budget Paper;
- Motor Vehicle Taxes and Fees are anticipated to be \$26.9 million, an increase of \$1.2 million or 4.5 per cent above the 2006-07 Budget estimate of \$25.8 million;
- Payroll Tax is anticipated to be \$225.7 million, an increase of \$14.3 million or 6.8 per cent above the 2006-07 Budget estimate of \$211.4 million. The increase in Payroll Tax reflects growth in employment and, more significantly, the higher levels of average weekly earnings of Tasmanian employees;
- Guarantees Fee receipts from Government Business Enterprises, State-owned Companies and State Authorities are estimated to be \$8.7 million, a decrease of \$875 000 or 9.1 per cent below the 2006-07 Budget estimate of \$9.6 million. Guarantee Fees are expected to decrease primarily as a result of the repayment of debt by TT-Line Pty Ltd, following the sale of *Spirit of Tasmania III* and an equity injection of \$22.5 million by the Government in 2006-07; and
- State Fire Commission revenue represents the revenue raised by the State Fire Commission under the *Fire Service Act 1979* and comprises of a Fire Service Levy, and Insurance Fire Levy and a Motor Vehicle Fire Levy. It is anticipated revenue raised by the Commission will be \$45.8 million, an increase of \$2.0 million, or 4.5 per cent above the 2006-07 Budget estimate of \$43.8 million. The additional revenue primarily relates to an increase in the Fire Service Levy of \$2.4 million or 10.0 per cent, but is partly offset by a decrease in the Insurance Fire Levy of \$1.0 million or 6.9 per cent.

Sale of Goods and Services

Revenue from Sale of Goods and Services is estimated to be \$317.4 million in 2007-08, an increase of \$21.9 million or 7.4 per cent above the 2006-07 Budget of \$295.5 million. Table 4.5 lists the components of Revenue from Sale of Goods and Services.

Sale of Goods and Services includes:

- patient fees collected by the Department of Health and Human Services;
- rental revenue received by Housing Tasmania;
- revenue collected from student fees and levies by the Department of Education and TAFE Tasmania and revenue collected from training services provided by TAFE Tasmania;
- drivers licence revenues collected by the Department of Infrastructure, Energy and Resources;
- revenue earned by prison industries and revenue collected for various other services provided by the Department of Justice including fees for Registry of Births, Deaths and Marriages; and
- revenue collected for abalone licences and Land Titles Office fees by the Department of Primary Industries and Water.

Table 4.5: Sale of Goods and Services, 2006-07 and 2007-08¹

	2006-07 Budget	2007-08 Budget
	\$'000	\$'000
Departmental Fees and Recoveries		
Economic Development	758	763
Education	41 135	42 230
Finance-General ²	58	2 445
Health and Human Services ³	114 748	131 962
Infrastructure, Energy and Resources ⁴	9 811	16 587
Justice	17 432	16 903
Police and Emergency Management	2 426	3 233
Premier and Cabinet	6 739	7 215
Primary Industries and Water	43 085	42 130
State Fire Commission ⁵	3 500	4 400
TAFE Tasmania	14 825	16 124
Tasmanian Audit Office	4 806	4 947
Tourism, Arts and the Environment	19 141	17 767
Treasury and Finance	9 820	9 773
Total Departmental Fees and Recoveries	288 284	316 479
Other Sale of Goods and Services⁶	7 258	944
TOTAL SALE OF GOODS AND SERVICES	295 542	317 423

Notes:

1. The information provided in this section will differ from the Sale of Goods and Services for each agency in Budget Paper 2 *Government Services* due to the elimination of inter-agency transactions in the consolidation process.
2. The increase in Finance-General of \$2.4 million reflects rental income from the recent acquisition of properties previously held by the Hobart Ports Corporation.
3. The increase in the Department of Health and Human Services of \$17.2 million reflects additional bequests received (\$2.6 million); additional rental revenue received by Housing Tasmania (\$6.6 million); and additional receipts collected within the Department's Special Deposits and Trust Fund accounts (\$8.0 million).

4. The increase in the Department of Infrastructure, Energy and Resources of \$6.8 million primarily reflects the implementation of a Road Safety Levy (\$4.3 million) to implement a new Road Safety Strategy; the implementation of an Australian Energy Markets Commission levy to cover the costs of the regulation of the energy markets (\$414 000); and additional drivers licence fees (\$347 000).
5. The State Fire Commission Fees and Recoveries item reflects revenue raised from the sales, inspection, recharging and repair of fire safety equipment throughout the State. The increase in this item is a result of a change in the accounting treatment of Tas Fire Equipment Cost of Sales. In 2006-07, the Tas Fire Equipment Cost of Sales expense was netted off against Sale of Goods and Services income. However in 2007-08, in accordance with Australian Accounting Standards, the Tas Fire Equipment Cost of Sales is recorded on a gross basis and included in the Supplies and Consumables expense.
6. The decrease in Other Sale of Goods and Services is due to a reclassification of revenue to other revenue categories to more accurately reflect the revenue type.

Interest Income

Interest Income is estimated to be \$45.1 million in 2007-08, an increase of \$12.4 million or 38.0 per cent above the 2006-07 Budget estimate of \$32.7 million.

Table 4.6: Interest Income, 2006-07 and 2007-08

	2006-07 Budget \$'000	2007-08 Budget \$'000
Recoveries of State Debt Charges - Interest	510	480
Other Interest Income	32 158	44 622
TOTAL INTEREST INCOME	32 668	45 102

Recoveries of State Debt Charges – Interest

Interest is estimated to be \$480 000, a decrease of \$30 000 or 5.9 per cent below the 2006-07 Budget of \$510 000. This decrease reflects a reduction in the level of debt as repayments are made.

Other Interest Income

Other Interest Income is estimated to be \$44.6 million, an increase of \$12.4 million or 38.5 per cent above the 2006-07 Budget estimate of \$32.2 million. The increase is primarily due to additional levels of cash held in the Public Account and higher forecast interest rates.

Dividend, Tax Equivalent and Rate Equivalent Income

Dividend, Tax and Rate Equivalent Income is estimated to be \$148.9 million in 2007-08, an increase of \$2.0 million or 1.3 per cent from the Budget estimate of \$146.9 million in 2006-07. Table 4.7 lists the components of Dividend, Tax and Rate Equivalent Income.

Table 4.7: Dividend, Tax Equivalent and Rate Equivalent Income, 2006-07 and 2007-08

	2006-07 Budget	2007-08 Budget
	\$'000	\$'000
Dividends	69 709	61 742
Special Dividends	....	13 000
Taxation Equivalents	73 070	70 183
Rates Equivalents	4 090	3 998
TOTAL DIVIDEND AND TAX EQUIVALENT INCOME	146 869	148 923

Dividends

In 2007-08, Dividends are estimated to be \$61.7 million, a decrease of \$8.0 million or 11.5 per cent from the 2006-07 Budget estimate of \$69.7 million. The decrease in Dividends primarily reflects a \$21.2 million reduction in Hydro Tasmania's Dividend, which is largely due to drought conditions and lower inflows into water storages. These unfavourable conditions have resulted in Hydro Tasmania importing more electricity across Basslink and incurring higher gas costs to ensure electricity supplies are maintained.

However, the decrease in the Hydro Tasmania Dividend is partly offset by an increase in Dividends from the:

- Motor Accidents Insurance Board (MAIB) of \$10.2 million, due to its increased investment revenue and lower claims expenses in 2006-07. The dividend paid to the State is also enhanced through the flow on benefits of substantial profits achieved by the MAIB in previous years and a dividend regime which is based on the MAIB's five-year average of profits; and
- Tasmanian Ports Corporation of \$3.0 million, reflecting its first full year of operation as a consolidated port company.

Special Dividends

In 2007-08, the Motor Accidents Insurance Board will remit a Special Dividend of \$10.0 million. This payment is the first tranche of a \$30.0 million Special Dividend that will be paid over three years. In addition, TOTE Tasmania will remit a \$3.0 million Special Dividend, which reflects the first tranche of \$12.0 million Special Dividend paid over four years.

Tax Equivalents

In 2007-08, Tax Equivalents are estimated to be \$70.2 million, a decrease of \$2.9 million or 4 per cent from the 2006-07 estimate of \$73.1 million. The decrease in Tax Equivalent receipts reflects lower returns from:

- Hydro Tasmania of \$13.2 million, due to its substantially lower water storages and a sizeable tax deduction that is available in relation to the sale of the Bell Bay Power Station in 2006-07; and
- Transend Networks of \$2.6 million, which paid a higher than normal level of tax in 2006-07 due to the one-off receipt of gifted assets in 2005-06.

The decreases in Tax Equivalents noted above are partly offset by increases in the Tax Equivalents from:

- the Motor Accidents Insurance Board of \$10.0 million, which reflects the continuation of its high profitability throughout 2007-08; and
- Aurora Energy Pty Ltd of \$5.0 million, reflecting the timing of its income tax payments and the anticipated outcome of its distribution and retail pricing determinations in 2007-08.

Rate Equivalents

Rate Equivalents were introduced in 2004-05 as part of the State and Local Government Financial Reform (SLGFR) package to ensure competitive neutrality on Crown Land, occupied by Hydro Tasmania that is exempt from Local Government Rates. Hydro Tasmania's Rates Equivalents are retained by the State Government in recognition of the substantial on-going net benefit to the Local Government Sector at the cost of the State Government as the result of the arrangements implemented under the SLGFR package. In 2007-08, Rate Equivalents are estimated to be \$4.0 million, \$100 000 or 2.4 per cent less than the 2006-07 estimate of \$4.1 million.

Further information on returns from Government Business Enterprises and State-owned Companies is provided in Appendix 2 of this Budget Paper.

Other Revenue

Other Revenue is anticipated to be \$91.8 million, an increase of \$16.6 million or 22.0 per cent above the 2006-07 Budget estimate of \$75.2 million. Table 4.8 lists components of Other Revenue.

Table 4.8: Other Revenue, 2006-07 and 2007-08

	2006-07 Budget	2007-08 Budget
	\$'000	\$'000
Mineral Royalties	20 000	33 100
Regional Water Authority Licence Fees	1 911	1 911
Storage of Explosives and Inflammable Liquids Fees	5	....
Fines, Fees and Charges ¹	35 330	48 605
Stamp Duties - Instalment Payments	50	10
Nominal Insurer – dividend payment from HIH Liquidator	....	1 500
Other ¹	17 927	6 680
TOTAL OTHER REVENUE	75 223	91 806

Note:

1. The increase in Fines, Fees and Charges and decrease in Other reflects a reclassification of revenue between the two revenue categories to more accurately reflect the revenue type.

The increase in Other Revenue reflects additional:

- Mineral Royalties of \$13.1 million, due to higher commodity prices on the world market for mineral resources; and
- income for the Nominal Insurer of \$1.5 million, due to a dividend payment from the HIH Liquidator.

EXPENSES

Total expenses are anticipated to be \$3 785.5 million, an increase of \$163.4 million or 4.5 per cent above the 2006-07 budgeted expenses of \$3 622.1 million.

Depreciation

Depreciation in 2007-08 is anticipated to be \$209.0 million, an increase of \$13.2 million or 6.7 per cent above the 2006-07 Budget estimate of \$195.8 million. The additional Depreciation expense reflects a revaluation of assets by the Department of Education and the Department of Infrastructure, Energy and Resources.

Employee Expenses

Employee Expenses in 2007-08 are anticipated to be \$1 820.4 million, an increase of \$105.0 million or 6.1 per cent above the 2006-07 budgeted estimate of \$1 715.4 million. The increase in Employee Expenses primarily reflects a general provision of 3.5 per cent per annum for agencies to meet the cost of salary increases and the impact of the Government's 2006 Election commitments.

Increased estimated expenditure in relation to major employee groups includes:

- \$9.9 million for nurses to continue the implementation of the Government's commitment to provide more staff at the Royal Hobart Hospital (RHH) as well as meet the cost of salary increases;
- \$14.2 million for school and TAFE teachers to further reduce class sizes, for the Launching into Learning Election commitment as well as meet the cost of salary increases;
- \$11.0 million for doctors to continue the implementation of the Government's commitment to provide more staff at the RHH as well as meet the cost of salary increases;
- \$6.5 million for additional police officers to deal with early intervention to support at risk families and to meet the cost of salary increases; and
- \$49.9 million for the continued implementation of a range of Election commitments such as the enhancement of the U-Turn program and promoting SMART farming practices as well as to meet the cost of salary increases.

Other Operating Expenses

Other Operating Expenses in 2007-08 are anticipated to be \$892.1 million, an increase of \$4.9 million or 0.6 per cent above the 2006-07 budgeted estimate of \$887.2 million.

The significant items included in Other Operating Expenses include:

- Education:
 - \$36.9 million for maintenance costs associated with government schools and libraries; and
 - \$6.5 million for payments relating to the Australian Government funded Investing In Our Schools program;

- Finance-General:
 - \$30.6 million for Tasmanian Risk Management Fund administration and claims costs;
 - \$20.0 million for the Treasurer's Reserve;
 - a \$14.9 million contribution to the Australian Taxation Office through the Australian Government for Tasmania's share of national GST Administration costs; and
 - \$4.3 million for pass-through payments to the Tasmanian Racing Industry as a result of the introduction of a Betting Exchange;
- Health and Human Services:
 - \$132.3 million for medical, surgical and pharmacy supplies; and
 - \$41.7 million for maintenance costs associated with hospitals, ambulances and Housing Tasmania;
- Infrastructure, Energy and Resources:
 - \$41.0 million for maintenance costs associated with road and rail infrastructure;
- Justice:
 - \$2.7 million for maintenance costs associated with the prisons and courts;
- Primary Industries and Water:
 - \$6.8 million for the upkeep and sale of Crown Land properties;
- Premier and Cabinet:
 - \$27.1 million for payments relating to the Tasmanian Community Forest Agreement; and
- Tourism, Arts and the Environment:
 - \$15.0 million for Tourism Tasmania advertising; and
 - \$15.4 million for Parks and Wildlife costs, including parks maintenance.

In 2007-08, the increase in Other Operating Expenses is primarily due to additional expenditure by:

- Justice of \$1.0 million for costs associated with the Beaconsfield Mine Inquiry; and
- Tourism, Arts and the Environment of \$3.0 million for parks maintenance, which reflects the first year of a four-year \$12.0 million parks maintenance expenditure program.

Nominal Superannuation Interest Expense

Nominal Superannuation Interest Expense in 2007-08 is anticipated to be \$187.7 million, an increase of \$30.1 million or 19.1 per cent more than the 2006-07 Budget estimate of \$157.6 million. The increase is due to a change in the discount rate used to determine the interest cost of the Superannuation Liability.

Other Interest Expense

Other Interest Expense in 2007-08 is anticipated to be \$16.9 million, a decrease of \$6.0 million or 26.2 per cent below the 2006-07 budgeted expense of \$22.9 million. The decrease reflects lower levels of

General Government Sector Gross Debt. Further information on the value of General Government Sector Debt is provided in Chapter 6 of this Budget Paper.

Grants and Transfers

Grants and Transfers in 2007-08 are anticipated to be \$659.4 million, an increase of \$16.1 million or 2.3 per cent above the 2006-07 budgeted expense of \$643.3 million. Of the expenses under Grants and Transfers, \$23.5 million relates to grants paid from the Special Capital Investment Funds. This is \$4.7 million below the 2006-07 Budget estimate. Other grants allocated as part of the Government's 2006 Election commitments total \$12.2 million.

Other additional expenditure allocated to Grants for the 2007-08 Budget include: the Australian Government and State contribution for Non-Government Schools Grant (\$12.3 million); Local Government Grants (\$2.8 million); the First Home Owner's Grant (\$1.7 million); the Community Service Obligation Payment to Metro Tasmania (\$3.2 million); payments to School Bus Operators (\$4.5 million); National Action Plan for the National Water Initiative and Natural Resource Management land conservation projects (\$4.8 million); and Arts Grants Funding (\$1.5 million). These increases are partially offset by a decrease in the Petroleum Subsidies (\$11.4 million) to fund a reduction in the rates of motor tax on light vehicles and duty on transfers of heavy vehicle registrations from 1 October 2007. Further detail is provided in Chapter 5 of this Budget Paper.

NET ACQUISITION OF NON-FINANCIAL ASSETS

Non-Financial Assets comprise land and fixed assets such as buildings, plant and equipment and roads that are used to facilitate the provision of services by the General Government Sector. The Net Acquisition of Non-Financial Assets reflects capital acquisitions (purchases of non-financial assets less the proceeds from sales of non-financial assets) less depreciation expense.

Purchase of Non-Financial Assets

In 2007-08, Purchase of Non-Financial Assets is estimated to be \$273.6 million, an increase of \$11.5 million or 4.3 per cent above the 2006-07 Budget of \$262.1 million.

The major elements of capital expenditure in 2007-08 include:

- Government Election commitments of:
 - \$12.2 million for road infrastructure programs;
 - \$3.4 million for new ambulances;
 - \$9.1 million for the Hospital Equipment Fund; and
 - \$6.4 million for hospitals;
- \$8.7 million to progress the Tasmanian Museum and Art Gallery site redevelopment;
- \$9.6 million for the completion of the Cradle Mountain sewage treatment plant;
- \$17.3 million from the Australian Government for rail infrastructure provided in accordance with the Rail Rescue Package Agreement;

- \$5.0 million for the Department of Education's Building for the Future Infrastructure Package; and
- \$3.0 million for the Main Street Makeover Program.

The additional capital expenditure noted above is partly offset by a decrease in funding for capital works which have been completed or are near completion at the Royal Hobart Hospital and Risdon Prison.

Further information on Infrastructure Investment is provided in Chapter 7 of this Budget Paper.

Sale of Non-Financial Assets

Sale of Non-Financial Assets is estimated to be \$72.0 million, a decrease of \$300 000 or 0.5 per cent below the 2006-07 Budget estimate of \$72.3 million.

The components of the Sale of Non-Financial Assets include:

- \$38.1 million relating to the sale of Crown Land properties, including non-core business assets previously held by the Hobart Ports Corporation Pty Ltd;
- \$25.4 million relating to the Tasmanian Government Car Fleet; and
- \$7.0 million relating to Housing Tasmania properties.

POLICY AND PARAMETER STATEMENT

A Policy and Parameter Statement (PPS) is included in the 2007-08 Budget Papers for the first time. The PPS is a reconciliation of the major movements in the Net Operating Balance and the Fiscal Balance between two points in time. In this section, the movement reflects changes between the 2007-08 Forward Estimates reported in the 2006-07 Budget Papers and the current 2007-08 Budget. Amounts may not agree to the movements reflected earlier in this Chapter, as those amounts represent movements between the 2006-07 Budget estimates and the 2007-08 Budget. The movements are classified as revenue, expenses, or net acquisition of non-financial assets, and then further categorised as a policy or parameter change. The classification of a variation as a policy or parameter change is a matter of judgment and it is recognised there may be some instances where part of a Government initiative may have both policy and parameter components.

Policy Variation

For the purpose of the PPS in this Chapter, a policy variation reflects a specific decision by the Government that has an impact on the Budget and Forward Estimates and is related to a new policy or represents a change in the Government's existing policy position. A decision to change a Budget or Forward Estimate aggregate, which is consistent with an existing policy, is not a policy decision.

Parameter Variation

A parameter variation reflects changes to the Budget and Forward Estimates due to the economic environment, the agency operating environment or the timing of a transaction. Parameter variations will reflect the impact of demand and cost variations in agency service delivery, including the provision of indexation. Variations resulting from the rollover of a new Forward Estimate year and changes in accounting policies, such as a change in an agency depreciation policy, or where financial estimates are affected by a change in an accounting standard are classified as parameter variations.

Table 4.9 lists those policy and parameter changes that have impacted on the formulation of the 2007-08 Budget.

Table 4.9: Policy and Parameter Statement, 2007-08

		2007-08 Movement \$'000
2007-08 - Budget (Net Operating Balance) as per the 2006-07 Budget	(A)	(100 943)
2007-08 - Budget (Fiscal Balance) as per the 2006-07 Budget	(B)	(65 067)
REVENUE		
Policy Decisions		
Taxation		
Motor Taxation ¹		(6 968)
Motor Vehicle Registrations Duty ²		(3 550)
Government Business Returns		
Special Dividends ³		13 000
Infrastructure, Energy and Resources⁴		
Australian Energy Markets Commission Levy		414
Road Safety Strategy Levy		4 250
Total Policy Decisions		<u>7 146</u>
Parameter Adjustments		
Taxation⁵		
Betting Exchanges		(17 278)
Casino Tax		(582)
Duties		12 723
Guarantee Fees		(1 114)
Land Tax		(2 208)
Lottery Tax		194
Motor Taxation		141
Motor Vehicle Taxes and Fees		365
Payroll Tax		1 298
State Fire Commission Revenue		582
Total Taxation		<u>(5 879)</u>

Notes:

1. Motor Taxation on light vehicles will be reduced from 1 October 2007, representing tax relief of \$7.0 million in 2007-08, with full-year taxation relief of \$9.4 million per annum from 1 July 2008.
2. Duty on the transfer of heavy vehicle registrations will be reduced by two-thirds from 1 October 2007, representing tax relief of \$3.6 million in 2007-08, with full year taxation relief of \$4.9 million per annum from 1 July 2008.
3. In 2007-08, the Motor Accidents Insurance Board will remit a Special Dividend of \$10.0 million. This payment is the first tranche of a \$30.0 million Special Dividend that will be paid over three years. In addition, TOTE Tasmania will remit a \$3.0 million Special Dividend, which reflects the first tranche of \$12.0 million Special Dividend paid over four years.
4. Further information on Department of Infrastructure, Energy and Resources revenue items is provided in Chapter 6, Budget Paper No 2 *Government Services*.
5. Further information on Taxation is provided in Chapter 5, Budget Paper No 1 *The Budget*.

Table 4.9: Policy and Parameter Statement, 2007-08 (continued)

	2007-08
	Movement
	\$'000
Parameter Adjustments (continued)	
Government Business Returns	7 906
Interest Revenue	8 258
Australian Government Funding ¹	119 845
Agency Revenue ²	<u>44 147</u>
Total Parameter Adjustments	<u>174 277</u>
TOTAL REVENUE VARIATIONS	(C) <u><u>181 423</u></u>
EXPENSES	
Policy Decisions	
Economic Development	
Community Recreation Grants	1 000
Expansion of the Enterprise Growth Program	163
Finance-General	
Drought Assistance	750
Payroll Tax Assistance - Phase out from 1 January 2008	(403)
Petroleum and Diesel Subsidies - Abolish from 30 September 2007 ³	(10 518)
Health and Human Services	
Royal Hobart Hospital Redevelopment	5 000
Infrastructure, Energy and Resources	
Australian Energy Markets Commission Payment	414
Core Passenger Services	2 768
Road Safety Strategy	1 870
Justice	
Land Use Planning	750
Sexual Assault Services	500
Premier and Cabinet	
Main Street Makeover	1 000
Stolen Generation Costs	5 290
Primary Industries and Water	
Climate Change	1 000

Notes:

1. The increase in Australian Government Funding of \$119.8 million primarily reflects: additional GST revenue of \$41.2 million; National Highways funding of \$34.8 million (including \$15.5 million for the East Tamar Highway); Rail Infrastructure funding of \$17.3 million; and Health grants of \$11.6 million.
2. The Agency Revenue movement of \$43.0 million primarily reflects Mineral Royalties of \$15.1 million and additional Special Deposits and Trust Fund revenue in the Department of Health and Human Services of \$19.5 million; and in the Department of Tourism, Arts and the Environment of \$4.4 million.
3. The Petroleum and Diesel Subsidies - Abolish from 30 September 2007 was amended on 28 June 2007 from the figure originally published to correctly reflect the policy components of the Government's initiative to abolish petroleum and diesel subsidies, and to reduce Motor Taxation and Motor Vehicle Registrations Duty.

Table 4.9: Policy and Parameter Statement, 2007-08 (continued)

	2007-08
	Movement
	\$'000
Policy Decisions (continued)	
Tourism, Arts and the Environment	
Arts Grants	1 500
Bushfire Hazard Reduction Strategy	497
AFL Arrangement - Hawthorn Football Club Agreement	2 435
Parks Maintenance	3 000
Tasmanian Symphony Orchestra Payroll Tax Funding	220
Treasury and Finance	
Water and Sewerage Services Project	<u>1 150</u>
Total Policy Decisions	18 386
Parameter Adjustments	
Depreciation	14 146
Nominal Superannuation Interest Expense	24 429
Agency Expenditure ¹	76 079
Petroleum and Diesel Subsidies - Demand Decrease ²	(1 824)
Special Capital Investment Funds ³	<u>(11 903)</u>
Total Parameter Adjustments	100 927
TOTAL EXPENSE VARIANCE	(D) <u>119 313</u>
NET OPERATING BALANCE⁴	<u>(38 833)</u>

Notes:

1. The Agency Expenditure movement of \$76.3 million primarily reflects additional expenditure in: the Department of Education of \$32.7 million; the Department of Health and Human Services of \$37.5 million; the Department of Infrastructure, Energy and Resources of \$22.5 million; the Department of Primary Industries and Water of \$11.2 million. This additional expenditure is partially offset by a decrease in Finance-General of \$41.5 million. Further information on 2007-08 Budget movements is provided in Budget Paper No 2 *Government Services*.
2. The Petroleum and Diesel Subsidies – Demand Decrease was included in Table 4.9 on 28 June 2007 to correctly reflect the parameter decrease in petroleum and diesel subsidies arising from a projected decrease in demand based on 2006-07 actual expenditure.
3. The decrease in Special Capital Investment Funds expenditure of \$11.9 million primarily reflects the final budgeted Gas Infrastructure Stage 2A payment of \$9.1 million being paid in 2006-07.
4. Net Operating Balance is equal to A + C – D

Table 4.9: Policy and Parameter Statement, 2007-08 (continued)

	2007-08
	Movement
	\$'000
<i>less</i> NET ACQUISITION OF NON-FINANCIAL ASSETS	
Purchase of Non-Financial Assets	
Policy Decisions	
Infrastructure, Energy and Resources	
Road Safety Strategy	2 380
Education	
Building for the Future	5 000
Total Policy Decisions	7 380
Parameter Adjustments	
Movement in Agency Capital Expenditure ¹	26 196
Special Capital Investment Funds ²	25 656
Total Parameter Adjustments	51 852
Total Purchases on Non-Financial Assets	(E) 59 232
Sale of Non-Financial Assets - Total Parameter Adjustments	(F) 16 665
Depreciation - Total Parameter Adjustments	(G) 14 146
TOTAL NET ACQUISITION OF NON-FINANCIAL ASSETS VARIANCE ³	(H) 28 421
FISCAL BALANCE ⁴	(31 378)

Notes:

1. The movement in Agency Capital Expenditure of \$26.2 million primarily reflects Rail Infrastructure funding of \$17.3 million and revised timing of the Cradle Mountain Sewage Treatment project of \$9.6 million.
2. The movement in Special Capital Investment Funds capital expenditure of \$25.6 million primarily reflects changes in the expenditure profiles for various capital projects from 2006-07. Details of projects funded from Special Capital Investment Funds are provided in Chapter 4 of Budget Paper No 2 *Government Services*.
3. Net Acquisition of Non-Financial Assets is equal to E – F – G
4. Fiscal Surplus/(Deficit) is equal to B + C – D – H

5 TAXATION REVENUE

Features

- Total taxation revenue is expected to be \$736.4 million for 2006-07.
- For 2007-08, estimated taxation revenue is \$751.9 million, which is \$15.5 million or 2.1 per cent above the estimated outcome for 2006-07.
- Motor tax on light vehicles will be reduced by 21 per cent from 1 October 2007, representing \$7.0 million in tax relief in 2007-08 and full-year relief of \$9.4 million per annum from 1 July 2008.
- Duty on the transfer of heavy vehicle registrations will be reduced by two-thirds from 1 October 2007, representing \$3.6 million in tax relief in 2007-08 and full year relief of \$4.9 million per annum from 1 July 2008.
- Mortgage duty will be abolished from 1 July 2007, resulting in taxation relief of \$8.5 million per annum. When combined with the halving of mortgage duty from 1 July 2006, the abolition of mortgage duty represents relief of \$18.1 million per annum.
- Duty on non-real-property (business) conveyances will be abolished from 1 July 2008, representing a further \$9.9 million per annum in taxation relief.
- The Government has announced its intention to harmonise Tasmania's payroll tax arrangements with the revised framework that will apply in Victoria and New South Wales. This will take effect from 1 July 2008 and significantly cut compliance costs for around 70 per cent of Tasmanian payroll tax registrants that operate across jurisdictions.
- From 1 July 2008, the ongoing tax relief measures provided by the Tasmanian Government, in the period since the 2001-02 Budget, will combine to deliver \$170.3 million per annum in tax relief to Tasmanian businesses and households.
- Based on Commonwealth Grants Commission calculations, Tasmania has the second lowest level of taxation severity of all states and territories. This is consistent with the Government's Fiscal Strategy target of Tasmania's taxation severity being below the national average.

INTRODUCTION

State taxation revenue is a vital source of revenue that funds the provision of essential services to Tasmanians. However, the capacity of Tasmania and the other states and territories to raise tax revenues is constrained by the Constitution and by Australia's Commonwealth-State financial arrangements. As a result, the states are restricted in the range of taxes they can impose, compared to the Australian Government. Taxation policy must balance the need to raise revenue with the need to foster a sound and expanding business environment and maintain the lowest reasonable burden of taxation on the community more generally.

The purpose of this Chapter is to provide information on historical taxation collections, estimated aggregate taxation receipts for 2006-07, and projected revenue estimates for 2007-08 for these items.

For each of the major tax areas, a description of the tax base and its operation is provided, including relevant tax concessions, along with an estimate of receipts for each head of tax for 2007-08. A summary of major legislative changes, which occurred since the 2006-07 Budget, is also included.

The tables in this Chapter generally refer to actual tax collections for 2005-06, while estimates for 2007-08 are compared with Budget estimates for 2006-07. A current estimate for the projected aggregate receipt of taxes in 2006-07 is also provided. The charts in this Chapter generally refer to Budget estimates for 2007-08.

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

TAX COMPETITIVENESS

Tax competitiveness plays a key role in facilitating an expanding business environment.

The independent Commonwealth Grants Commission (CGC) provides a measure of taxation competitiveness across jurisdictions. Comparisons published by the CGC in February 2007 show that Tasmania has the second lowest taxation severity of all states and territories, behind only Queensland. This is a significant turnaround from the mid-1990s, when Tasmania was the second least competitive state.

In line with the objectives of the Government's Fiscal Strategy, Tasmania's overall tax severity is below the average of all states and territories, based on the taxation arrangements in place in each state in 2005-06 (the most recent year for which data is available for the CGC).

Chart 5.1: Taxation Severity, 2005-06



Source: *Relative Fiscal Capacities of the States 2007*, Commonwealth Grants Commission

Beginning with the 2001-02 Budget, a series of complimentary tax relief measures introduced by the Tasmanian Government have combined to deliver \$136.3 million per annum in tax relief to Tasmanian businesses and households. In addition to this, further taxation relief initiatives announced in the 2005-06 and 2007-08 Budgets will bring the total benefit to the community from tax relief provided by the Government to approximately \$170.3 million per annum by 1 July 2008.

BUDGET INITIATIVES

The 2007-08 Budget builds upon the tax relief initiatives delivered in the 2005-06 and 2006-07 Budgets.

Motor tax on light vehicles will be reduced by 21 per cent from 1 October 2007, representing \$7.0 million in tax relief in 2007-08 and full-year relief of \$9.4 million from 1 July 2008.

Duty on the transfer of heavy vehicle registrations will be reduced from three per cent to one per cent from 1 October 2007, representing \$3.6 million in tax relief in 2007-08 and full year relief of \$4.9 million from 1 July 2008.

To assist in funding these initiatives, the subsidy arrangements for petrol and on-road diesel will cease from 30 September 2007, as discussed in Chapter 4 of Budget Paper No 2 *Government Services*.

In addition, the substantial amount of relief provided in the 2005-06 Budget through the abolition of debits duty from 1 July 2005; the provision of a 25 per cent cut in land tax; an indefinite extension of the First Home Owner Duty Concession; and an indefinite extension of the refund to first home owners of the duty associated with the purchase of land upon which a first home is subsequently built, has provided a direct benefit to Tasmanian businesses and the community.

Mortgage duty was halved on 1 July 2006 and will be completely abolished from 1 July 2007.

Duty on non-real-property (business) conveyances will also be abolished from 1 July 2008.

Non-real-property covers business assets such as:

- goodwill;
- a statutory business licence;
- a right to use a statutory business licence;
- a business name;
- a right under a franchise agreement;
- a supply right; and
- intellectual property.

The full-year cost of the abolition of mortgage duty is \$18.1 million per annum. The abolition of duty on non-real-property (business) conveyances will provide an additional \$9.9 million in relief per annum from 2008-09.

Payroll Tax Harmonisation

Tasmania has been a leader amongst Australian states in pursuing the harmonisation of payroll tax arrangements across jurisdictions. The Government is keen to reduce the compliance costs facing Tasmanian business. This initiative builds on previous strategies implemented by the Government, such as the re-write of stamp duty legislation and the implementation of Tasmanian Revenue Online, that streamline the taxation administration arrangements in Tasmania.

Victoria and New South Wales have agreed to harmonise their respective payroll tax arrangements, with effect from 1 July 2007. While each state will retain its own tax rates and thresholds, there will be consistent payroll tax bases and legislative arrangements going forward. Tasmania will also retain its existing rates and threshold, but will adopt the harmonised Victorian and New South Wales arrangements from 1 July 2008. Legislation to this effect will be introduced in 2007-08. Tasmania will work with Victoria and New South Wales to explore the opportunities to streamline administrative arrangements (for example, systems and reporting) to further reduce compliance costs.

ESTIMATED TAXATION REVENUE

Total taxation revenue for the period 2002-03 to 2007-08 is shown in Chart 5.2.

Chart 5.2: Total Taxation Revenue, 2002-03 to 2007-08

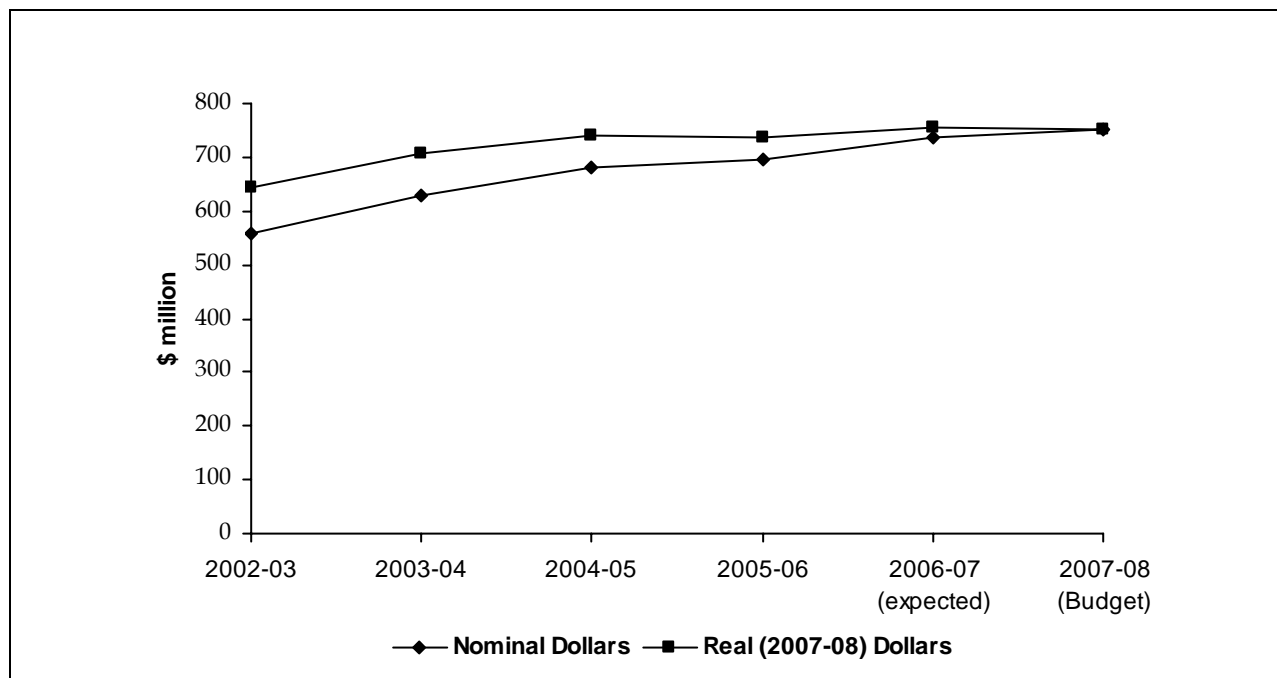


Chart 5.2 shows an increase in taxation revenue in both nominal and real terms from 2002-03 to 2007-08. This is primarily due to favourable economic conditions, together with some carry over of the historically high levels of activity in the property market over recent years. The relatively flat profile of real taxation revenue over the past three years demonstrates the significance of the Government's tax relief program, returning the bulk of own-source revenue growth to the community.

Table 5.1 sets out by head of tax: actual receipts for 2005-06; budgeted and expected 2006-07 outcomes; and the Budget estimates for 2007-08. Chart 5.3 illustrates the expected contribution of each tax to total State taxation revenue in 2007-08.

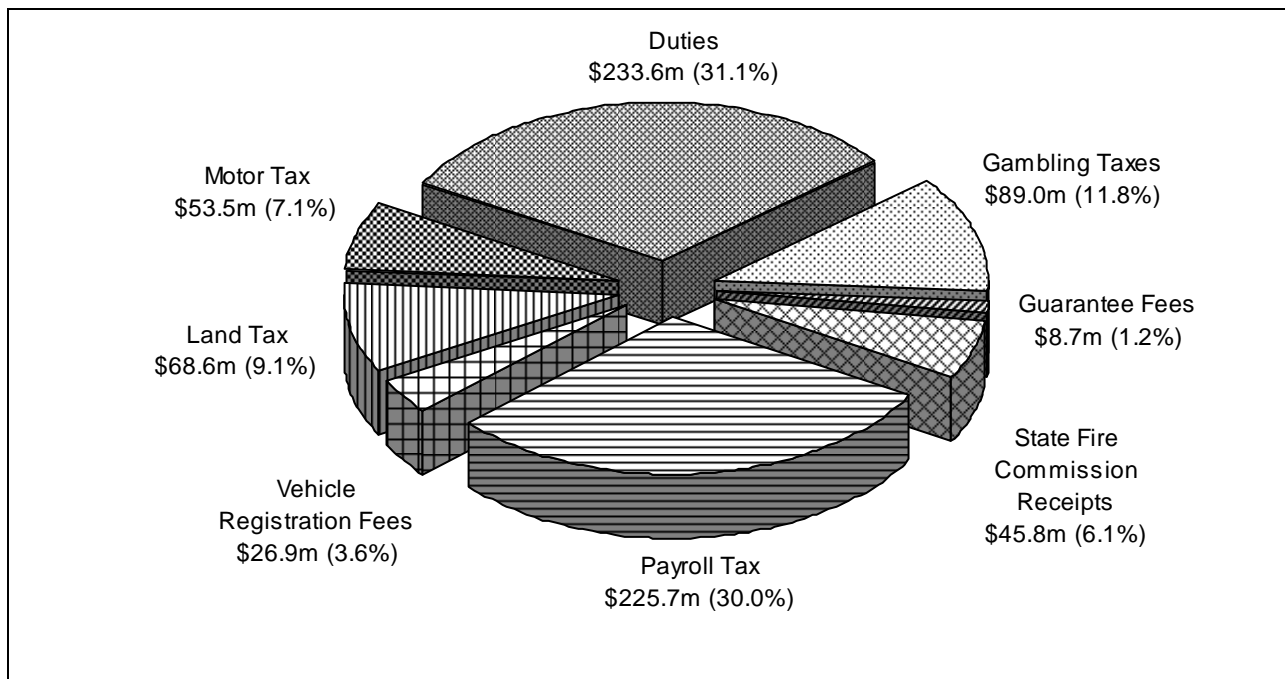
Table 5.1: Taxation Revenue Collection

	2005-06 Actual ¹	2006-07 Budget Estimate	2006-07 Estimated Outcome ²	2007-08 Budget Estimate
	\$'000	\$'000	\$'000	\$'000
Financial Transaction Taxes				
Debits Duty ³	2 361	....	400	....
Duties ⁴	226 183	225 568	234 668	233 622
Gambling Taxes				
Betting Exchange Revenue ⁵	1 131	12 860	5 560	6 672
Casino Tax and Licence Fees	54 891	56 181	55 181	58 177
Lottery Tax	21 018	23 401	23 601	24 181
Other Gaming Taxes ⁶	21	....	....	....
Guarantee Fees	7 197	9 564	8 557	8 689
Land Tax ⁷	49 227	60 520	61 500	68 600
Motor Tax ⁸	55 976	58 841	57 441	53 531
Payroll Tax ⁹	214 255	211 430	219 583	225 738
State Fire Commission Receipts ¹⁰	41 206	43 818	43 818	45 780
Vehicle Registration Fees	24 019	25 775	26 131	26 937
Total	697 485	727 958	736 440	751 927

Notes:

1. The 2005-06 receipts do not include accrual adjustments and, therefore, may not match figures presented in Appendix 1 of Budget Paper No 1 *The Budget*.
2. The 2006-07 estimated outcome is based on receipts to the end of March 2007. There may be some variance between the expected outcome and the actual outcome depending on the level of receipts in the final three months of the financial year relative to what is expected based on the preceding nine months.
3. No Debits duty receipts are expected in 2007-08. This reflects the Government's decision to abolish debits duty from 1 July 2005. Receipts in 2005-06 and estimated receipts in 2006-07 relate to debits duty incurred prior to 1 July 2005, but not received until after that date.
4. The budgeted reduction in duty receipts in 2007-08 reflects the abolition of mortgage duty on 1 July 2007 and a reduction in rate of duty on the transfer of heavy vehicle registrations from 1 October 2007.
5. The 2006-07 expected outcome for betting exchange revenue is lower than the Budget estimate due to the impact on betting exchange activity of advertising bans in other jurisdictions.
6. Other gaming taxes comprise minor gaming taxation, which was abolished from 1 July 2004.
7. The budgeted increase in land tax receipts for 2007-08 reflects increased property values arising from higher adjustment factors and revaluations.
8. The budgeted reduction in motor tax reflects a reduction in the rates of motor tax on light vehicles from 1 October 2007.
9. The budgeted increase in payroll tax receipts from 2006-07 to 2007-08 is due to anticipated growth in employment and wages.
10. State Fire Commission Receipts are classified as a tax for the purposes of the Uniform Presentation Framework. However, all receipts go directly to the funding of the State Fire Commission.

Chart 5.3: Taxation Revenue Collections, Budget Estimate of Collections for 2007-08



Based on current estimates, taxation revenue for 2006-07 is expected to total \$736.4 million. This represents a nominal increase of \$39.0 million, or 5.6 per cent over taxation revenue for 2005-06.

The increase in expected 2006-07 receipts over the 2006-07 Budget estimate is primarily the result of higher than expected:

- payroll tax receipts due to employment and wages growth; and
- conveyance duty receipts due to growth in property prices.

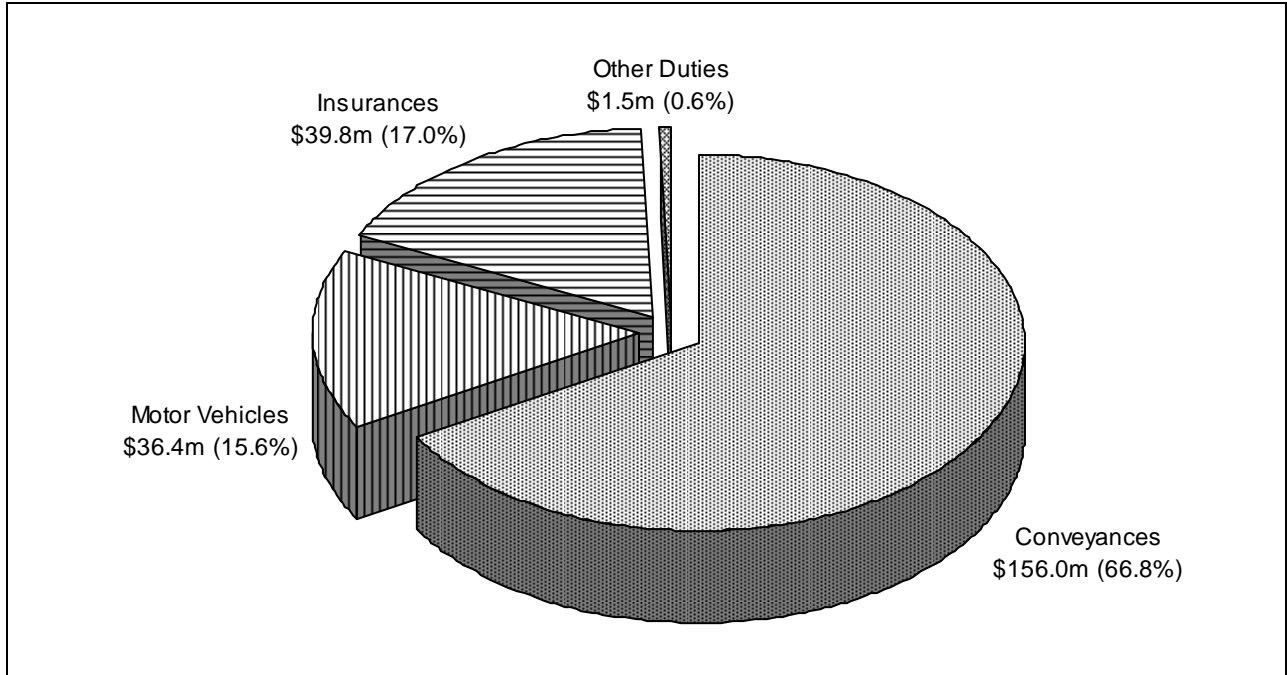
ESTIMATED TAXATION REVENUE FOR 2007-08

Total taxation revenue for 2007-08 is estimated to be \$751.9 million, an increase of \$24.0 million or 3.3 per cent on the 2006-07 Budget estimate and an increase of \$15.5 million or 2.1 per cent on the estimated outcome for 2006-07.

Financial Transaction Taxes

Duties (including debits duty) are classed as financial transaction taxes. Chart 5.4 shows the Budget estimate for collections of financial transaction taxes for 2007-08.

Chart 5.4: Financial Transaction Taxes, Budget Estimate of Collections for 2007-08



Debits Duty

Description

Debits duty was imposed on debits to taxable accounts kept with financial institutions in Tasmania. Debits duty also included credit card duty, which applied to the number of debits made to an account kept with a credit card provider during the billing period of the preceding month.

Debits duty was abolished in Tasmania from 1 July 2005. Debits duty receipts received in 2005-06 and 2006-07 relate to duty incurred prior to the 1 July 2005 abolition date, but not received until after this date.

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 significantly reduced inter-jurisdictional differences in principles, definitions and structure of the legislation. This has resulted in decreased compliance costs for business, particularly as they relate to businesses with transactions across several jurisdictions.

The Commissioner of State Revenue collects all duties except for duties on motor vehicle registrations and transfers, and third party insurance. The Department of Infrastructure, Energy and Resources collects these on behalf of the Commissioner.

Duty on the transfer of heavy vehicle registrations will be reduced from three per cent to one per cent from 1 October 2007.

As announced in the 2005-06 Budget, the Government cut mortgage duty by half on 1 July 2006 and it will be completely abolished from 1 July 2007. The remaining receipts in 2007-08 relate to transactions made prior to 1 July 2007, but not receipted until after this date.

As announced in the 2006-07 Budget, duty on non-real-property (business) conveyances will also be abolished from 1 July 2008.

The 2007-08 Budget estimates for duty receipts are reported by category in Table 5.2.

Table 5.2: Duties

	2005-06 Actual	2006-07 Budget Estimate	2006-07 Estimated Outcome ¹	2007-08 Budget Estimate
	\$'000	\$'000	\$'000	\$'000
Conveyances	132 683	135 970	148 870	155 998
Insurances	37 442	39 728	37 728	39 751
Mortgages ²	15 957	8 611	9 511	1 300
Motor Vehicles ³	39 847	40 974	38 374	36 384
Sundry Legal Documents	254	285	185	189
Total	226 183	225 568	234 668	233 622

Notes:

1. The 2006-07 estimated outcome is based on the level of receipts as at end of March 2007. There may be some variance between the expected outcome and the actual outcome depending on the level of receipts in the final three months of the financial year relative to what is expected based on the preceding nine months.
2. The reduction in mortgage duty receipts in 2007-08 reflects the Government's decision to abolish mortgage duty on 1 July 2007. The remaining receipts in 2007-08 relate to transactions made prior to 1 July 2007, but not receipted until after this date.
3. The reduction in motor vehicle duty receipts in 2007-08 reflects a reduction in rate of duty on the transfer of heavy vehicle registrations from 1 October 2007.

Estimated Receipts for 2007-08

Duty receipts for 2007-08 are estimated to be \$233.6 million, an increase of \$8.1 million or 3.6 per cent over the Budget estimate for 2006-07 and \$1.0 million or 0.4 per cent below the estimated outcome for 2006-07, reflecting the reduction in the rate of duty on the transfer of heavy vehicle registrations from 1 October 2007.

Gambling Taxes

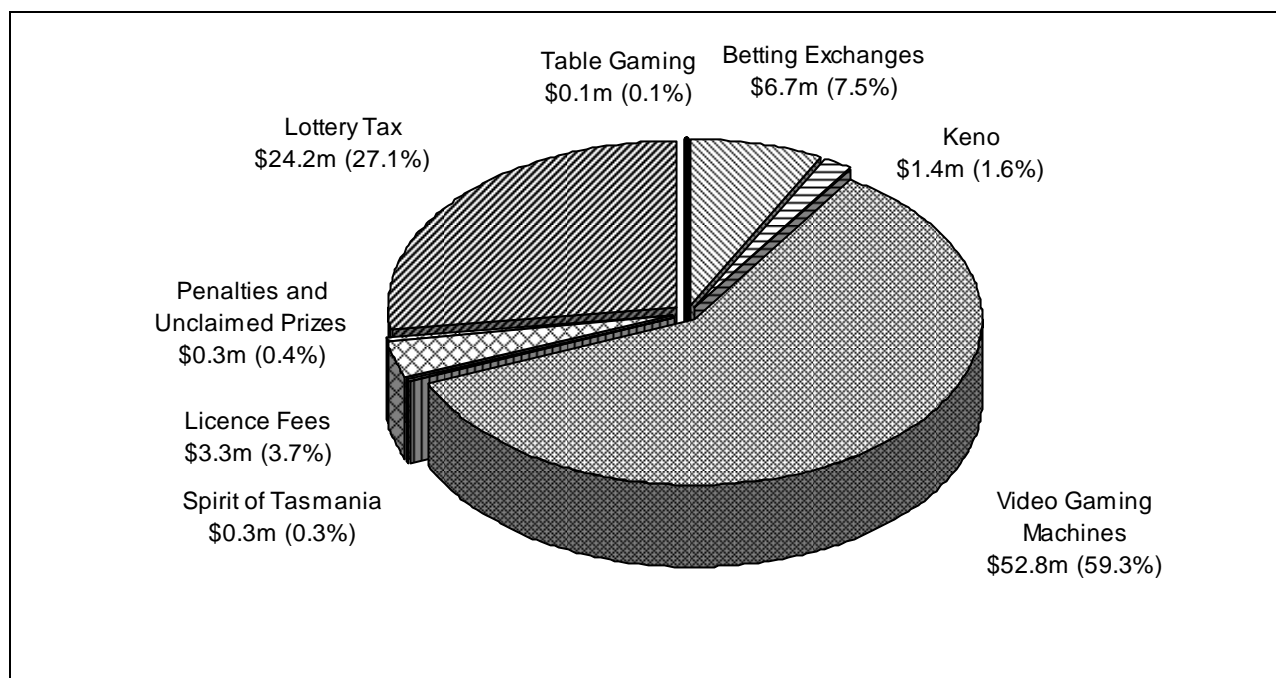
Sources of gambling revenue in Tasmania cover activities associated with lotteries, casinos, keno and video gaming machines in hotels and clubs, sports betting and betting exchanges. There is no taxation of totalisator wagering conducted by TOTE Tasmania Pty Ltd.

The Tasmanian Gaming Commission, with the support of the Liquor and Gaming Branch of the Department of Treasury and Finance, is responsible for the supervision of gambling activities at Tasmanian casinos, gambling on board *Spirits of Tasmania I* and *II* and keno and gaming machine operations in hotels and clubs and betting exchange operations. Regulation of racing is the responsibility of the Director of Racing.

The *Gaming Control Act 1993* 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 betting exchanges. The *TT-Line Gaming Act 1993* governs gaming operations aboard *Spirits of Tasmania I* and *II*.

Chart 5.5 provides details of the Budget estimate for gambling receipts, including the components of total estimated casino revenue, for 2007-08.

Chart 5.5: Gambling Tax Revenue, Budget Estimate of Collections for 2007-08



Betting Exchange Revenue

Description

Under the Gaming Control Act, the Tasmanian Gaming Commission can issue Tasmanian Gaming Licences (TGLs) for approved gaming and wagering activities conducted via any electronic means, such as the Internet or telephone.

Amendments to the Gaming Control Act in 2005 provided for TGLs to be endorsed for betting exchanges. In January 2006, a TGL was granted to a betting exchange operator, which commenced operations in February 2006.

The Act provides for the payment of an annual licence fee for a betting exchange endorsement. In addition, a betting exchange operator is required to pay tax of 10 per cent of commissions on winning wagers lodged through its Australian-based system on all events held outside of Australia and 15 per cent of commissions

on events held within Australia. A product levy of 20 per cent of commissions from Australian racing events is also payable.

Under the Gaming Control Act, the Tasmanian racing industry receives all proceeds from the product levy; two thirds of the 15 per cent tax on events held within Australia; and half of the 10 per cent tax on events held outside Australia.

From all the taxes collected from events held in Australia, and which relate to wagering by Tasmanians on a betting exchange, four per cent is directed to the Community Support Levy.

Estimated Receipts for 2007-08

Taxation revenue from betting exchanges for 2007-08 is estimated to be \$6.7 million, representing a reduction of \$6.2 million or 48.1 per cent below the 2006-07 Budget estimate and an increase of \$1.1 million or 20.0 per cent above the estimated outcome for 2006-07. Reduced betting exchange revenue is largely a result of advertising bans in other jurisdictions that have impacted on betting exchange activity.

Casino Tax

Description

The Gaming Control Act provides for the payment of licence fees by Tasmania's two casinos and a tax on the gross profit from casino operations. The tax rates for keno and table gaming are 5.88 per cent and 0.88 per cent respectively, and, for gaming machines, a sliding scale as follows:

- 20.88 per cent for the first \$35.0 million of gross profit per annum; and
- 25.88 per cent for gross profit in excess of \$35.0 million per annum.

From 1 July 2013, a single flat tax rate of 25.88 per cent will apply to all gross profit on gaming machines.

The licence fee payable by the casino operator in respect of each casino is indexed by movements in the Consumer Price Index. In 2006-07, it is expected that the fees paid in respect of the two casinos will total \$3.2 million and in 2007-08 this will be \$3.3 million.

The Act also provides for the payment of four per cent of gross profit from gaming machines in clubs and hotels into the Community Support Levy. It is estimated that the levy will raise \$4.6 million in 2006-07, which is to be available for disbursement 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.

The TT-Line Gaming Act provides for the payment of licence fees and tax on gross profits from gaming operations on board *Spirits of Tasmania I* and *II*. The Act also provides for the Treasurer to enter into a revenue sharing agreement with the Victorian Government in respect of the tax on gaming operations aboard *Spirits of Tasmania I* and *II*. Under the agreement, 25 per cent of the tax received is paid to the Victorian Government in recognition of gaming operations which occur when the ships are in Victorian waters.

Estimated Receipts for 2007-08

Taxation revenue from casino operations for 2007-08 is estimated to be \$58.2 million, representing an increase of \$2.0 million or 3.6 per cent above the 2006-07 Budget estimate and \$3.0 million or 5.4 per cent above the estimated outcome for 2006-07.

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.

Under the current 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 is the sole provider of lottery products in Tasmania (although other major lottery operators could apply for a Tasmanian Licence). Tattersall's also has a major interest in Footy Consortium Pty Ltd, which sells Tipstar products under the Tattersall's banner at all Tattersall's outlets. Tipstar is an Australian Rules Football tipping competition, which is classified as a lottery under the Gaming Control Act. Tipstar began operating in Tasmania at the start of the 2001 AFL season. Tattersall's also has permission to sell tickets to a soccer football pools competition.

Estimated Receipts for 2007-08

It is estimated that taxation revenue in relation to Tasmanian lottery products will be \$24.2 million in 2007-08, representing an increase of \$780 000 or 3.3 per cent on the 2006-07 Budget estimate and an increase of \$580 000 or 2.5 per cent on the 2006-07 estimated outcome.

Guarantee Fees

Description

Guarantee fees are applied to Government Business Enterprises (GBEs) and State-owned Companies (SOCs) to offset the lower financing costs that GBEs and SOCs achieve by borrowing through Tascorp, which provides access to a lower cost of funding than would apply if the business were to borrow from the market in its own right. Guarantee fees effectively increase the borrowing rate that GBEs and SOCs receive up to the market borrowing rate that would apply in the absence of direct or implicit Government support. In

line with the principle of competitive neutrality, guarantee fees remove any competitive advantage that a GBE or SOC may receive in terms of reduced debt costs through Government ownership.

Estimated Receipts for 2007-08

It is expected that revenue from guarantee fees will be \$8.7 million in 2007-08, representing a reduction of \$875 000 or 9.1 per cent from the Budget estimate for 2006-07 and \$132 000 or 1.5 per cent above the estimated outcome for 2006-07. Guarantee fees are expected to decrease primarily as a result of the repayment of debt by TT-Line Pty Ltd following the sale of *Spirit of Tasmania III*.

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 at 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 that is used substantially for the business of primary production. It includes land that has been declared a private timber reserve under the *Forest Practices Act 1985* or a State forest under the *Forestry Act 1920*.

General land relates to any land that is not classified as 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 by 1 March each year. This brings all properties in the State to a common valuation date each year. The valuation adjustment factor for a given valuation district is determined for each land category within that district and represents an estimate of the general movement in land values since the last full revaluation was undertaken for that district.

Certain non-profit sporting organisations and bodies that control or promote 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 and who have a 50 per cent or greater ownership stake in the property is exempt from land tax.

As a 2005-06 Budget initiative, the Government implemented a new land tax scale. The new land tax scale was developed to provide land tax relief to all land tax payers through an increase in the tax free threshold, a reduction in the number of steps on the land tax scale and a revaluation of the property values to which the tax scales apply.

Table 5.3 shows the land tax scale that currently applies in Tasmania.

Table 5.3: Current Land Tax Scale, 2006-07

Assessed Land Value		Tax Rate
\$		
below	25 000	Nil
25 000 -	349 999	\$50 plus 0.55 cents per \$1 above \$25 000
350 000 -	749 999	\$1 837.50 plus 2.0 cents per \$1 above \$350 000
750 000	and above	\$9 837.50 plus 2.5 cents per \$1 above \$750 000

A rebate is available to home owners in transitional circumstances who incur a land tax liability when they are moving from one residence to another. The rebate is 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.

Table 5.4 provides detail of the number of properties and the land tax assessed for each category of land in 2006-07. Assessed land tax differs from tax collected as shown in Table 5.1, due to the timing of receipts.

Table 5.4: Land Tax Assessed, 2006-07

Property Value	Principal Residence		Primary Production		General	
	Number of Properties	Tax Payable	Number of Properties	Tax Payable	Number of Properties	Tax Payable
\$		\$'000		\$'000		\$'000
1 - 1 000	5	....	1	....	334	....
1 001 - 15 000	2 077	....	28	....	2,970	....
15 001 - 20 000	1 733	....	20	....	1 441	....
20 001 - 25 000	1 913	....	21	....	1 870	....
25 001 - 35 000	4 383	....	40	....	3 745	283
35 001 - 40 000	3 982	....	36	....	2 488	289
40 001 - 50 000	7 334	....	110	....	4 524	7 16
50 001 - 65 000	13 709	....	169	....	6 640	1 498
65 001 - 68 750	4 582	....	65	....	1 728	4 82
68 751 - 100 000	22 399	....	683	....	9 773	3 543
100 001 - 125 000	11 286	....	692	....	4 880	2 545
125 001 - 170 000	12 097	....	1 119	....	5 644	4 007
170 001 - 210 000	3 958	....	791	....	2 721	2 585
210 001 - 250 000	1 913	....	627	....	1 609	1 868
250 001 - 500 000	3 613	....	2 098	....	3 765	7 824
500 001 - 1 000 000	566	....	1 361	....	1 038	8 617
1 000 001 and over	94	....	806	....	459	25 571
Total	95 644	....	8 667	....	55 629	59 827

Estimated Receipts for 2007-08

It is expected that land tax collections in 2007-08 will be \$68.6 million, which is \$8.1 million or 13.4 per cent higher than the 2006-07 Budget estimate. This is primarily the result of the 2006-07 Budget estimate being underestimated as the land adjustment factors and revaluations by the Valuer-General for 2006-07 resulted in land values being higher than first anticipated when the 2006-07 Budget was developed.

The 2007-08 Budget estimate for land tax collections is \$7.1 million or 11.5 per cent higher than the estimated 2006-07 outcome. This is due to the expected continuation of increased property values arising from revaluations.

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 and 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. Motor tax rates are indexed annually. The National Transport Commission determines those rates applying to heavy vehicles.

The rates of motor tax on light vehicles will be reduced by 21 per cent from 1 October 2007. This will provide a benefit of \$28 per annum to the average family with a six cylinder car.

Estimated Receipts for 2007-08

Motor tax collections are estimated to be \$53.5 million in 2007-08, a reduction of \$5.3 million or 9.0 per cent below the 2006-07 Budget estimate and \$3.9 million or 6.8 per cent below the estimated outcome for 2006-07. This reflects expected underlying growth in the number of registered motor vehicles, offset by tax relief of \$7.0 million resulting from a reduction in the rates of motor tax on light vehicles from 1 October 2007.

Payroll Tax

Description

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

The Government has previously implemented industry development and training incentives through the payroll tax system. As discussed in Chapters 2, 4 and 12 of Budget Paper No 2 *Government Services*, these assistance measures will be replaced with targeted direct funding.

Estimated Receipts for 2007-08

Receipts from payroll tax in 2007-08 are estimated to be \$225.7 million, representing an increase of \$14.3 million or 6.8 per cent over the 2006-07 Budget estimate and an increase of \$6.2 million or 2.8 per cent on the 2006-07 estimated outcome. Increased collections will result from anticipated growth in wages.

State Fire Commission Receipts

Description

The major source of revenue for meeting operational costs and capital needs of the State Fire Commission is provided via a number of levies in accordance with the *Fire Service Act 1979*. The levies are collected from: a fire service contribution on property (levied on assessed annual values) that is collected by councils; a motor vehicle fire levy on all vehicle registration (excluding motor cycles); and a fire levy on prescribed classes of insurance.

State Fire Commissioner Receipts are classified as a tax for the purposes of the Uniform Presentation Framework. However, all receipts go directly to the funding of the State Fire Commission.

Estimated Receipts for 2007-08

It is expected that revenue generated by fire service levies will be \$45.8 million in 2007-08, representing an increase of \$2.0 million or 4.5 per cent on the 2006-07 Budget estimate and estimated outcome.

Vehicle Registration Fees

Description

Vehicle registration fees, payable in accordance with the *Vehicle and Traffic Act 1999*, are revenue collected for the registration and the transfer of vehicle ownership.

Estimated Receipts for 2007-08

Vehicle registration fees receipts are estimated to be \$26.9 million in 2007-08, representing an increase of \$1.2 million or 4.5 per cent over the 2006-07 Budget estimate and \$806 000 or 3.1 per cent higher than the estimated outcome for 2006-07.

MAJOR LEGISLATIVE AND OTHER CHANGES

Since the 2006-07 Budget, three major changes have been made to Tasmania's taxation legislation framework.

Taxation and Related Legislation (Miscellaneous Amendments) Act 2006 and Taxation Legislation (Miscellaneous Amendments) Act 2006

These Acts amended the *Duties Act 2001*, *Fire Service Act 1979*, *Land Tax Act 2000*, *Pay-roll Tax Act 1971* and the *Taxation Administration Act 1997*.

The Acts contained a number of amendments to clarify the original policy intent of the Acts, to close off potential loopholes, delete redundant provisions, make adjustments to administrative practices and to ensure continued consistency with the comparable Acts of other jurisdictions.

Revenue Measures Amendment Bill 2007

The *Revenue Measures Amendment Bill 2007* was introduced to the House of Assembly on 17 April 2007 and, pending its approval by Parliament in the Budget Session 2007, will retrospectively commence on 1 July 2005.

The Revenue Measures Amendment Bill amends the *Revenue Measures Act 2005* to clarify that credit card duty payable under the *Debits Duties Act 2001* prior to its abolition can still be collected by the Commissioner of State Revenue.

6 ASSETS AND LIABILITIES, 2007-08

Features

- The General Government Sector assets and liabilities in this Chapter are presented in a Balance Sheet developed in accordance with the Uniform Presentation Framework.
- The estimated Net Worth of the General Government Sector is expected to increase by \$1 109.6 million, or 13.9 per cent in nominal terms, from \$7 952.5 million to \$9 062.1 million between 30 June 2007 and 30 June 2008.
- The estimated Net Financial Worth of the General Government Sector is expected to increase to \$313.5 million, an increase of \$240.5 million from the 2006-07 Budget estimate of \$73.0 million.
- The estimated Net Financial Liabilities of the General Government Sector is expected to decrease to \$3 219.2 million as at 30 June 2008, a decrease of \$179.0 million from the 2006-07 Budget Estimate of \$3 398.2 million as at 30 June 2007.
- It is estimated that the financial assets associated with Net Debt will exceed gross debt by \$456.1 million as at 30 June 2008.
- Payments of \$231.6 million will be made in 2007-08 to the Superannuation Provision Account, increasing the balance of that account to an estimated \$1 236.7 million as at 30 June 2008.

INTRODUCTION

This Chapter provides detailed information on the major categories of assets and liabilities for the General Government Sector. The information presented in this Chapter is in accordance with the Uniform Presentation Framework (UPF).

The values of the asset and liability components on the UPF Balance Sheet have been valued in accordance with Australian Accounting Standards.

BALANCE SHEET

The Balance Sheet presented in this Chapter represents the estimated financial position of the Tasmanian General Government Sector as at 30 June 2008. By providing information on the nature of assets and liabilities held by a government, this statement gives an indication of the government's financial strength. The key measures presented in the Balance Sheet are Net Worth, Net Financial Worth, Net Financial Liabilities and Net Debt.

Table 6.1 details the estimated General Government Sector Balance Sheet as at 30 June 2007 and 2008.

Table 6.1: General Government Balance Sheet as at 30 June

	2007	2008	
	Budget	Budget	Variation
	Estimate	Estimate	
	\$'000	\$'000	%
Assets			
Financial Assets			
Cash and Deposits	586 058	725 270	23.7
Advances Paid	33 953	49 340	45.3
Investments, Loans and Placements	1 294	2 286	76.6
Other Non-Equity Assets	882 478	1 005 826	13.9
Equity	3 148 401	3 232 348	2.6
Total	4 652 184	5 015 070	7.8
Non-Financial Assets			
Land and Fixed Assets	7 846 295	8 710 161	11.0
Other Non-Financial Assets	33 203	38 473	15.8
Total	7 879 498	8 748 634	11.0
Total Assets	12 531 682	13 763 704	9.8
Liabilities			
Advances Received	240 676	236 079	(2.0)
Borrowings	148 198	84 711	(42.9)
Superannuation Liability	3 630 629	3 675 287	1.2
Other Employee Provisions	365 269	400 381	9.6
Other Non-Equity Liabilities	194 447	305 152	56.9
Total Liabilities	4 579 219	4 701 610	2.6
NET WORTH¹	7 952 463	9 062 094	13.9
NET FINANCIAL WORTH²	72 965	313 460	329.6
NET FINANCIAL LIABILITIES³	3 398 198	3 219 181	(5.3)
NET DEBT⁴	(232 431)	(456 106)	96.2

Notes:

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

Net Worth

Net Worth is estimated to be \$9 062.1 million at 30 June 2008, an increase of \$1 109.6 million or 13.9 per cent above the 2006-07 Budget estimate of \$7 952.5 million at 30 June 2007.

Net Worth represents Total Assets less Total Liabilities. Net Worth incorporates non-financial assets such as land and other infrastructure assets. It also incorporates certain financial assets and liabilities not captured by the Net Debt measure, most notably accrued employee superannuation liabilities, ownership of equities, debtors and creditors.

The major factors influencing the movement in estimated Net Worth are an increase in Cash and Deposits of \$139.2 million; Other Non-Equity Assets of \$123.3 million; and Land and Fixed Assets of \$863.9 million and a reduction in Borrowings of \$63.5 million.

Net Financial Worth

Net Financial Worth is estimated to be \$313.5 million at 30 June 2008, an increase of \$240.5 million or 329.6 per cent above the 2006-07 Budget estimate of \$73.0 million at 30 June 2007.

Net Financial Worth is a measure of net holdings of financial assets and is calculated as Total Financial Assets less Total Liabilities. Net Financial Worth is a broader measure than Net Debt, in that it incorporates superannuation liabilities and other employee entitlements as well as equity. Net Financial Worth includes all classes of financial assets and liabilities, only some of which are included in Net Debt.

The increase primarily reflects a favourable movement in Cash and Deposits of \$139.2 million and a reduction in Borrowings of \$63.5 million.

Net Financial Liabilities

Net Financial Liabilities are estimated to be \$3 219.2 million at 30 June 2008, a decrease of \$179.0 million or 5.3 per cent below the 2006-07 Budget estimate of \$3 398.2 million at 30 June 2007.

Net Financial Liabilities represent Net Debt plus Superannuation Liabilities. This measure is used to provide a broader picture of the State's liabilities. This measure is commonly used by international credit ratings agencies as it targets the significant financial assets and liabilities held by most governments.

The decrease primarily reflects a reduction in Borrowings of \$63.5 million, and a favourable movement in Cash and Deposits of \$139.2 million, offset by an increase in the Superannuation Liability of \$44.7 million.

Net Debt

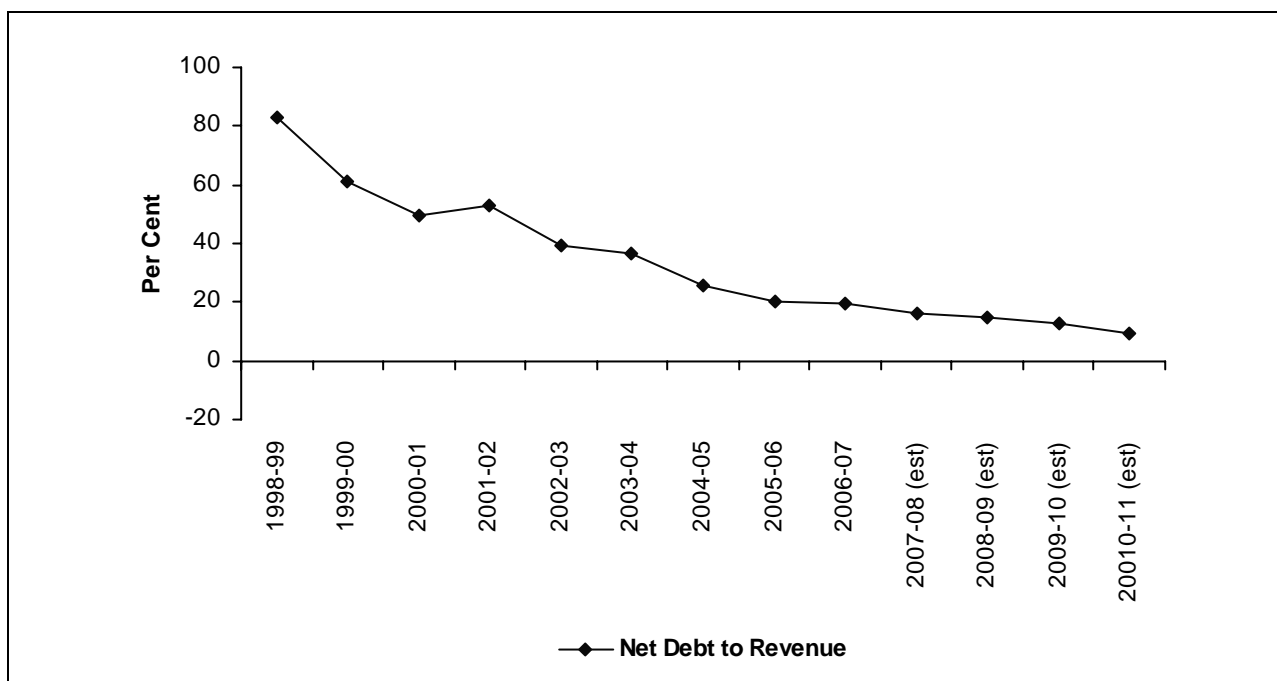
It is estimated that the financial assets associated with Net Debt will exceed gross debt by \$456.1 million as at 30 June 2008.

The favourable Net Debt position illustrates the Government's continued sound financial management over recent years. Importantly this position has been achieved whilst the Government has continued to progress other economic and social development goals.

Net Debt comprises the stock of specified gross financial liabilities less selected financial assets. Targets for the reduction of General Government Net Debt have been a part of the Government's Fiscal Strategy since 1998-99.

Chart 6.1 shows Total State Sector Net Debt to Revenue. The Chart shows that the Fiscal Strategy target of the Ratio of Total State Sector Net Debt to Revenue, is declining, on average, over a rolling four-year period will be met.

Chart 6.1: Total State Sector Net Debt to Revenue

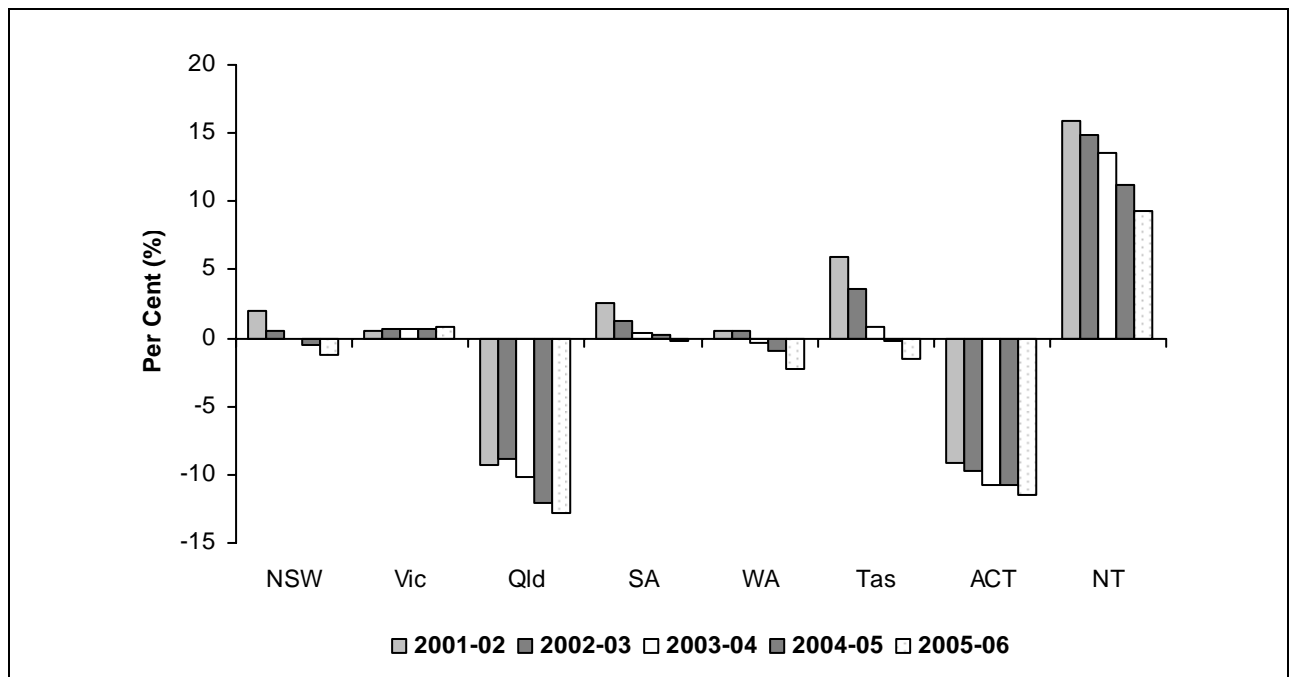


Interstate Comparison

Chart 6.2 provides an interstate comparison of General Government Sector Net Debt as a proportion of Gross State Product (GSP) from 2001-02 to 2005-06. The Chart illustrates that Tasmania's General Government Sector increased its Net Asset position (as a proportion of GSP) in 2005-06.

The Chart reflects a decrease in Net Debt as a proportion of GSP for the Northern Territory in 2005-06, while Victoria experienced a marginal increase in its Net Debt as a proportion of GSP. The Net Asset position of New South Wales, Queensland, Western Australia and the Australian Capital Territory has increased.

Chart 6.2: General Government Sector Net Debt as a Percentage of GSP



Source: *Government Financial Statistics, Australia 2001-02 to 2005-06*, ABS Cat No 5512.0; *Australian National Accounts: State Accounts, 2005-06*, ABS Cat No 5220.0

Interest Costs of the Government

Reduced interest costs are a significant benefit of debt reduction, thus providing expenditure savings. The interest costs of the Government are influenced by both interest rates and variations in the level of Net Debt.

In 2007-08, it is anticipated that interest income will exceed interest expense by \$28.2 million. The revised 2006-07 Budget estimate indicates that interest income will exceed interest expense by \$19.0 million. The improvement in Net Interest Costs reflects a favourable movement in interest income due to an increase in the level of cash held in the Public Account and higher forecast interest rates.

Table 6.2 details the Net Interest Cost paid by the General Government Sector and the Net Interest Cost Ratio from 1998-99 following the introduction of the Government's first Fiscal Strategy. The Net Interest Cost Ratio 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.

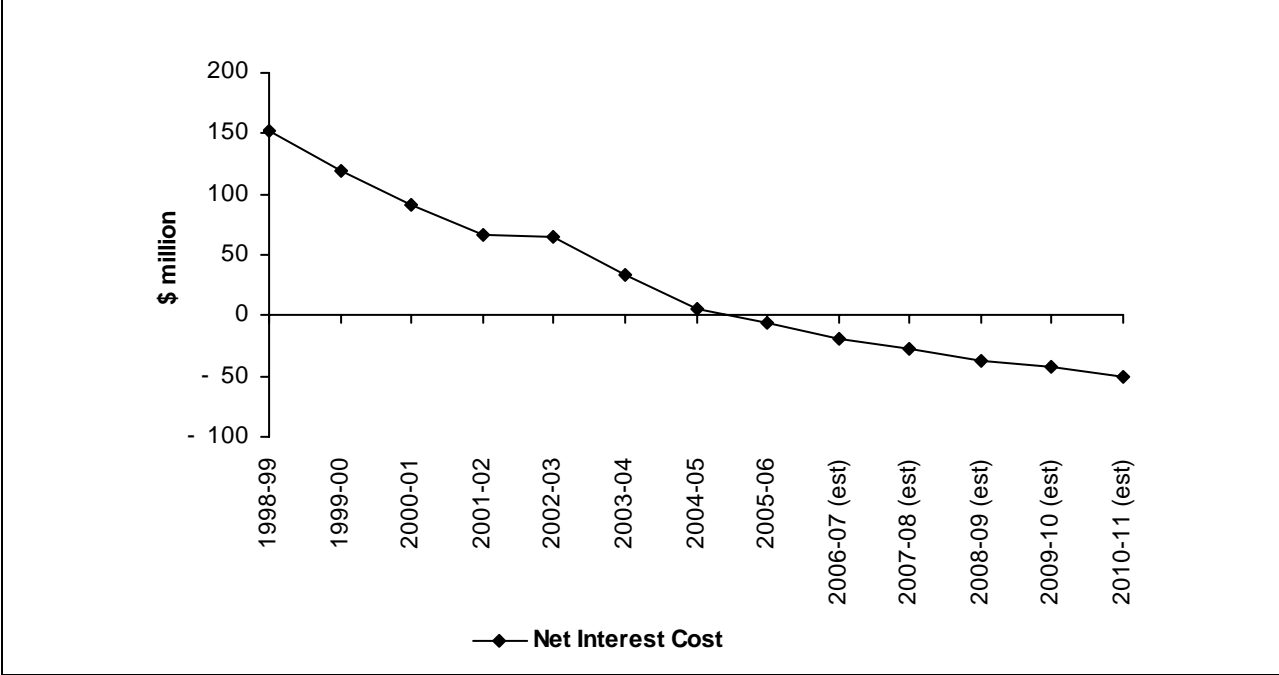
Table 6.2: Net Interest Cost and Net Interest Cost Ratio

	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Revised Estimate	Budget Estimate
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Interest expense	189	157	122	89	80	67	49	27	19	17
less interest income	36	38	30	23	15	33	43	33	38	45
Net Interest Cost	153	119	92	66	65	34	6	(6)	(19)	(28)
Total revenue										
less interest income	2 386	2 566	2 656	2 845	2 934	3 082	3 336	3 371	3 589	3 702
Net Interest Cost Ratio	6.4	4.6	3.5	2.3	2.2	1.1	0.2	(0.2)	(0.5)	(0.8)

Net Interest Cost as a proportion of General Government revenue has reduced significantly since 1998-99, reflecting that successive Fiscal Strategies to reduce the level of debt and reduce the share of revenue required to service that debt have been successful.

Chart 6.3 shows the Net Interest Cost from 1998-99 to 2010-11. The Chart indicates that the Net Interest Cost was negative in 2005-06, that is interest income exceed interest expenses, during 2005-06. This reflects the elimination of Net Debt.

Chart 6.3: Net Interest Cost

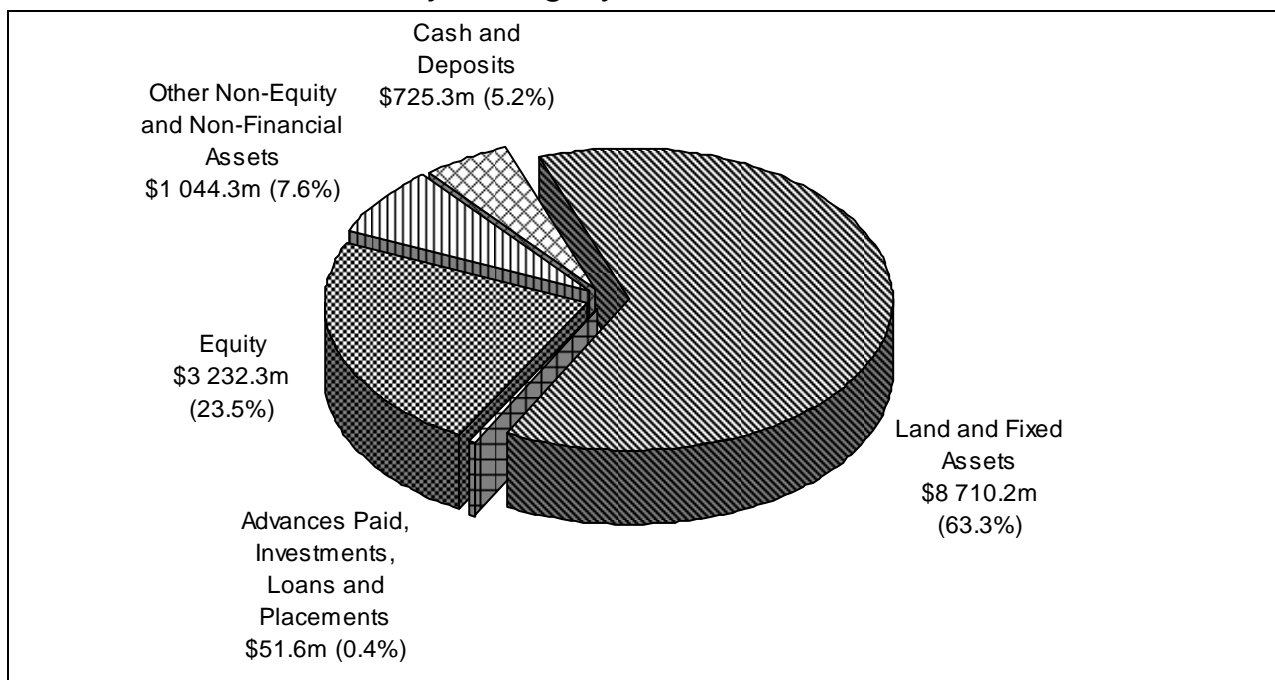


ASSETS

Total assets are estimated to be \$13 763.7 million as at 30 June 2008, an increase of \$1 232.0 million or 9.8 per cent above the 2006-07 Budget estimate of \$12 531.7 million at 30 June 2007.

Chart 6.4 shows the estimated total assets as at 30 June 2008 and a percentage breakdown of the asset categories.

Chart 6.4: Assets by Category as at 30 June 2008



Cash Assets

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

Cash and Deposits

Cash and Deposits is estimated to be \$725.3 million as at 30 June 2008, an increase of \$139.2 million, or 23.7 per cent above the 2006-07 Budget estimate of \$586.1 million. The increase in Cash and Deposits is due to growth in balances held in the Special Deposits and Trust Fund. One of the major increases in the Special Deposits and Trust Fund reflects the receipt in advance of \$60.0 million of Australian Government funding for the East Tamar Highway upgrade. It is estimated that \$44.6 million of that funding will remain unspent at 30 June 2008, and will be drawn down over the subsequent two years as the project is completed.

Advances Paid

Advances Paid is estimated to be \$49.3 million as at 30 June 2008, an increase of \$15.3 million, or 45.3 per cent above the 2006-07 Budget estimate of \$34.0 million. The increase primarily reflects a

reclassification of assets from Other Non-Equity Assets by the Department of Tourism, Arts and the Environment. These assets relate to instalment payments due to the Department of Tourism, Arts and the Environment for the remediation of pollution caused by historical mining operations at Savage River.

Investments, Loans and Placements

Investments, Loans and Placements is estimated to be \$2.3 million as at 30 June 2008, an increase of \$1.0 million, or 76.6 per cent above the 2006-07 Budget estimate of \$1.3 million.

Other Non-Equity Assets

This category is primarily made up of Accounts Receivable; Income Tax Equivalent and Dividends Receivable; Prepayments; Accrued Revenue; and GST Receivables.

Other Non-Equity Assets is estimated to be \$1 005.8 million as at 30 June 2008, an increase of \$123.3 million, or 13.9 per cent above the 2006-07 Budget estimate of \$882.5 million. Table 6.3 lists the major elements included within this category.

Table 6.3 Other Non-Equity Assets as at 30 June

	2007 Budget	2008 Budget
	\$'000	\$'000
Accounts Receivable	139 703	124 750
Income Tax Equivalent Receivable ¹	718 000	858 665
Prepayments	6 625	7 005
Accrued Revenue	5 561	6 504
GST Receivable	12 589	8 901
TOTAL OTHER NON-EQUITY ASSETS	882 478	1 005 825

Note:

1. The increase in Income Tax Equivalent Receivable relates to an asset held by the General Government Sector that mirrors the Income Tax liabilities held by the General Business Enterprises and State-owned Companies in the Public Non-Financial Corporation and Public Financial Corporation sectors. The increase reflects a more accurate estimate based on 2005-06 actuals (which were not known at the time the 2006-07 Budget was prepared) and estimated movements in 2006-07 and 2007-08. The primary reason for the movement is amendments to Australian Accounting Standards impacting on the 2005-06 actuals.

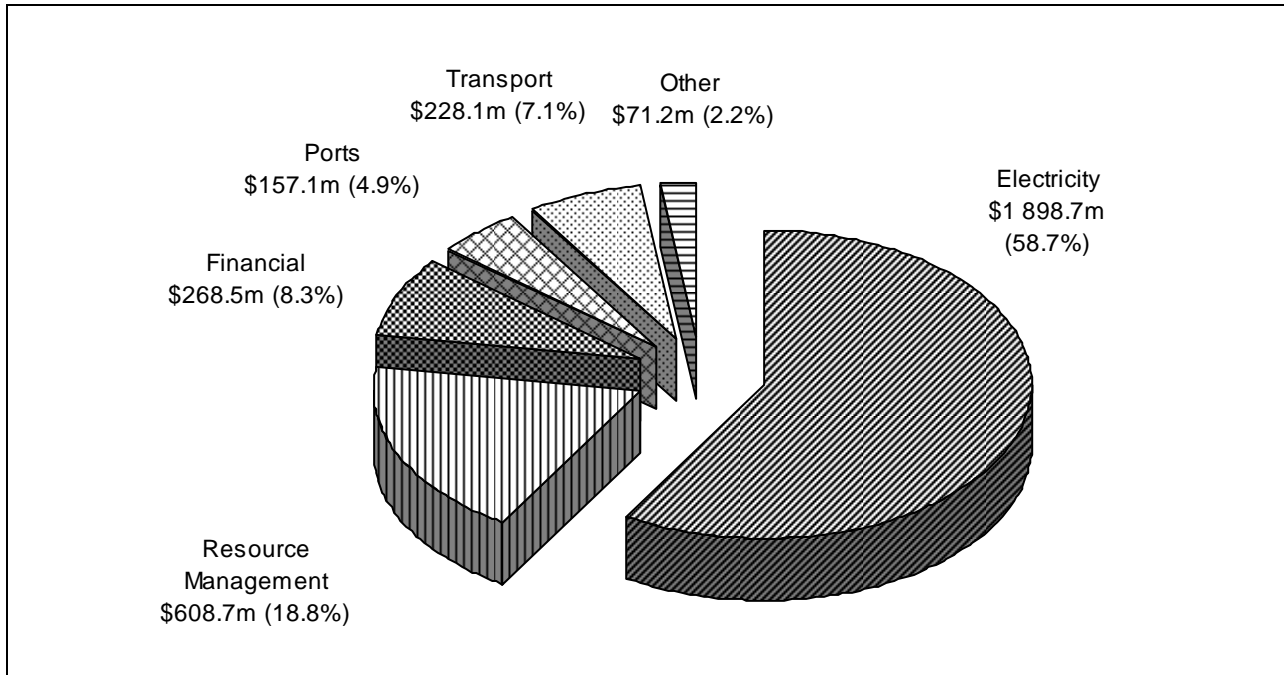
Equity Investments

This item consists of the Government's investment in the net assets of the Public Non-Financial Corporations (PNFC), and Public Financial Corporations (PFC) sectors, and equity investments in private sector businesses by the Department of Economic Development.

Equity is estimated to be \$3 232.3 million, an increase of \$83.9 million, or 2.6 per cent as at 30 June 2008, above the 2006-07 Budget estimate of \$3 148.4 million as at 30 June 2007. The increase reflects a change in the net assets of General Business Enterprises and State-owned Companies, primarily due to growth in net assets for the electricity companies and Forestry Tasmania.

Chart 6.5 illustrates the components of the Government's holdings by category.

Chart 6.5: Equity Investments as at 30 June 2008



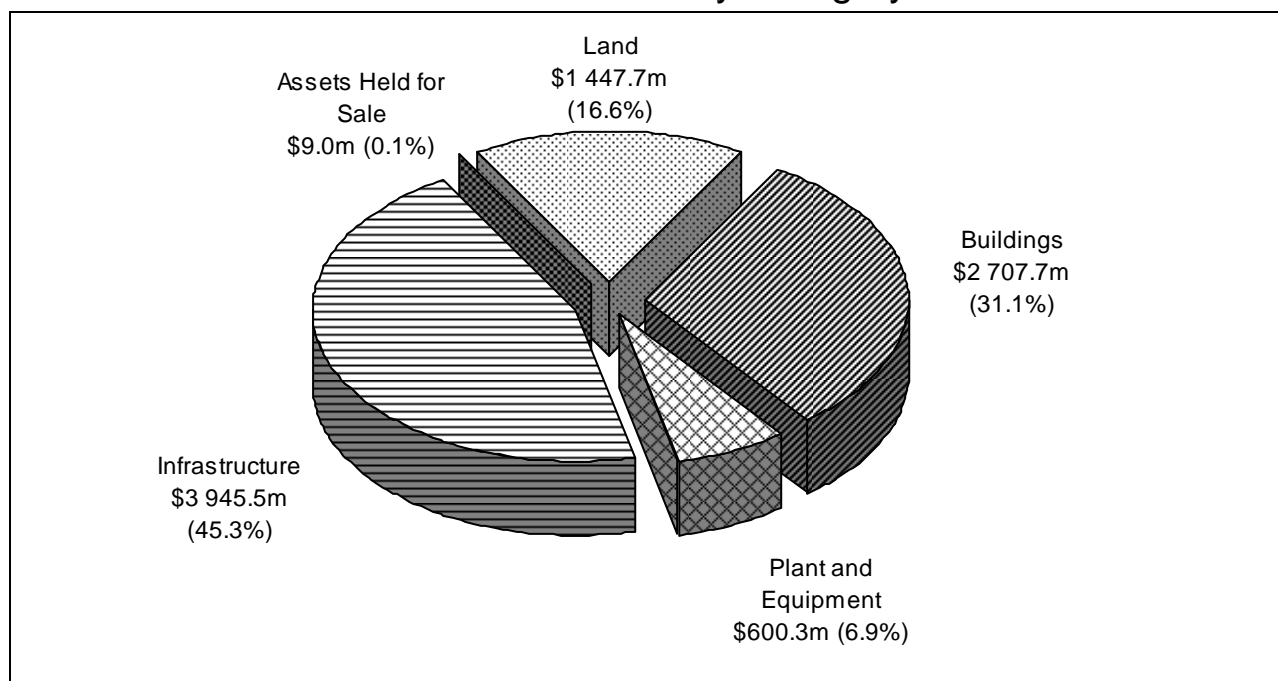
Land and Fixed Assets

This category includes the value of Crown Land and other land holdings, including national parks and conservation areas, schools, hospitals and other buildings held by the Government, infrastructure assets such as roads and bridges, and plant and equipment held by the Government for the provision of goods and services.

Land and Fixed Assets is estimated to be \$8 710.2 million, an increase of \$863.9 million, or 11.0 per cent above the 2006-07 Budget estimate of \$7 846.3 million. The increase reflects the impact of asset revaluations, including an increase of \$312.8 million in road and bridge infrastructure for the Department of Infrastructure, Energy and Resources; \$344.7 million for collections held by the Tasmanian Museum and Art Gallery; and purchases of fixed assets of \$273.6 million, offset by depreciation of existing assets and asset sales.

Chart 6.6 illustrates the categories of Land and Fixed Assets as at 30 June 2008.

Chart 6.6: Land and Fixed Assets by Category as at 30 June 2008



Other Non-Financial Assets

This category includes other assets used in the provision of goods and services. These include items such as livestock, library books, pharmaceutical inventory, catering supplies, linen supplies and intangible assets such as information technology systems.

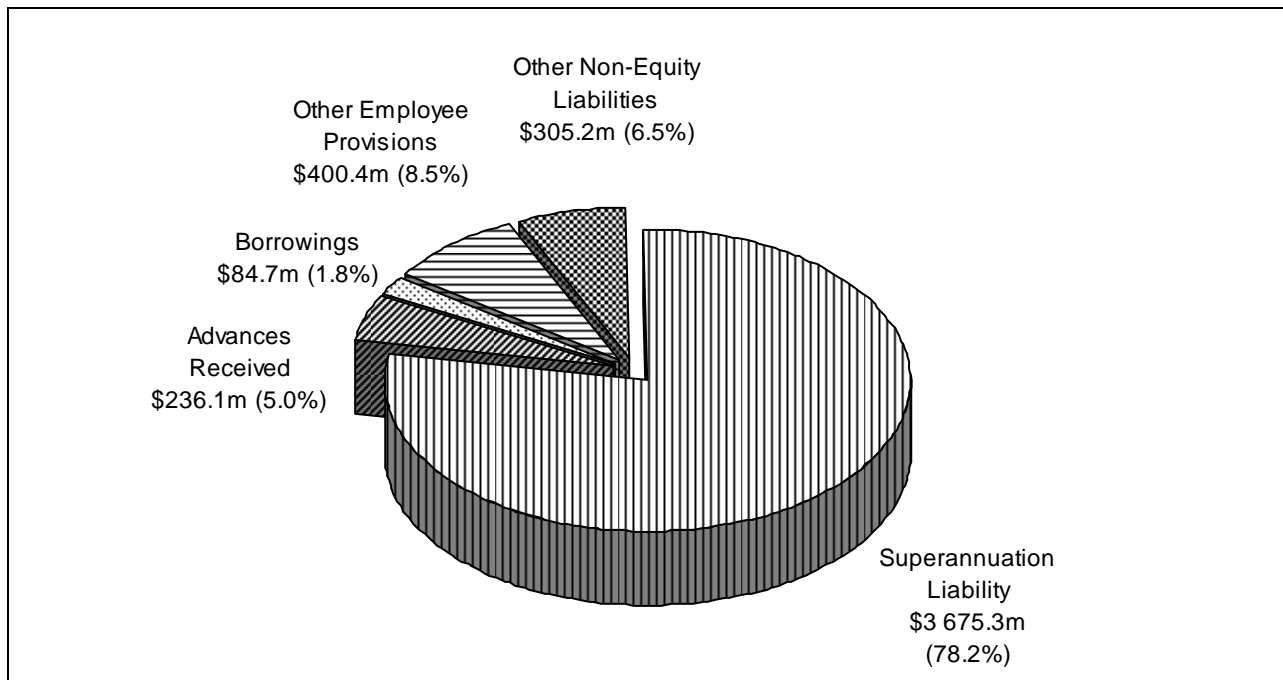
Other Non-Financial Assets are estimated to be \$38.5 million, an increase of \$5.3 million, or 15.8 per cent above the 2006-07 Budget estimate of \$33.2 million. The increase primarily reflects the purchase of intangible assets including the Department of Infrastructure, Energy and Resources' Motor Registry System, and the Department of Justice's Monetary Penalties System. Details of these projects can be found in Chapter 7 of Budget Paper No 1 *The Budget*.

LIABILITIES

Total liabilities are estimated to be \$4,701.6 million as at 30 June 2008, an increase of \$122.4 million or 2.6 per cent above the 2006-07 Budget estimate of \$4,579.2 million.

Chart 6.7 shows the estimated total liabilities as at 30 June 2008 and a percentage breakdown of the liabilities categories.

Chart 6.7: Liabilities by Category as at 30 June 2008



Gross Debt

Gross Debt consists of Advances Received and Borrowings. Advances Received consist of borrowings from the Australian Government. Borrowings include debt owing to the Tasmanian Public Finance Corporation (Tascorp).

Advances Received

Advances Received is estimated to be \$236.1 million as at 30 June 2008, a decrease of \$4.6 million or 2.0 per cent below the 2006-07 Budget estimate of \$240.7 million as at 30 June 2007. The decrease primarily reflects repayment of Australian Government borrowings associated with the Commonwealth-State Housing Agreement. Up until 1989, funding under the Commonwealth-State Housing Agreement was through repayable loan funds. This debt is being repaid at the rate of approximately \$6.0 million per year, with final repayments not due until 2042.

Borrowings

Borrowings are estimated to be \$84.7 million as at 30 June 2008, a decrease of \$63.5 million, or 42.9 per cent below the 2006-07 Budget estimate of \$148.2 million. The decrease primarily reflects repayment of State Debt by Finance-General (\$37.1 million), and repayment of borrowings from Tascorp by the Nominal Insurer (\$16.4 million). On a smaller scale, part of the decrease relates to borrowings made to finance loans to home owners under the Home Ownership Assistance Program (\$3.7 million) and the loan portfolio held by Tasmania Development and Resources (\$3.6 million).

Table 6.4: General Government Sector Gross Debt as at 30 June 2008 by Maturity

	Tascorp Debt	Australian Government Debt ¹	Other Gross Debt	Total Gross Debt
	\$m	\$m	\$m	\$m
Within one year	....	6	21	27
One to five years	17	27	18	62
More than five years	27	203	2	232
TOTAL GROSS DEBT	44	236	41	321

Note:

1. The remaining Australian Government Debt relates to the Commonwealth-State Housing Agreement loans to be paid over the next 35 years.

Superannuation Liability

The Tasmanian Government's superannuation liability is an estimate of the obligations of the State with respect to past service liabilities arising from the current and former members of unfunded or partially funded Public Sector superannuation schemes, all of which are now closed.

The General Government Sector superannuation liability is estimated to be \$3 675.3 million as at 30 June 2008, an increase of \$44.7 million, or 1.2 per cent above the 2006-07 Budget estimate of \$3 630.6 million for 30 June 2007. The increase in the projected value of the liability reflects the most recent assessment of the superannuation liability that, for the years ended 30 June 2006, 2007, and 2008, has been prepared by the State Actuary on the basis of Australian Accounting Standards.

Actuarial estimates of the superannuation liability are based on a wide range of economic, financial and demographic assumptions. Over time, actual outcomes in relation to salary growth, investment returns, the number of resignations and retirements, mortality, morbidity, inflation and the preference for lump sum benefits over pensions can vary from those assumed by the State Actuary.

For this reason, the State Actuary is requested to annually review both the cash flow and unfunded liability estimates and, at three yearly intervals, undertake a comprehensive review of the assumptions underpinning the unfunded liability calculation.

The introduction of AASB 119 *Employee Benefits* by the Australian Accounting Standards Board, applicable from 30 June 2006, has resulted in a number of changes to the calculation of the unfunded superannuation liability by the State Actuary. The nature of AASB 119 is such that the calculation of past service liabilities is likely to fluctuate more significantly than has previously been the case. The requirement to use the adjusted Commonwealth bond rate introduces the potential for greater variability in the valuation of the liability. The valuation of the liability for 30 June 2006 and future years has been based on a discount rate of 5.7 per cent, compared to 5.2 per cent used in the 2006-07 Budget estimate.

The change in the discount rate has been partially offset by increases in the valuation of the contributions tax liability, giving a net increase of \$44.7 million above the 2006-07 Budget estimate.

Further information regarding the General Government Sector superannuation liability and the Government's strategies to manage the liability is provided later in this Chapter.

Table 6.5: Superannuation Liability – General Government Sector as at 30 June

All Schemes - Past Service Liabilities ¹	2007	2008	Variation
	Budget	Budget	
	\$'000	\$'000	%
Retirement Benefits Fund			
Defined Benefit Scheme			
1973 Parliamentary Superannuation Scheme	3 579 889	3 629 145	1.4
1985 Parliamentary Retiring Benefits Scheme ²	16 650	15 535	(6.7)
1968 Judges' Scheme	511	(528)	(203.3)
Total	3 630 629	3 675 287	1.2

Notes:

1. All of the schemes shown in this table are closed to new entrants.
2. It is projected that the 1985 Parliamentary Retiring Benefits Scheme will be in surplus by 30 June 2008. Strong investment returns in recent years has resulted in the level of assets held in the fund exceeding the projected liabilities in the Scheme.

Other Employee Provisions

This category includes provisions for accrued salaries, long service leave, and annual leave.

Other Employee Provisions are estimated to be \$400.4 million as at 30 June 2008, an increase of \$35.1 million, or 9.6 per cent above the 2006-07 Budget estimate of \$365.3 million. The increase reflects increased estimates of long service leave liabilities (\$16.0 million), annual leave liabilities (\$9.9 million), and accrued salaries (\$7.9 million). These increases reflect salary and wage growth and more accurate estimates, after taking into account 2005-06 actual balances that were not known at the time of preparing the 2006-07 Budget.

Other Non-Equity Liabilities

This category is primarily made up of accounts payable, accrued expenses, and liabilities related to the Tasmanian Risk Management Fund.

Other Non-Equity Liabilities is estimated to be \$305.2 million as at 30 June 2008, an increase of \$110.8 million, or 56.9 per cent above the 2006-07 Budget estimate of \$194.4 million. Table 6.6 lists the components included within this category.

Table 6.6 Other Non-Equity Liabilities as at 30 June

	2007	2008
	Budget	Budget
	\$'000	\$'000
Accounts Payable ¹	43 350	70 723
Accrued Expenses	7 940	7 830
Other Liabilities ²	143 157	226 599
TOTAL OTHER NON-EQUITY LIABILITIES	194 447	305 152

Notes:

1. The increase in Accounts Payable primarily reflects a more accurate estimate of the liability based on the Department of Health and Human Service's 2005-06 Financial Statements and current year estimates.
2. The increase in Other Liabilities reflects an update of 2005-06 actual balances, not known at the time of preparation of the 2006-07 Budget estimate. The majority of the increase from 2005-06 actual balances relates to the Department of Infrastructure, Energy and Resources as the Australian Government provided the funding for the East Tamar Highway in advance.

STRATEGIES TO REDUCE MAJOR LIABILITIES

The following section provides further information on the State's superannuation liability and the management of the State's self insured risks through the Tasmanian Risk Management Fund.

Superannuation Liability

Actuarial estimates of the superannuation liability, together with revised outlay estimates and the Fiscal Strategy target of eliminating the State's net unfunded superannuation liability by 30 June 2033, form the basis on which the Government determines funding strategies required to manage the superannuation liability.

The superannuation liability of the Government arises from its defined benefits superannuation schemes, which are unfunded in terms of employer contributions, with the cost of the benefits paid to scheme members met on an emerging basis. The defined benefits schemes have now all been closed to new members. A Superannuation Provision Account (SPA) was established within the Special Deposits and Trust Fund in July 1994 to provide for the employer share of superannuation benefits of defined benefit scheme members employed in agencies and by some Statutory Authorities. These agencies and authorities are currently required to pay into the SPA at an employer contribution rate determined by the Treasurer, on the advice of the State Actuary. For most agencies and authorities, the current employer contribution rate is 11 per cent of salary. In addition, agencies are also required to pay into the SPA a 'gap' payment equivalent to two per cent of salary in respect of each permanent employee appointed after 15 May 1999.

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

Finance-General (through Reserved By Law item) funding is used to meet the emerging cost of pension and lump sum benefits, as well as to provide for the accumulation of funds in SPA capable of fully funding the liability by 2033. In the 2007-08 Budget and Forward Estimate periods, there are sufficient receipts from agencies and from interest on the SPA balance to meet the emerging costs during this period. Accordingly, the Finance-General funding is available to provide for the accumulation of funds in SPA.

Table 6.7 below provides details of the balance of the SPA over the Forward Estimates period.

Table 6.7: Superannuation Provision Account as at 30 June

	2007		2008	2009	2010	2011
	2006	Estimated				
	Actual	Outcome	Budget	Estimate	Estimate	Estimate
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Opening Balance	845 031	1 052 323	1 137 382	1 236 716	1 338 102	1 441 445
Receipts						
Agency Contributions	77 989	76 529	75 963	75 459	74 846	74 126
Interest	50 484	65 600	74 153	73 921	79 723	85 779
Finance-General ¹	137 904	73 489	81 491	89 933	98 839	108 235
ANR Liability Funding ²	57 100	....	....	....	....	....
Total Receipts	323 477	215 618	231 607	239 313	253 408	268 140
Expenditure						
Pensions	76 472	85 050	87 477	90 753	94 170	97 939
Lump Sums	39 713	45 509	44 796	47 174	55 895	59 460
Total Expenditure	116 185	130 559	132 273	137 927	150 065	157 399
Closing Balance	1 052 323	1 137 382	1 236 716	1 338 102	1 441 445	1 552 186

Notes:

1. In accordance with the Government's 2006 Election decision, from 2006-07, contributions into the SPA from Finance-General have been reduced by \$72.0 million per annum from that reported in the 2005-06 Budget.
2. In 2005-06, an additional \$57.1 million was paid into SPA with funds provided by the Australian Government to extinguish its liability for former Australian National Railway employees.

The Government's strategy of managing its superannuation liability is to ensure that contributions to the SPA exceed expenditure from the SPA, as demonstrated in Table 6.7. This strategy has resulted in a significant and increasing balance in the SPA over the Forward Estimate period.

Contributions to the SPA will be reviewed as part of the annual Budget process to ensure the Government is on target to eliminate the net unfunded superannuation liability by 2033, as outlined in the Fiscal Strategy.

Future Unfunded Liabilities

Although the scheme has now been closed, the unfunded past service liability for the RBF Defined Benefit Scheme is projected to increase. This primarily reflects the ongoing accrual of additional years of service and salary increases for existing scheme members.

From 2010, the net unfunded superannuation liability, defined as the superannuation liability less the SPA balance, is estimated to decrease in nominal terms, as shown in Table 6.8. This is due to the increase in the SPA balance and a slight decline in the rate of increase in the RBF Defined Benefit Scheme entitlements.

Table 6.8: Net Unfunded Superannuation Liability as at 30 June

	2007		2008 Budget	2009 Estimate	2010 Estimate	2011 Estimate
	2006 Actual	Revised Estimate				
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Superannuation Liability	3 199 382	3 553 827	3 675 287	3 791 405	3 888 430	3 974 274
Less Superannuation Provision Account Balance	(1 052 323)	(1 137 382)	(1 236 716)	(1 338 102)	(1 441 445)	(1 552 186)
Net Unfunded Superannuation Liability	2 147 059	2 416 445	2 438 571	2 453 303	2 446 985	2 422 088
Estimated percentage change		12.5	0.9	0.6	(0.3)	(1.0)

Notwithstanding the increases in the superannuation liability shown above, had the decision not been taken to close the RBF Defined Benefit Scheme and other defined benefit schemes in mid-1999 and increase provisions to meet the cost of the liabilities, the State would be facing a crippling superannuation liability over future decades. This would have put increasing and unsustainable pressure on the Budget.

Tasmanian Risk Management Fund

The Tasmanian Risk Management Fund (the Fund) was established from 1 January 1999 to provide the basis for the progressive implementation of a whole-of-government approach to the treatment of identified risks to which inner-Budget agencies are exposed, including ensuring that adequate financial provision is made for the cost of risk.

The identified risks to which agencies are exposed and which are covered by the Fund include:

- personal injury (including workers' compensation and personal accident);
- property (including buildings and contents, business interruption, motor vehicles, machinery, marine hull, transit and fraud);
- liability (including public and products, professional, and directors and officers liability);
- medical liability; and
- travel.

All classes are self-insured by the Fund except for marine hull and travel, which remain insured through the private sector, as this is more cost-effective than self-insurance for these two categories of risk.

Performance of the Fund

The Fund operates on a fully funded basis with all inner-Budget agencies making relatively stable contributions each year in order to build up sufficient reserves to meet all current and emerging costs.

Contributions are based on advice from the Fund's Actuary and are adjusted over time according to the claims experience of agencies.

Minimal increases and, in some risk categories, reductions in contributions were achieved in 2004-05, 2005-06 and 2006-07, with the exception of medical liability which has moderately increased each year.

In 2007-08, contributions are expected to increase for workers' compensation and medical liability which will be partially offset by a reduction in general property contributions. Contributions for the remaining risk categories are likely to be similar to those in 2006-07. Overall, total agency contributions are estimated to increase from \$28.7 million in 2006-07 to \$30.2 million in 2007-08.

In terms of the financial position of the Fund, it is expected that the Fund will continue to build its assets and, at 30 June 2008, it is estimated that the Fund will have assets of \$138.0 million and liabilities of \$134.6 million. This will result in the Fund being in a net asset position of \$3.4 million, as shown in Table 6.9. This is an improvement to the financial position at 30 June 2006, where the Fund had net liabilities of \$1.8 million.

The 2005-06 outcome was largely the result of a revised estimate by the Fund's Actuary of outstanding medical liability claims to \$46.6 million, an increase of \$9.4 million from 2004-05. The outstanding liabilities for medical liability are being offset by an additional contribution to the Fund through Finance-General.

Table 6.9: Financial Position of the Tasmanian Risk Management Fund as at 30 June

	2005	2006	2007	2008
	Actual	Actual	Revised Estimate	Budget
	\$'000	\$'000	\$'000	\$'000
Current Assets				
Account in the Special Deposits and Trust Fund	95 961	112 805	122 973	135 850
Receivables	839	2 104	2 104	2 104
Total Assets	96 800	114 909	125 077	137 954
Liabilities				
Workers' Compensation	56 843	59 140	61 600	63 200
Property	2 890	4 080	2 186	2 186
Motor Vehicle	140	50	....	....
Liability	4 460	5 470	6 033	6 033
Medical	37 190	46 560	56 900	61 800
Payables and Provisions	597	1 380	1 380	1 380
Total Liabilities	102 120	116 680	128 099	134 599
Net Assets	(5 320)	(1 771)	(3 022)	3 355

7 INFRASTRUCTURE INVESTMENT

Features

- In 2007-08, the planned level of investment in General Government Sector infrastructure is \$288.7 million, an increase of \$9.8 million on 2006-07 infrastructure investment of \$278.9 million.
- Infrastructure investment in 2007-08 will comprise:
 - \$172.1 million for roads, rail and communication infrastructure;
 - \$39.7 million for hospitals and health infrastructure;
 - \$14.6 million for housing;
 - \$26.9 million for schools and education infrastructure;
 - \$11.3 million for law and order; and
 - \$22.5 million for tourism, recreation and culture.
- In addition to the \$30.0 million Kingston High School redevelopment, the Government will invest a further \$30.0 million over four years to upgrade school and library facilities across the State as part of the Building for the Future program.
- Over the next four years, additional funding of \$20.5 million will be spent on road safety infrastructure under the Government's new Road Safety Strategy, commencing with estimated expenditure of \$2.4 million in 2007-08.
- In addition to the \$288.7 million of planned infrastructure investment, it is estimated that \$89.8 million will be spent on general asset maintenance in 2007-08, an increase of \$8.9 million on 2006-07 expenditure of \$80.9 million.

INTRODUCTION

Investment in Tasmania's public infrastructure assets is essential for the effective delivery of services to the community and promoting growth within the State. Infrastructure investment activities include:

- road development and maintenance;
- building construction and maintenance;
- information technology systems and telecommunications development; and
- appropriate land acquisitions.

Infrastructure investments made by the Government Business Enterprises or State-owned Companies are outside the General Government Sector, and are therefore not included in this Chapter.

Since the 2006-07 Budget, the Infrastructure Investment Chapter has been restructured to provide a greater focus on infrastructure investment expenditure within the General Government Sector. The review has resulted in some change to the level of infrastructure expenditure previously reported. In this regard, the 2006-07 Budget information has been recast to enable it to be compared with the 2007-08 Budget.

The 2006-07 Budget information reported previously focused on accounting classifications of total expenditure into building works, infrastructure works, plant and equipment and other capital works. The Chapter now focuses on the Government's major infrastructure investment programs, the Capital Investment Program (CIP) and infrastructure related projects in the Special Capital Investment Funds (SCIF). Sundry asset acquisition expenditure that represents ongoing asset management activity previously included in the Chapter is now excluded. The restructured Chapter highlights those projects that improve public infrastructure in Tasmania.

INFRASTRUCTURE INVESTMENT

As stated in the Government's Fiscal Strategy, the Government is committed to maintaining investment in core General Government infrastructure in real terms to support the delivery of government services and to foster economic and industry development.

In 2007-08, total expenditure by agencies on infrastructure related projects is estimated to be \$288.7 million, an increase of \$9.8 million on the 2006-07 estimate of \$278.9 million.

Major areas of Government infrastructure spending include:

- the Roads Program;
- the Housing Program;
- major one-off capital projects including the new Kingston High School, and in the future, the new Royal Hobart Hospital and the Brighton Transport Hub; and
- on-going development and replacement of buildings, plant and equipment and other infrastructure.

Table 7.1 provides a summary of projected expenditure by General Government Sector agencies on infrastructure projects.

Table 7.1: Infrastructure Expenditure by Agency 2007-08

Agency	2006-07 Budget \$'000	2007-08 Budget \$'000
Education ¹	14 451	22 484
Finance-General	5 864	2 728
Health and Human Services ^{2,3}	80 568	54 355
Infrastructure, Energy and Resources ⁴	133 189	169 401
Justice ⁵	19 904	10 283
Marine and Safety Authority	600	500
Police and Emergency Management ⁶	2 700	1 000
Premier and Cabinet	500	350
Primary Industries and Water ⁷	3 051	1 143
TAFE Tasmania	4 145	4 420
Tourism, Arts and the Environment ⁸	13 961	22 043
TOTAL	278 933	288 707

Notes:

1. The increase in Education expenditure reflects additional funding for the Kingston High School redevelopment and the new \$30.0 million four year Building for the Future program.
2. The decrease in Health and Human Services reflects the completion or near completion of a number of Royal Hobart Hospital capital initiatives including the construction of the Infill Building and the Department of Emergency Medicine.
3. In 2007-08, Health and Human Services expenditure includes \$14.6 million for the Housing Program. Details of the Housing Program are provided in Table 7.4.
4. In 2007-08, Infrastructure, Energy and Resources expenditure includes \$139.3 million for the Roads Program. Details of the Roads Program are provided in Table 7.5.
5. The decrease in Justice reflects a reduction in finance repayments for the new Risdon Prison.

6. The decrease in Police and Emergency Management reflects the completion of the Launceston Police Station refurbishment and the finalisation of the Forensic Science Services refurbishment.
7. The decrease in Primary Industries and Water primarily reflects the completion of a significant level of work under the Crown Land Services – Structural Upgrades initiative and completion of the Relocation and Upgrade of Specialist Facilities to Support Biosecurity Tasmania Initiative.
8. The increase in Tourism, Arts and the Environment reflects funding for the Cradle Mountain Sewage Treatment project and the Tasmanian Museum and Art Gallery initiative.

Infrastructure Investment Framework

Infrastructure spending decisions are managed through the Government's Capital Investment Program (CIP). The CIP incorporates the Roads and Housing Programs, and is supplemented through allocations from Special Capital Investment Funds such as the Royal Hobart Redevelopment Fund, the Better Roads Fund and the Economic and Social Infrastructure Fund.

The Government's strategic direction for infrastructure investment spending is supported by agency specific Strategic Asset Management Plans (SAMPs). SAMPs are part of a strategic asset management framework which establishes:

- criteria and standards for control and management of assets;
- strategies and processes for asset acquisition, maintenance, disposal and risk management; and
- priorities for allocating resources for asset management.

The development, replacement and maintenance of assets through specific infrastructure investment projects reflects the Government's commitment to maintain existing infrastructure, and is complemented by general asset maintenance expenditure not included in specific projects.

In addition to the \$288.7 million in infrastructure investment projects outlined in this Chapter, the Government:

- will spend an estimated \$89.8 million on general asset maintenance in 2007-08, an increase of \$8.9 million on 2006-07 expenditure of \$80.9 million; and
- supports infrastructure developments through capital grant payments to entities outside the General Government Sector. These capital grant payments include allocations from the Economic and Social Infrastructure Fund for major infrastructure projects such as the state-wide rollout of Gas Infrastructure (\$46.4 million), the Main Street Makeover payments to Local Governments (\$6.0 million), and the recent provision of \$10.0 million to the Launceston City Council for upgrading the Launceston Flood Levees.

Details of expenditure from the Special Capital Investment Funds (including Capital Grant payments) are provided in Chapter 4 in Budget Paper No 2 *Government Services*.

Funding Sources

Investment in the State's General Government Sector assets is funded through:

- annual Consolidated Fund works and services appropriations by the State Government;
- Specific Purpose Payments and General Purpose Payments received from the Australian Government for capital related education, housing and roads projects; and
- the balance of Special Capital Investment Funds established for the purpose of improving the State's infrastructure.

Funding for Infrastructure Investment is detailed in Table 7.2.

Table 7.2: Infrastructure Projects Funding Sources

	2006-07 Budget	2007-08 Budget
	\$'000	\$'000
Infrastructure Funding Sources		
State Funding		
Works and Services Appropriation	133 621	132 841
Special Capital Investment Funds¹	54 013	50 798
Asset Sale Proceeds²	9 500	7 000
Other³	23 877	20 702
Australian Government Funding⁴	57 922	77 366
	278 933	288 707

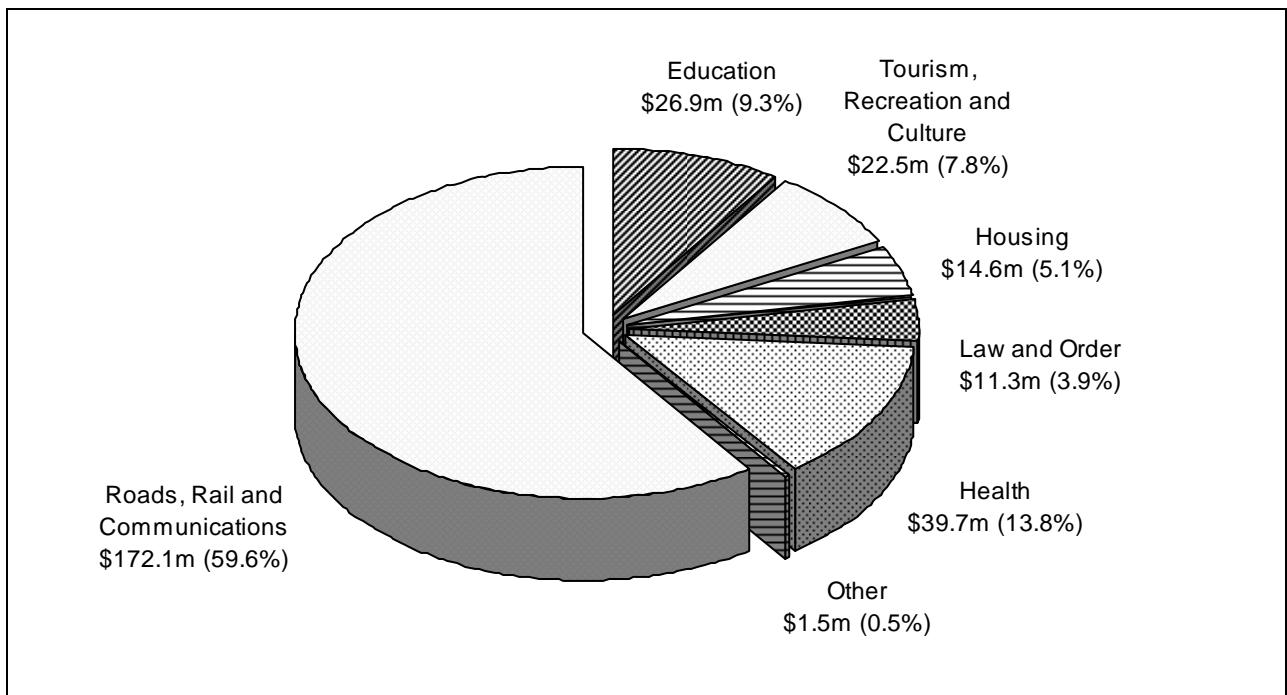
Notes:

1. Details of Special Capital Investment Funds are provided in Chapter 4 of Budget Paper No 2 *Government Services*.
2. The decrease in Asset Sale Proceeds reflects the variable nature of agency asset sales. Asset sales relate to the Housing Program. Funds received are reinvested into the program.
3. Other Infrastructure Funding Sources includes \$13.1 million of funding carried forward from previous years in accordance with section 8A(2) of the *Public Account Act 1986*, Road Safety Levy funding of \$4.3 million and funding of \$3.3 million sourced from the Special Deposits and Trust Fund relating to Housing.
4. Australian Government Funding in 2007-08 consists of \$61.0 million for Roads Infrastructure, \$12.4 million for Education and \$4.0 million for the Housing Program.

MAJOR AREAS OF INFRASTRUCTURE INVESTMENT

The most significant areas of infrastructure expenditure typically consist of roads, health, housing and education. Chart 7.1 details the areas of infrastructure expenditure in 2007-08. The major areas of Infrastructure Investment in 2007-08 by sector are detailed below.

Chart 7.1: Infrastructure Investment Expenditure by Classification, 2007-08



Notes:

1. Education includes infrastructure investment by the Department of Education (\$22.5 million) and TAFE Tasmania (\$4.4 million).
2. Tourism, Recreation and Culture includes infrastructure investment by the Department of Tourism, Arts and the Environment (\$22.0 million) and Marine and Safety Tasmania (\$500 000).
3. Housing infrastructure investment is provided through Housing Tasmania, a Division of the Department of Health and Human Services.
4. Law and Order includes infrastructure investment by the Department of Justice (\$10.3 million) and the Department of Police and Emergency Management (\$1.0 million).
5. Health infrastructure investment reflects expenditure by the Department of Health and Human Services less expenditure by Housing Tasmania.
6. Other includes infrastructure investment by the Department of Primary Industries and Water (\$1.1 million) and the Department of Premier and Cabinet (\$350 000).
7. Roads, Rail and Communications includes infrastructure investment by the Department of Infrastructure, Energy and Resources (\$169.4 million) and Finance-General (\$2.7 million).

Education

- Kingston High School Redevelopment – provision of \$30.0 million has been made to construct a new Kingston High School in the Kingborough Sports Centre precinct. The new school, which will cater for approximately 700 secondary students from Years 7 to 10, will be equipped with modern information and technology systems and have modern multi-purpose learning areas. It will also provide state-of-the-art specialist facilities to accommodate innovative programs in key areas such as science and technology, music, languages, the arts, design and sport. It is estimated \$1.8 million of the \$30.0 million total allocation will be spent in 2007-08, with the project expected to be completed by 2011.
- Building for the Future – a new funding package of \$30.0 million over four years is provided for projects to upgrade educational infrastructure. These projects will include refurbishing and redeveloping a number of schools across the State; upgrading the Rosny, Devonport and Glenorchy libraries; and establishing a further Learning and Information Network Centre (LINC). It is estimated \$5.0 million of the \$30.0 million total allocation will be spent in 2007-08, with the expected completion date of all projects in the funding package by June 2011. Elements of the package commencing in 2007-08 include:
 - capital works at the Deloraine and Spreyton Primary Schools;
 - refurbishing general learning areas at the St Helens District High School; and
 - refurbishing classrooms at the Wynyard High School.
- Launceston Northern Suburbs – funding is provided for the provision of contemporary primary school facilities in Launceston's northern suburbs, including the redevelopment of Mayfield Primary School. It is estimated \$5.2 million of the \$6.1 million total allocation will be spent in 2007-08, with an expected completion date of June 2008.
- Southern Branch Support School and Inclusive Education Training Facility – funding is provided for the completion of a contemporary learning centre for students with disabilities and an inclusive education training facility. At a total cost of \$3.1 million and a completion date of June 2008, \$2.8 million will be expended during 2007-08.
- TAFE Tasmania – funding is provided for a number of projects within TAFE Tasmania, including the redevelopment and construction of buildings at the Alanvale Campus and the Thynes Building in Launceston (\$1.5 million), capital works at the Burnie Campus (\$955 000) and Information Technology upgrades at a number of sites (\$550 000).
- Upgrading Primary Schools – funding is provided for the upgrade and refurbishment of a number of primary schools in 2007-08, including:
 - Lansdowne Crescent Primary School (\$1.1 million);
 - Mount Stuart Primary School (\$1.7 million);
 - New Norfolk Primary School (\$1.0 million);
 - Snug Primary School (\$1.6 million); and
 - Taroona Primary School (\$1.7 million).

Health

- George Town District Hospital – funding is provided for the redevelopment of a 15 single room in-patient facility, and the development of a general use treatment room and office accommodation for community nurses. It is expected that \$744 000 of the \$5.1 million total allocation will be spent in 2007-08. The expected completion date is September 2007.
- Hospital Equipment Fund – this 2006 Election commitment provides \$25.0 million over five years to purchase high need medical equipment for the State's major public hospitals. To date, commitments have been made for three linear accelerators, a holium laser, two mammography diagnostic units, an echo machine, urology equipment and orthopaedic equipment. Approximately \$9.1 million of the \$25.0 million allocation will be expended during 2007-08. All funds will be expended by 2010-11.
- Hospital Information Systems – funding is provided to replace the existing computer systems in the Royal Hobart Hospital, Launceston General Hospital and North West Regional Hospital with a new single, state-wide patient information system. It is estimated \$3.3 million of the \$6.5 million allocation will be spent in 2007-08, with June 2008 the expected completion date.
- Mental Health Review – this project includes the development of a level four facility in the Northern Region (\$2.0 million), a level three facility in the North West (\$1.5 million) and general upgrades to Mental Health facilities. It is estimated \$2.5 million of the \$4.4 million allocation will be spent in 2007-08, with March 2008 the expected completion date.
- Launceston General Hospital Emergency Department – this 2006 Election commitment provides \$12.0 million for the redevelopment of the Department of Emergency Medicine, including the increase of available floor space, creation of a short stay observation ward and a separate triage area. During 2007-08, \$755 000 will be spent advancing this commitment. The expected completion date for the redevelopment is June 2010.
- North West Regional Hospital (NWRH) Mersey Campus Redevelopment – this initiative provides \$5.0 million for the redevelopment of the NWRH Mersey Campus. Approximately \$200 000 of these funds will be expended in 2006-07 to address quality and safety issues and some urgent clinical equipment requirements. The balance of funds will be used to meet future capital equipment and infrastructure requirements in accordance with *Tasmania's Health Plan*.
- New Ambulances – this 2006 Election commitment provides \$10.7 million for the purchase of 100 new ambulances to replace ageing vehicles in Tasmania's ambulance fleet. This funding will ensure that virtually the entire ambulance fleet will be upgraded over the next four years, including the purchase and fit out of 26 ambulance vehicles in 2007-08. Approximately \$3.4 million will be spent on this initiative during 2007-08.
- Royal Hobart Hospital Capital – this 2006 Election commitment provides \$13.2 million for the purchase of equipment for the new Department of Emergency Medicine, Neonatal/Paediatric Intensive Care Unit, Operating Theatres and building works for the state-wide Paediatric Enhancement initiative. It is estimated that \$2.6 million will be spent on this initiative during 2007-08. The expected completion date of this initiative is June 2009.
- Royal Hobart Hospital Redevelopment Fund – this \$35.0 million fund was established for the redevelopment of the Royal Hobart Hospital (RHH). During 2007-08, \$8.8 million will be expended from

the Fund to complete construction of the Infill Building, finalise the new Department of Emergency Medicine and advance the planning for the new RHH.

- Smithton District Hospital – funding is provided to redevelop and upgrade the Smithton District Hospital to contemporary standards and to allow community health services to be collocated to meet growing community needs. It is expected \$4.1 million of the \$5.8 million total allocation will be spent during 2007-08. The expected completion date of the project is December 2008.

Housing

- During 2007-08, \$14.6 million will be expended on the State's Housing Program. This expenditure includes \$3.2 million on the Community Housing Program, \$1.9 million for the Crisis Accommodation Plan and \$6.0 million for repayment of principal under the Commonwealth-State Housing Agreement.
- Further details regarding the Housing Program are provided in a separate section of this Chapter.

Law and Order

- Prison Infrastructure Redevelopment Program – cash flows beyond the September 2006 completion date of the Prison represent construction finance repayments. In 2007-08, \$9.2 million is provided to meet these financing costs. These repayments will cease in 2009-10.

Roads, Rail and Communications

- During 2007-08, \$139.3 million of State and Australian Government funding will be expended on the Roads Program. This expenditure includes State funding of \$35.4 million for infrastructure development and \$39.3 million for infrastructure maintenance.
- The Roads Program also includes funding of \$20.5 million over the next four years to improve roads infrastructure under a new road safety strategy: *Our Safety, Our Future – Tasmanian Road Safety Strategy 2007-2016*. In 2007-08, it is estimated that \$2.4 million of this funding will be spent. Further details on the new road safety strategy are provided in Chapter 6 in Budget Paper No 2 *Government Services*.
- Further details regarding the Roads Program are provided in a separate section of this Chapter.
- Telecommunications Project – a total allocation of \$7.0 million was provided for the advancement of the state-wide Telecommunications Project. This funding included \$4.0 million for the extension of the optic fibre cable into Burnie, Devonport, Launceston and Hobart. This project will be completed during 2007-08 with a final funding allocation of \$2.7 million.
- Motor Registry Project – a total funding allocation of \$16.1 million was provided for the redevelopment of the state-wide Motor Registry System. The new Motor Registry system will better meet business needs and enable Tasmania's motor registration system to be integrated with the national system. Approximately \$5.2 million will be spent on advancing the Project during 2007-08. The Project is expected to be completed by June 2009.
- Rail Infrastructure Maintenance and Development – as part of the State Rail Rescue Package the State Government will provide \$40.0 million over ten years to meet costs associated with the ongoing maintenance of the State's rail infrastructure. In 2007-08, the State will provide \$4.1 million for this

purpose. Also as part of the Rescue Package, the Australian Government will provide \$78.0 million for the redevelopment of the State's rail infrastructure. Approximately \$17.3 million will be spent for this purpose during 2007-08.

- Rail Management – the Department of Infrastructure Energy and Resources will be allocated \$3.5 million in 2007-08 for the purpose of meeting costs associated with the ongoing management, assessment and oversight functions of the State's investment in rail infrastructure. Following the transfer of the rail infrastructure to the State, this will be an ongoing responsibility of the Department.

Tourism, Recreation and Culture

- Jetties – this 2006 Election commitment provides \$5.0 million to Marine *and* Safety Tasmania (MAST) over five years for the maintenance and improvement of the State's jetty infrastructure. Jetty infrastructure identified for maintenance and improvement funding includes Opossum Bay, Swansea, Kettering, Nubeena, Pirates Bay and Southport. It is anticipated MAST will spend approximately \$500 000 during 2007-08 on jetty maintenance and improvements. The expected completion date is June 2011.
- Cradle Mountain Central Sewage Treatment – funding is provided for the staged construction of new central sewage treatment infrastructure to support current and future tourism development at the site. It is expected that \$9.6 million of the total \$13.2 million allocated to the Project will be spent during 2007-08. The sewerage works is anticipated to be completed by September 2008.
- Tasmanian Museum and Art Gallery (TMAG) Infrastructure – this 2006 Election commitment provides for a major redevelopment of the Hobart TMAG site. The redevelopment will feature preservation of key heritage buildings, an archaeological dig, and a design for a new TMAG building. It is expected that approximately \$8.7 million of the total \$30.0 million funding allocation will be spent during 2007-08.
- Tourism Infrastructure – funding is provided for the support of key tourism infrastructure development across the State. It is expected that \$2.1 million of the \$6.0 million total allocation will be spent in 2007-08.
- Analytical Services Laboratories – total funding of \$2.1 million from the Economic and Social Infrastructure Fund is provided for the construction of new premises for Analytical Services Tasmania (AST) in New Town. AST were previously located at the University of Tasmania. However, due to other developments at the University, AST was required to relocate its activities. It is expected that construction will be completed during 2007-08.
- Cradle Tourism Development Plan – in 2007-08, funding of \$526 000 is available to complete the purchase of land adjacent to the Cradle Mountain-Lake St Clair National Park to provide better services at the entrance to the northern end of the Park. The total cost of this initiative is approximately \$3.0 million. It is expected that the project will be completed during 2007-08.

INFRASTRUCTURE INVESTMENT PROJECT DETAILS BY AGENCY

Table 7.3 details the estimated cost of individual infrastructure investment projects by agency. 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 scheduled to go to tender late in the financial year and for which funds are not currently provided in 2007-08.

Table 7.3: Infrastructure Investment Project Details by Agency

	Start	Complete	Estimated Total Cost	2007-08 Budget	2008-09 Estimate	2009-10 Estimate
			\$'000	\$'000	\$'000	\$'000
DEPARTMENT OF EDUCATION¹						
Disabled Access Initiative	2008	2009	1 982	....	1 982	....
Glen Dhu Primary School	2006	2007	1 231	701	....	....
Huonville High School	2008	2009	2 338	....	2 338	....
Invermay Primary School	2008	2009	1 906	....	1 906	....
Kingston Education Infrastructure Initiative (EC) ²	2006	2011	30 000	1 800	5 000	12 000
Lansdowne Crescent Primary - Classroom						
Redevelopment	2007	2008	1 088	1 088	....	....
Launceston Northern Suburbs Schools	2006	2008	6 064	5 211	....	....
Mount Stuart Primary School	2007	2008	1 650	1 650	....	....
New Norfolk Primary School	2007	2008	2 591	1 000	1 591	....
Reducing Class Sizes from Years 2 to 7						
State-wide (EC)	2008	2010	1 800	....	450	450
Snug Primary School	2007	2008	1 562	1 562	....	....
Southern Branch Support School and Inclusive						
Education Training Facility	2005	2008	3 108	2 761	....	....
Supporting School Farms (EC)	2006	2008	300	....	100	....
Taroona Primary School	2007	2008	1 711	1 711	....	....
				<u>17 484</u>	<u>13 367</u>	<u>12 450</u>
Building for the Future Infrastructure Package³						
City Library - Multi-sites Project	2008	2009	1 500	....	1 500	....
Deloraine Primary School	2007	2007	450	450	....	....
Establish a New Learning and Information						
Network Centre (LINC)	2009	2011	3 568	....	....	1 308
Ogilvie High School - Redevelopment of						
Kitchens and Art Areas	2008	2010	4 140	....	2 640	1 500
Renewing Structures and Locations of Schools	2008	2010	5 672	....	532	5 140
Rose Bay High School	2008	2009	3 380	....	2 328	1 052
Secondary Schools Science Laboratories						
Upgrade	2009	2011	1 800	....	....	1 000
Spreyton Primary School	2007	2008	1 225	1 225	....	....
St Helens District High School - Refurbish						
General Learning Areas	2007	2008	1 474	1 474	....	....
Wynyard High School - Refurbish Existing						
Classrooms	2007	2008	1 851	1 851	....	....
				<u>5 000</u>	<u>7 000</u>	<u>10 000</u>
TOTAL				<u>22 484</u>	<u>20 367</u>	<u>22 450</u>

Table 7.3: Infrastructure Investment Project Details by Agency
(continued)

	Start	Complete	Estimated Total Cost	2007-08 Budget	2008-09 Estimate	2009-10 Estimate
			\$'000	\$'000	\$'000	\$'000
FINANCE-GENERAL						
Telecommunications Project	2004	2008	7 025	2 728	....	....
TOTAL				<u>2 728</u>	<u>....</u>	<u>....</u>
DEPARTMENT OF HEALTH AND HUMAN SERVICES						
Housing (refer to Table 7.4 for details)				<u>14 626</u>	<u>9 802</u>	<u>9 908</u>
				<u>14 626</u>	<u>9 802</u>	<u>9 908</u>
Other Health Infrastructure						
Dental Surgeries (EC)	2006	2008	2 500	1 450	....	....
George Town District Hospital	2006	2007	5 100	744	....	....
Hospital Equipment Fund (EC)	2007	2011	25 000	9 128	6 702	....
Hospital Information System	2006	2008	6 500	3 280	....	....
Launceston General Hospital Emergency Department (EC)	2008	2010	12 000	755	4 245	7 000
Mental Health Review	2005	2008	4 360	2 464	....	....
NWRH Mersey Campus Redevelopment Fund (EC)	2006	2009	5 000	3 050	1 750	....
New Ambulances (EC)	2006	2010	10 670	3 370	2 930	2 000
Royal Hobart Hospital Capital (EC)	2006	2009	13 200	2 625	1 910	....
Royal Hobart Hospital Redevelopment Fund	2006	2009	35 000	8 775	5 149	....
Smithton District Hospital	2006	2008	5 778	4 088	750	....
				<u>39 729</u>	<u>23 436</u>	<u>9 000</u>
TOTAL				<u>54 355</u>	<u>33 238</u>	<u>18 908</u>
DEPARTMENT OF INFRASTRUCTURE, ENERGY AND RESOURCES⁴						
Roads Program Expenditure (refer to Table 7.5 for details)				<u>139 282</u>	<u>165 406</u>	<u>117 667</u>
				<u>139 282</u>	<u>165 406</u>	<u>117 667</u>
Other Expenditure						
Motor Registry Project	2004	2009	16 100	5 219	1 619	....
Rail Infrastructure Development	2006	2016	78 000	17 300	12 900	11 150
Rail Infrastructure Maintenance	2006	2016	40 000	4 100	4 203	4 308
Rail Management	2006	Ongoing	na	3 500	3 500	3 500
				<u>30 119</u>	<u>22 222</u>	<u>18 958</u>
TOTAL				<u>169 401</u>	<u>187 628</u>	<u>136 625</u>

Table 7.3: Infrastructure Investment Project Details by Agency
(continued)

	Start	Complete	Estimated Total Cost	2007-08 Budget	2008-09 Estimate	2009-10 Estimate
			\$'000	\$'000	\$'000	\$'000
DEPARTMENT OF JUSTICE						
Prisons Infrastructure Redevelopment Program ⁵	2004	2006	89 623	9 242	11 396	....
Monetary Penalties Project	2004	2008	6 657	1 041	....	....
TOTAL				10 283	11 396	....
MARINE AND SAFETY AUTHORITY TASMANIA						
Jetties (EC)	2006	2011	5 000	500	2 000	1 300
TOTAL				500	2 000	1 300
DEPARTMENT OF POLICE AND EMERGENCY MANAGEMENT						
Refurbishment of the Forensic Science Services						
Tasmania	2006	2008	1 500	1 000	....	....
TOTAL				1 000	....	....
DEPARTMENT OF PREMIER AND CABINET						
Service Tasmania Shops Capital Investment	2006	Ongoing	3 100	350	250	250
TOTAL				350	250	250
DEPARTMENT OF PRIMARY INDUSTRIES AND WATER						
Agricultural Research Centres (EC)	2007	2010	2 000	500	500	500
Crown Land Services - Structural Asset Upgrades		Ongoing	na	643	556	556
TOTAL				1 143	1 056	1 056
TAFE TASMANIA						
Alanvale Campus	2006	2007	1 900	300	....	....
Alanvale Campus and Thynes Building	2007	2008	1 500	1 215	....	....
Infrastructure Support		Ongoing	na	850	850	850
IT Infrastructure - Multi-sites (Stage 2)	2007	2008	550	550	....	....
State-wide - Multi-sites	2007	2008	550	550	....	....
Burnie Campus	2007	2008	955	955	....	....
TOTAL				4 420	850	850

Table 7.3: Infrastructure Investment Project Details by Agency
(continued)

	Start	Complete	Estimated Total Cost \$'000	2007-08 Budget \$'000	2008-09 Estimate \$'000	2009-10 Estimate \$'000
DEPARTMENT OF TOURISM, ARTS AND THE ENVIRONMENT						
Analytical Services Laboratories	2006	2008	2 100	300	....	....
Cradle Mt Central Sewage Treatment (EC)	2006	2008	13 175	9 577	2 395	....
Cradle Mt Park Visitor Infrastructure	2007	2007	750	250	....	....
Cradle Tourism Development Plan	2005	2008	2 968	526	....	....
Overland Track - Implementation of Business Plan	2007	2008	250	200	....	....
Royal Tasmanian Botanical Gardens Backflow Prevention Project	2008	2008	265	265	....	....
Tasmanian Museum and Art Gallery Infrastructure (EC)	2007	2010	30 000	8 689	9 700	11 400
Tourism Infrastructure	2005	2008	6 000	2 086	....	....
Wineglass Bay Visitor Access Improvements	2007	2007	700	150	....	....
TOTAL				22 043	12 095	11 400
TOTAL INFRASTRUCTURE INVESTMENT PROJECTS						
				288 707	268 880	192 839

Notes:

1. TAFE Tasmania Infrastructure projects are listed separately in this Table under the heading 'TAFE Tasmania'.
2. The abbreviation 'EC' within this table indicates a project is an Election commitment.
3. The Building for the Future projects listed do not include three projects valued at \$4.9 million that are scheduled to commence in 2010-11.
4. Marine and Safety Tasmania Infrastructure projects are listed separately in this Table under the heading 'Marine and Safety Tasmania'.
5. Cash flows beyond the September 2006 completion date represent Finance repayments.

Housing Program

The Housing Program relates to the capital program of the Housing Tasmania Output Group under the Department of Health and Human Services.

The Housing Program aims to provide low income Tasmanians with access to sustainable, affordable, appropriate and secure housing options through the acquisition and/or construction of public housing dwellings, and the upgrading of existing public housing dwellings. The Program also allows for the sale to eligible applicants of properties and surplus land, with sale proceeds being reinvested into the capital program to continue the delivery of affordable housing. The Program is aimed at delivering a range of housing options that meet community needs and offer a range of opportunities that contribute to the capacity of families and individuals to participate in society and improve their quality of life.

In 2007-08, Housing Program capital expenditure will include:

- providing \$255 000 for the completion of the \$1.4 million Disability Services Facility at Latrobe, including eight Intensive Support Units;
- allocating \$500 000 to other works, including the subdivision and development of properties at Chigwell and Mornington;
- providing \$696 000 for Aboriginal Rental Housing Program targets, enabling the purchase of three new properties;
- continuing the \$960 000 installation program of natural gas hot water systems to houses within the gas distribution network;
- allocating \$3.2 million to the Community Housing Program, \$2.9 million of which is allocated to five organisations for the provision of accommodation to people with disabilities, older people and humanitarian entrants. These organisations will make an average contribution of 42 per cent to these projects, which together with the Government contribution of \$2.9 million, will provide total funding of \$5.0 million to the affordable housing sector for services for special needs groups including the disabled and aged Tasmanians;
- providing \$1.9 million for the Crisis Accommodation Plan to allow for replacing or upgrading the Mara House property (which provides support for young women), continuing Supported Accommodation Assistance Program brokerage payments and supporting the establishment of the Southern Supported Residential Facility;
- allocating \$780 000 for the acquisition of land at Hobblers Bridge in Launceston for the development of affordable housing;
- providing \$500 000 for the purchase of information technology infrastructure to support the delivery of housing services; and
- paying \$6.0 million to the Australian Government under the Commonwealth-State Housing Agreement for the ongoing repayment of loans.

Table 7.4 details Housing Program Expenditure for 2007-08 to 2009-10.

Further information on Housing Tasmania, including details of the not-for-profit affordable housing organisation established under the Government's *Affordable Housing Strategy*, Tasmanian Affordable Housing Ltd, is provided in Chapter 5 of Budget Paper No 2 *Government Services*.

Table 7.4: Housing Program Expenditure

	Start	Complete	Estimated Total Cost	2007-08 Budget	2008-09 Estimate	2009-10 Estimate
			\$'000	\$'000	\$'000	\$'000
DEPARTMENT OF HEALTH AND HUMAN SERVICES - HOUSING						
New Dwelling Construction						
Intensive Support Units Latrobe	2006	2007	1 446	255	....	....
Other Works	2006	2007	na	500	....	....
Existing Dwelling Purchases						
Aboriginal Residential Housing Program						
Targets		Ongoing	na	696	696	696
Redevelopment/Upgrading						
Natural Gas Upgrades	2006	2007	960	604	....	....
Community Housing Program ¹		Ongoing	na	3 244	1 634	1 655
Crisis Accommodation Plan ²		Ongoing	na	1 900	1 012	1 025
Other Works	na	na	na	147	....	....
Land Acquisitions						
Hobblers Bridge Launceston	2007	2007	780	780	....	....
Non Works Capital						
Capital Information Technology	2007	2008	700	500	200	....
CSHA Principal Repayment ³	na	na	na	6 000	6 260	6 532
TOTAL				14 626	9 802	9 908

Notes:

1. Community Housing Program expenditure includes a \$1.6 million carry forward of funds from 2006-07.
2. Crisis Accommodation Plan funding is provided by the Australian Government under the CSHA.
3. CSHA Principal Repayment represents principal loan repayments to the Australian Government due under the Commonwealth-State Housing Agreement (CSHA). Up until 1989, funding under the CSHA was through repayable loan funds, with Tasmania having an estimated debt of \$236.1 million at June 2008. This debt is being repaid at the rate of approximately \$6.0 million per year, with final repayments not due until 2042.

Housing Program Funding

The Australian and the State Governments jointly fund the 2007-08 Housing Program under the terms of the Commonwealth-State Housing Agreement (CSHA). Total funding for the program in 2007-08 is \$14.6 million, a decrease of \$5.3 million on the 2006-07 Budget of \$19.9 million. The decrease reflects the conclusion of one-off capital funding provided by the State, under the *Affordable Housing Strategy* (AHS). In the future, the AHS will be funded through recurrent funding.

Proceeds from the sale of properties to eligible applicants and the sale of surplus land will continue to be reinvested into the capital program. This will assist eligible applicants to purchase their own home and will also provide funds to the Housing Program to continue in the delivery of affordable housing. Proceeds from

this source are estimated at \$7.0 million for 2007-08 and are included in the funding of the \$14.6 million total expenditure.

Roads Program

Both the State and Australian Governments fund the Roads Program. Forming part of the CIP, the Roads Program comprises new works projects and the upgrade and maintenance of established roads. In 2007-08, the total Roads Program is \$139.3 million, an increase of \$10.1 million from \$129.2 million in 2006-07.

In 2007-08, the major components of the increase in State funded expenditure include:

- the Government's 2006 Election commitments, including the following projects:
 - Tasman Highway – Mornington Roundabout Traffic Signals, \$1.5 million, an increase of \$1.3 million on 2006-07 expenditure;
 - South Arm Road – Shoreline to Police Academy, \$5.2 million, an increase of \$4.7 million on 2006-07 expenditure;
 - Tasman Highway – Bourkes Road to Barrow Creek, \$2.3 million, an increase of \$2.1 million on 2006-07 expenditure;
 - the commencement of work on Batman Highway and Spring Hill Main Road (\$900 000);
 - the commencement of work on Southern Outlet – Macquarie Street traffic flow (\$1.2 million);
 - Lyell Highway – Granton to New Norfolk, \$2.3 million, an increase of \$1.3 million on 2006-07 expenditure; and
 - the commencement of work on main access routes to the Central Highlands (\$700 000); and
- additional expenditure on road safety of \$4.7 million, including an increase of \$2.4 million relating to the introduction of a new road safety strategy: *Our Safety, Our Future – Tasmanian Road Safety Strategy 2007-2016*. Over the next four years, an additional \$20.5 million will be spent on road safety infrastructure under the new Strategy.

The increase in State funded expenditure is partially offset by the completion of the following projects:

- Bridport Main Road and sub-projects of Sisters Hills, which are part of the Better Roads Program (a decrease of \$2.1 million on 2006-07 expenditure); and
- roads and bridge maintenance projects funded from the Economic and Social Infrastructure Fund (a decrease of \$6.2 million on 2006-07 expenditure).

In 2007-08, the major components of the increase in Australian Government funded expenditure relate to the following road improvement projects:

- East Tamar Highway, \$13.4 million, an increase of \$8.4 million on 2006-07 expenditure; and
- North East Tasmania Access Study, \$1.1 million, an increase of \$300 000 on 2006-07 expenditure.

The increases in Australian Government funded expenditure are partially offset by the completion or near completion of the following projects:

- Strategic Regional Roads Program (Bridport Main Road and Sisters Hills – a decrease of \$4.2 million on 2006-07 expenditure); and

- Bass Highway – Penguin to Ulverstone Stage 2 (a decrease of \$3.4 million on 2006-07 expenditure)

A summary of the Roads Program expenditure is shown in Table 7.5.

Table 7.5: Roads Program Expenditure¹

	Start	Complete	Estimated Total Cost \$'000	2007-08 Budget \$'000	2008-09 Estimate \$'000	2009-10 Estimate \$'000
STATE FUNDED						
ENVIRONMENTAL MANAGEMENT		Ongoing	na	435	450	465
				435	450	465
INFRASTRUCTURE DEVELOPMENT						
Batman Highway and Spring Hill Main Road (EC)	2008	2008	1 000	900	100	....
Bridge Upgrading		Ongoing	na	895	1950	965
Brooker Highway - Stage 1 Works (EC)	2006	2010	10 000	790	4 310	4 500
Clives/Fouche Avenue - Old Beach (EC)	2006	2008	2 000	145	1 680	....
East Tamar Highway ²	2006	2010	6 400	1 470	3 730	1 200
East Tamar Highway – Approaches to Launceston (EC)	2006	2008	8 300	3 790	880	....
Illawarra Main Road (EC)	2008	2010	3 100	....	400	2 700
Kingston Bypass (EC)	2006	2008	500	150	....	....
Lyell Highway – Granton to New Norfolk (EC)	2006	2009	14 000	2 250	6 600	4 700
Main Access Routes to Central Highlands (EC)	2008	2010	8 000	700	550	4 900
Sisters Hills (Better Roads Fund)	2005	2010	15 000	6 629	1 849	230
South Arm Road – Shoreline to Police Academy (EC)	2006	2009	10 000	5 180	2 500	1 900
Southern Outlet – Macquarie Street Traffic Flow (EC)	2006	2008	1 500	1 350	....	....
Tasman Highway – Bourkes Road to Barrow Creek (EC)	2006	2008	2 700	2 339	169	....
Tasman Highway – Mornington Signalisation (EC)	2006	2008	1 600	1 450	....	....
Tasman Highway – Sorell Traffic Management (EC)	2006	2008	2 500	600	1 700	....
Tea Tree Secondary Road (EC)	2006	2009	4 000	275	900	2 700
West Coast Wilderness Railway		Ongoing	na	100	100	100
<i>Roads of National Importance</i>						
North East Tasmania Access (NETAS) Road Upgrading	2004	2009	10 000	3 141	1 903	241
Entrance to Devonport ³	2007	2009	2 500	429	1 250	....
Tasman Highway – Bourkes Road to Barrow Creek	2006	2008	1 000	....	531	....
West Tamar Corridor (Better Roads Fund)	2005	2007	5 150	2 851	....	....
				35 434	31 102	24 136

Table 7.5: Roads Program Expenditure (continued)

	Start	Complete	Estimated Total Cost	2007-08 Budget	2008-09 Estimate	2009-10 Estimate
			\$'000	\$'000	\$'000	\$'000
INFRASTRUCTURE MAINTENANCE						
Assistance to Local Government		Ongoing	na	254	260	283
Bass Highway - Cutting Road to Oppenheim Road (EC)	2006	2007	850	150	....	....
Bridge Maintenance		Ongoing	na	4 260	5 724	5 371
<i>Bridge Reinstatement</i>						
Emergency and Flood Repairs		Ongoing	na	259	351	313
Henty River Bridge	2007	2008	1 600	120	1 480	....
Leven River Bridge Ulverstone	2005	2010	6 800	100	2 494	2 986
Lollara State Road Mountain River Bridge	2008	2010	1 589	....	100	1 089
Maintenance of Other Infrastructure		Ongoing	na	81	83	84
Miscellaneous Fees and Charges		Ongoing	na	555	575	595
Other		Ongoing	na	420	1 294	2 390
Tasman Highway Maclaines Creek Bridge	2004	2007	3 737	280	....	....
Vehicle Mass and Dimension Management		Ongoing	na	361	347	336
<i>Road Reinstatement</i>						
Esk Main Road - Leona Road to Ormley Culvert	2004	2007	3 789	2 703	....	....
Esk Main Road - Rostrevor Rivulet to Tullochgorum Creek	2004	2007	4 585	350	....	....
Murchison Highway - Que River to Waratah	2004	2007	4 600	350	....	....
Lyell Hwy, King River Deviation to Iron Blow Road	2007	2009	2 607	577	980	1 000
Southern Region Routine Projects	2009	2010	5 275	....	....	3 745
Other		Ongoing	na	880	550	2 955
Road Routine Maintenance ⁴		Ongoing	na	19 924	14 568	15 039
Road Specific Maintenance ⁴		Ongoing	na	7 644	10 700	11 065
				<u>39 268</u>	<u>39 506</u>	<u>47 251</u>
OTHER ROADS INFRASTRUCTURE						
Infrastructure Policy and Planning		Ongoing	na	2 309	2 400	2 450
Program Management		Ongoing	na	3 751	3 112	2 954
Road Safety and Traffic Management		Ongoing	na	8 132	12 777	11 288
Transport Infrastructure		Ongoing	na	5 277	5 277	5 277
				<u>19 469</u>	<u>23 566</u>	<u>21 969</u>
TOTAL STATE FUNDED ROADS						
				<u>94 606</u>	<u>94 624</u>	<u>93 821</u>

Table 7.5: Roads Program Expenditure (continued)

	Start	Complete	Estimated Total Cost \$'000	2007-08 Budget \$'000	2008-09 Estimate \$'000	2009-10 Estimate \$'000
AUSTRALIAN GOVERNMENT FUNDED⁵						
NATIONAL HIGHWAY SYSTEM						
INFRASTRUCTURE DEVELOPMENT						
<i>Improving the Network</i>						
Bass Highway – Penguin to Ulverstone Stage 2	2005	2008	42 000	13 294	9 084	...
<i>Road and Bridge Upgrading</i>						
East Tamar Highway	2006	2010	60 000	13 350	33 800	10 850
Hobart Northern Approaches Project ⁶	2007	na	tbc	1 870	17 581	9 232
<i>Roads of National Importance</i>						
North-East Tasmania Access (NETAS)	2003	2008	10 000	1 050	...	...
<i>Strategic Regional Program</i>						
Sisters Hill	2005	2008	15 000	4 052	1 767	...
Tasman Highway Bourkes Road to Barrow Creek	2006	2008	1 500	1 500	...	...
				<u>35 116</u>	<u>62 232</u>	<u>20 082</u>
INFRASTRUCTURE MAINTENANCE						
Bridge Maintenance		Ongoing	na	774	774	...
Miscellaneous Fees/Charges		Ongoing	na	140	140	...
Road Reinstatement		Ongoing	na	616	616	...
Road Routine Maintenance		Ongoing	na	3 180	3 180	...
Road Specific Maintenance		Ongoing	na	720	720	...
				<u>5 430</u>	<u>5 430</u>	<u>...</u>
OTHER ROADS INFRASTRUCTURE						
Program Management		Ongoing	na	1 230	1 221	1 430
Road Safety and Traffic Management		Ongoing	na	2 117	1 116	1 484
Transport Infrastructure		Ongoing	na	783	783	850
				<u>4 130</u>	<u>3 120</u>	<u>3 764</u>
TOTAL AUSTRALIAN GOVERNMENT FUNDED						
ROADS						
				<u>44 676</u>	<u>70 782</u>	<u>23 846</u>
TOTAL ROADS PROGRAM EXPENDITURE						
				<u>139 282</u>	<u>165 406</u>	<u>117 667</u>

Notes:

1. The abbreviation 'EC' within this table indicates a project is an Election commitment.
2. This portion of the East Tamar Highway project is funded from interest earned by the State on funds provided in advance by the Australian Government.
3. This funding will be paid to the Devonport City Council as a grant.
4. The decrease in Road Routine Maintenance funding and the increase in Road Specific Maintenance in 2008-09 primarily relates to new contractual arrangements that redistributes funding.
5. Australian Government funding decreases at the end of 2008-09 for a number of projects such as Infrastructure Maintenance. Future funding is subject to negotiation with the Australian Government for a new Auslink agreement from 2009-10 onwards.
6. The total Australian Government contribution to this project is subject to ongoing negotiations.

8 ESTIMATED OUTCOME, 2006-07

Features

- The Net Operating Deficit for 2006-07 is estimated to be \$71.6 million, a decrease of \$18.9 million on the Budget estimate of a \$90.5 million Net Operating Deficit.
- The Fiscal Deficit for 2006-07 is estimated to be \$51.7 million, a decrease of \$32.8 million on the Budget estimate of an \$84.5 million Fiscal Deficit.
- Total revenue for 2006-07 is estimated to be \$3 626.6 million, \$94.9 million or 2.6 per cent above the Budget estimate of \$3 531.7 million.
- Total expenses for 2006-07 are estimated to be \$3 698.1 million, \$76.0 million or 2.0 per cent above the Budget estimate of \$3 622.1 million.

INTRODUCTION

The Estimated Outcome and the original Budget for 2006-07 have been presented in accordance with the Uniform Presentation Framework (UPF). The focus of the Estimated Outcome is the Net Operating Balance and the Fiscal Balance.

The Net Operating Balance represents the excess of revenues over expenses. A Net Operating Surplus indicates that the ordinary operations of government are sustainable and that there are funds available, on an accrual basis, to increase service delivery, increase assets, or to decrease liabilities. A deficit indicates that future adjustments will be required to achieve sustainability; that one-off expenditure may have occurred to meet one-off projects or programs; and/or revenues are not sufficient to meet all expenses for the current year.

The Fiscal Balance represents the difference between General Government Sector revenues and expenses (excluding depreciation), and capital expenditure. A Fiscal Surplus indicates that the Government is saving more than enough to finance all of its investment spending, while a Fiscal Deficit indicates that the Government is spending reserves to fund its investment spending.

For further information on the UPF, refer to *The Tasmanian Government Financial System* document published with the 2007-08 Budget Papers.

The 2006-07 Estimated Outcome has been determined from agency assessments of their indicative additional funding requirements or potential savings and revised revenue estimates, based on the latest available information prior to the finalisation of the 2007-08 Budget Papers. Estimates are determined using information from a number of sources including the latest advice from the Australian Government, Government Business Enterprises, State-owned Companies and agencies.

Detailed information on the final Outcome for 2006-07 will be published in:

- the Preliminary Outcomes Report, which will be published by 15 August 2007;
- the Treasurer's Annual Financial Report, which will be tabled in Parliament by 31 October 2007; and
- agency Annual Reports, which will be tabled in Parliament by 31 October 2007.

Net Operating Balance

The estimated Net Operating Balance for 2006-07 is a \$71.6 million deficit, \$18.9 million below the 2006-07 Budget estimate of a \$90.5 million deficit. Details of the movement in the estimated result are provided in this Chapter.

Fiscal Balance

The estimated Fiscal Balance for 2006-07 is a \$51.7 million deficit, \$32.8 million below the 2006-07 Budget estimate of a \$84.5 million deficit. Details of the movement in the estimated result are provided in this Chapter.

Table 8.1 provides details of the estimated Budget Outcome for 2006-07.

Table 8.1: Estimated Fiscal Surplus, 2006-07

	2006-07 Budget Estimate	2006-07 Estimated Outcome	Variation
	\$'000	\$'000	%
Revenue			
Grants and Subsidies			
General Purpose Payments	1 557 300	1 573 300	1.0
Specific Purpose Recurrent Payments	438 419	457 866	4.4
Specific Purpose Capital Payments	52 922	45 986	(13.2)
Other Grants and Subsidies	204 763	212 453	3.8
Total Grants and Subsidies	2 253 404	2 289 605	1.6
Taxation Revenue			
Taxation	718 394	727 883	1.3
Government Business Enterprises, State-owned Companies and State Authorities - Guarantee Fees	9 564	8 557	(10.6)
Total Taxation Revenue	727 958	736 440	1.1
Sales of Goods and Services	295 542	296 663	0.4
Interest Income	32 668	37 489	14.7
Receipts from Government Business Enterprises, State-owned Companies and State Authorities			
Dividend Income	69 709	74 108	6.3
Other Dividends, Special Dividends, Tax and Rate Equivalents	77 160	100 307	29.9
Total Dividend Income	146 869	174 415	18.7
Other Revenue	75 223	91 956	22.2
Total Revenue	3 531 664	3 626 568	2.6
Expenses			
Depreciation	195 779	200 066	2.1
Employee Expenses	1 715 379	1 715 976	...
Other Operating Expenses	887 170	938 273	5.7
Nominal Superannuation Interest Expense	157 589	174 986	11.0
Other Interest Expense	22 889	18 522	(19.1)
Grants and Transfers	643 324	650 298	1.0
Total Expenses	3 622 130	3 698 121	2.0
NET OPERATING BALANCE	(90 466)	(71 553)	(20.9)
Net Acquisition of Non-Financial Assets			
Purchase of Non-Financial Assets	262 132	235 843	(10.1)
less Sale of Non-Financial Assets	72 333	55 608	(23.2)
less Depreciation	195 779	200 066	2.1
Total Net Acquisition of Non-Financial Assets	(5 980)	(19 831)	231.6
FISCAL SURPLUS/(DEFICIT)	(84 486)	(51 722)	(38.8)

REVENUE

Total revenue for 2006-07 is estimated to be \$3 626.6 million, which is an increase of \$94.9 million or 2.6 per cent on the budgeted revenue of \$3 531.7 million.

Explanation of Estimated Revenue Variations

The major revenue variations summarised in Table 8.1 are explained below.

Grants and Subsidies

General Purpose Payments

General Purpose Payments revenue for 2006-07 is anticipated to be \$1 573.3 million, an increase of \$16.0 million or 1.0 per cent compared to the Budget estimate of \$1 557.3 million. This outcome is due to additional Goods and Services Tax (GST) collections as a result of upward revisions by the Australian Government of the GST revenue pool.

Specific Purpose Recurrent Payments

Specific Purpose Recurrent Payments revenue for 2006-07 is anticipated to be \$457.9 million, an increase of \$19.5 million or 4.4 per cent on the Budget estimate of \$438.4 million. The increase in Specific Purpose Payments primarily reflects additional funding from the Australian Government for the Tasmanian Community Forest Agreement.

Specific Purpose Capital Payments

Specific Purpose Capital Payments revenue for 2006-07 is anticipated to be \$46.0 million, a decrease of \$6.9 million or 13.2 per cent on the Budget estimate of \$52.9 million. The decrease primarily relates to a reduction in funding from the Australian Government for National Highways due to the final cost of a number of projects being less than originally estimated.

Other Grants and Subsidies

Other Grants and Subsidies revenue for 2006-07 is anticipated to be \$212.5 million, an increase of \$7.7 million or 3.8 per cent above the Budget estimate of \$204.8 million. The increase reflects additional Australian Government Revenue of \$7.5 million provided to the Department of Primary Industries and Water for the National Action Plan for the National Water Initiative and Natural Resource Management land conservation projects.

Taxation Revenue

Total Taxation Revenue, which includes Taxation Revenue and Guarantee Fees from Government Business Enterprises, State-owned Companies and State Authorities, is expected to be \$736.4 million, \$8.4 million or 1.1 per cent above the Budget Estimate of \$728.0 million.

Taxation

Taxation revenue for 2006-07 is anticipated to be \$727.9 million, an increase of \$9.5 million or 1.3 per cent on the Budget estimate of \$718.4 million. The increase in Taxation receipts is primarily due to additional Payroll Tax revenue of \$8.2 million and Duties revenue of \$9.1 million. These increases have been partially offset by decreases in the estimates for Betting Exchange Taxes and Levies of \$7.3 million and Motor Taxation of \$1.4 million.

Guarantee Fees from Government Business Enterprises, State-owned Companies and State Authorities

Guarantee Fee revenue from Government Business Enterprises and State-owned Companies in 2006-07 is anticipated to be \$8.6 million, which is \$1.0 million less than the Budget estimate of \$9.6 million. The decrease is primarily due to the repayment of debt by TT-Line Pty Ltd following the sale of *Spirit of Tasmania III*.

Sales of Goods and Services

Revenue from Sales of Goods and Services is anticipated to be \$296.7 million, an increase of \$1.2 million or 0.4 per cent above the 2006-07 Budget estimate of \$295.5 million.

Interest Income

Interest Income for 2006-07 is anticipated to be \$37.5 million, an increase of \$4.8 million or 14.7 per cent above the Budget estimate of \$32.7 million. The increase primarily reflects higher levels of cash held in the Public Account and higher forecast interest rates.

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

Dividend, Tax and Rate Equivalent Income for 2006-07 is anticipated to be \$174.4 million, an increase of \$27.5 million or 18.7 per cent from the Budget estimate of \$146.9 million. This increase reflects additional Dividend income of \$4.4 million and additional Tax Equivalent income of \$23.7 million, partially offset by a \$1.3 million decrease in Rate Equivalent income from Hydro Tasmania.

Dividend Income

The increase in Dividend income is anticipated to be \$74.1 million, an increase of \$4.4 million or 6.3 per cent. The increase is primarily due to additional Dividends from Transend Networks Pty Ltd of \$4.9 million, reflecting an increase in profitability for 2006-07 following the receipt of gifted assets in 2005-06.

Other Dividends, Special Dividends, Tax and Rate Equivalents

Other Dividends, Special Dividends, Tax and Rate Equivalent Income for 2006-07 is anticipated to be \$100.3 million, an increase of \$23.1 million or 29.9 per cent on the Budget estimate of \$77.2 million.

The increase in Tax Equivalent income is primarily due to additional Tax Equivalents from:

- Hydro Tasmania of \$10.2 million which reflects higher than anticipated profitability in 2005-06;
- Motor Accidents Insurance Board of \$10.0 million, reflecting higher than expected realised investment revenue, lower than expected claims expenses, and an amended tax return relating to prior years that has resulted in additional tax payable; and
- Transend Networks of \$4.0 million, reflecting the receipt of gifted assets in 2005-06 and, consequently, a higher than expected tax liability.

Other Revenue

Other Revenue for 2006-07 is anticipated to be \$92.0 million, an increase of \$16.8 million or 22.2 per cent above the Budget estimate of \$75.2 million and is primarily due to additional Mineral Royalty receipts of \$13.1 million reflecting strong commodity prices on the world market for mineral resources.

EXPENSES

Total expenses for 2006-07 are estimated to be \$3 698.1 million, an increase of \$76.0 million or 2.0 per cent above the Budget estimate of \$3 622.1 million.

Explanation of Estimated Expense Variations

The major expenditure variations summarised in Table 8.1 are explained below.

Depreciation

Depreciation for 2006-07 is anticipated to be \$200.1 million, an increase of \$4.3 million or 2.1 per cent on the Budget estimate of \$195.8 million in 2006-07. The additional Depreciation expense is primarily due to the revaluation of Department of Education assets.

Employee Expenses

Employee Expenses for 2006-07 is anticipated to be \$1 716.0 million, an increase of \$597 000 on the Budget estimate of \$1 715.4 million. The increase primarily reflects additional teachers nexus salary funding of \$726 000.

Nominal Superannuation Interest Expense

The Nominal Superannuation Interest Expense is anticipated to be \$175.0 million, \$17.4 million above the Budget estimate of \$157.6 million. The increase reflects a higher discount rate used to calculate the interest cost of the Superannuation Liability. Further details regarding Superannuation are provided in Chapter 6 of this Budget Paper.

Other Interest Expense

Other Interest expense for 2006-07 is anticipated to be \$18.5 million, \$4.4 million or 19.1 per cent less than the Budget estimate of \$22.9 million. The decrease reflects a higher than anticipated reduction in the level of debt.

Grants and Transfers

Grants and Transfers expenses for 2006-07 are anticipated to be \$650.3 million, an increase of \$7.0 million or 1.0 per cent on the Budget estimate of \$643.3 million. The increase reflects funding for:

- a \$10.0 million contribution to the Launceston City Council for the upgrade of the Launceston flood levees;
- additional grants to non-government schools of \$5.4 million;
- further sporting grant payments to the Tasmanian Hockey Centre of \$1.8 million and the Aurora Netball Stadium of \$690 000;
- additional First Home Owners Grant payments of \$1.2 million; and
- a \$1.2 million redevelopment of the Callington Mill at Oatlands.

These increases are partly offset by a decrease relating to the Tasmanian Community Fund of \$4.8 million; this reflects a reclassification of the expenditure, and delays in grant payments made from the:

- Tasmanian Community Forest Agreement of \$4.6 million; and

- Regional Tourism Support program of \$3.0 million.

NET ACQUISITION OF NON-FINANCIAL ASSETS

The Net Acquisition of Non-Financial Assets for 2006-07 is anticipated to be negative \$19.8 million, an increase of \$13.8 million or 231.6 per cent on the Budget estimate of negative \$6.0 million.

Purchases of Non-Financial Assets

Purchases of Non-Financial Assets are anticipated to be \$235.8 million, a decrease of \$26.3 million or 10.1 per cent below the Budget estimate of \$262.1 million. The decrease includes savings in National Highway projects funded by the Australian Government of \$7.3 million. However, the decrease also reflects delays in advancing a number of infrastructure projects including the:

- Kingston High School (\$2.8 million);
- Cradle Mountain Sewage Treatment project (\$5.8 million); and
- Better Roads fund projects (\$2.9 million).

Sales of Non-Financial Assets

Sales of Non-Financial Assets are anticipated to be \$55.6 million, a decrease of \$16.7 million or 23.2 per cent below the Budget estimate of \$72.3 million. The decrease reflects a delay in the sale of non-core business assets previously held by the Hobart Ports Corporation Pty Ltd.

Depreciation

Depreciation for 2006-07 is anticipated to be \$200.1 million, an increase of \$4.3 million or 2.1 per cent on the Budget estimate of \$195.8 million in 2006-07. The additional Depreciation expense is primarily due to the revaluation of Department of Education assets.

CONTRIBUTIONS TO CASH SURPLUS, 2006-07

The estimated Cash Surplus for 2006-07 is \$115.4 million. Table 8.2 provides details of the estimated contributions to the Cash Surplus in 2006-07.

The Cash Surplus primarily reflects funds that have been set aside to meet future Government funding commitments. The largest funding commitment of \$85.1 million relates to the Government's contribution to the Superannuation Provision Account to meet the State's superannuation liability. Further details of the State's superannuation liability are provided in Chapter 6 of this Budget Paper.

In addition, the Cash Surplus also reflects cash being held by agencies in Special Deposits and Trust Fund accounts to meet commitments such as the Tasmanian Community Forest Agreement (\$18.0 million) and the National Action Plan that supports the National Water Initiative and Natural Resource Management land conservation projects (\$7.0 million).

Table 8.2: Contributions to Cash Surplus

	2006-07 Budget	2006-07 Estimated Outcome
	\$'000	\$'000
Specific Funding for Future Commitments		
Superannuation Provision Account	89 244	85 089
State Debt Management Account	5 633	5 535
Tasmanian Risk Management Fund	13 682	10 168
27th Pay Provision	6 500	6 500
Total Specific Funding for Future Commitments	115 059	107 292
Movement in Agency Special Deposits and Trust Fund Accounts¹	9 137	69 263
Statutory Authority Movements	2 964	1 721
Consolidated Fund Surplus	3 776	4 641
Less Net Special Capital Investment Fund Expenditure²	(78 319)	(67 526)
Cash Surplus	52 617	115 391

Notes:

1. The movement in Agency Special Deposits and Trust Fund Accounts for the 2006-07 Estimated Outcome primarily reflects: an additional \$18.0 million for the Tasmanian Community Forest Agreement transferred to the Trust Account; and an additional \$7.0 million of Australian Government funding for the National Action Plan that supports the National Water Initiative and Natural Resource Management land conservation projects to be expended in 2007-08.
2. The movement in Special Capital Investment Fund Expenditure reflects contributions of \$32.3 million from the Consolidated Fund to the Economic and Social Infrastructure Fund (ESIF), less expenditure of \$99.8 million from the ESIF, Structural and Performance Initiatives Program, Royal Hobart Hospital Redevelopment Fund, Better Roads Fund and the Social Infrastructure Fund.

9 FORWARD ESTIMATES

Features

- The Net Operating Balance projections for 2008-09 to 2010-11 on a same policy basis are:
 - a surplus of \$22.3 million in 2008-09;
 - a surplus of \$16.8 million in 2009-10; and
 - a surplus of \$17.1 million in 2010-11.
- The Fiscal Balance projections for 2008-09 to 2010-11 on a same policy basis are:
 - a deficit of \$1.1 million in 2008-09;
 - a surplus of \$47.4 million in 2009-10; and
 - a surplus of \$84.8 million in 2010-11.
- The General Government Sector Cash Surplus is estimated to be an average of \$159.3 million over the Forward Estimates.

FORWARD ESTIMATES 2008-09 TO 2010-11

The Forward Estimates Concept

The Forward Estimates provide a mechanism for projecting the Budget revenue, expenses and financial position on the assumption that existing revenue and expenditure policies are maintained and that the Government's planned objectives continue to be pursued; that is, on a 'same policy basis'. Therefore, the Forward Estimates represent the likely budget outcomes if the same levels of service were to be provided in each of the three years following this Budget; the existing regime of taxes and charges continues, but reflects previously announced changes in tax policy; expectations of the level of Australian Government 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 regularly reviewed by Treasury, based on economic conditions and forecast movements in major economic aggregates.

The Forward Estimates provide a strategic framework for budgetary decision-making in the medium-term, highlight the flow-on effects of revenue and expense measures contained in the current year's Budget, and facilitate the monitoring of achievements against existing Government strategies and objectives.

The Forward Estimates are not to be read as forecasts of expected outcomes. Future policy decisions, variations to the assumptions underlying economic parameters and external influences will all have an impact on the outcomes. In this sense, the Forward Estimates are projections of outcomes under a particular scenario, rather than forecasts.

Assumptions Underlying the Forward Estimates

The Forward Estimates for revenue and expenses are prepared on the basis of a number of assumptions and using information provided to Treasury by various entities, including government agencies, Government Business Enterprises (GBEs) and State-owned Companies (SOCs).

For Operating Statement revenue, it is noted that:

- Grants and Subsidies are based on the continuation of agreements with the Australian Government, including the *Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations* (IGA). It is also assumed that, unless otherwise stated, Special Purpose Payments will continue at the same level of funding;
- Taxation Revenue is estimated by Treasury using the same methodology applied in the preparation of the Budget year information and on a continuation of the 'same policy' basis;
- Taxation Revenue estimates reflect previously announced changes in tax policy;
- Interest Income is estimated by Treasury and reflects anticipated cash holdings within the Public Account and forecast interest rates;
- Sale of Goods and Services and Other Revenue is based on the best estimates of those agencies which provide the goods or services, or which actively manage the particular revenue item; and

- Dividend, Tax and Rate Equivalent Income from GBEs and SOCs is based on projected returns reflected in the corporate plans prepared by each Government business.

For Operating Statement expenses, it is noted that:

- commitments announced by the Government during the 2006 Election and initiatives detailed in the 2007 Budget Speech are fully funded;
- projections reflect the level and timing of expenditure anticipated by agencies;
- agency Budgets are fully funded for existing salary and wage agreements;
- indexation of 3.5 per cent per annum is provided to agencies for ongoing salary expenditure, whilst non-salary indexation is set at 2.5 per cent in 2007-08 and 2008-09, and at 2.0 per cent thereafter;
- funding provided to the Department of Health and Human Services for medical and pharmaceutical supplies is indexed at a rate of 4.0 per cent per annum; and
- agencies are fully funded for expected changes in Administered Items.

Table 9.1 highlights the projected Net Operating Balance and Fiscal Balance for each of the financial years from 2007-08 to 2010-11. The Forward Estimates Consolidated Fund Surpluses are detailed in Appendix 2 of this Budget Paper.

Table 9.2 highlights the projected Net Worth, Net Financial Worth, Net Financial Liabilities and Net Debt for the General Government Sector as at 30 June 2008 to 30 June 2011.

FORWARD ESTIMATES OPERATING STATEMENT

On a same policy basis, the Fiscal Balance outcome will be a deficit of \$1.1 million in 2008-09, a surplus of \$47.4 million in 2009-10, and a surplus of \$84.8 million in 2010-11. The outcomes over the Forward Estimates period primarily reflect the funding impact of the Government's 2006 Election commitments, 2007-08 Budget initiatives and Australian Government Funding.

The Operating Statement estimates do not reflect the intention of the Government to divest those government businesses announced in the Budget Speech, or the application of the proceeds of these divestments.

Table 9.1 details the Forward Estimates Net Operating Balance and the Fiscal Balance outcome for 2008-09 to 2010-11.

Table 9.1: General Government - Operating Statement Forward Estimates Summary¹

	2007-08 Budget	2008-09 Forward Estimate	2009-10 Forward Estimate	2010-11 Forward Estimate
	\$'000	\$'000	\$'000	\$'000
Revenue				
Grants and Subsidies	2 391 439	2 471 104	2 476 125	2 490 490
Taxation Revenue	751 927	772 056	808 266	846 913
Sales of Goods and Services	317 423	321 066	331 383	335 471
Interest Income	45 102	51 548	59 089	67 379
Dividend, Tax and Rate Equivalent Income	148 923	169 954	185 067	166 748
Other Revenue	91 806	86 878	95 583	97 311
Total	3 746 620	3 872 606	3 955 513	4 004 312
Expenses				
Depreciation	209 034	210 993	213 088	213 294
Employee Expenses	1 820 405	1 878 788	1 964 297	2 018 703
Other Operating Expenses	892 071	906 481	908 429	902 483
Nominal Superannuation Interest Expense	187 662	193 854	199 305	203 889
Other Interest Expense	16 912	14 809	16 287	16 209
Grants and Transfers	659 369	645 352	637 283	632 677
Total	3 785 453	3 850 277	3 938 689	3 987 255
NET OPERATING BALANCE	(38 833)	22 329	16 824	17 057
Less				
Net Acquisition of Non-Financial Assets				
plus Purchase of New Non-Financial Assets	273 590	271 687	220 841	183 835
less Sale of Non-Financial Assets	72 011	37 223	38 328	38 333
less Depreciation	209 034	210 993	213 088	213 294
Total	(7 455)	23 471	(30 575)	(67 792)
FISCAL SURPLUS/(DEFICIT)	(31 378)	(1 142)	47 399	84 849

Note:

1. Details of Forward Estimate appropriations to agencies from the Consolidated Fund are provided in Appendix 2 to this Budget Paper.

REVENUE

Total Revenue for the Forward Estimates on a same policy basis is estimated to be \$3 872.6 million in 2008-09, \$3 955.5 million in 2009-10 and \$4 004.3 million in 2010-11.

Explanation of Major Revenue Variations

The major revenue variations in 2008-09 to 2010-11 detailed in Table 9.1 are summarised below.

Grants and Subsidies

Grants and Subsidies consist of revenue sourced from the Australian Government. The expected increase in Grants and Subsidies over the Forward Estimates is primarily due to increases in the amount of GST revenue transferred to the State. The nominal increase in Tasmania's GST revenue reflects forecast growth by the Australian Government in the national GST Revenue pool.

The increase in GST revenue will be partially offset by a decrease in Specific Purpose Capital payments over the Forward Estimates period. The Forward Estimates reflect the agreed 2004-05 to 2008-09 five-year funding agreement for AusLink National Projects under the National Land Transport Plan. The decrease in AusLink National Project payments from 2009-10 reflects the absence of a new Bilateral Agreement. This will be subject to further negotiation between the State and the Australian Government.

A further five-year Bilateral Agreement for AusLink National Projects under the National Transport Plan for 2009-10 to 2013-14 will be negotiated prior to 2009-10.

Funding is made available to Tasmania under the National Land Transport Plan on a five-year basis, but can vary across this period as a result of negotiations between the State and the Australian Government relating to specific transport infrastructure projects.

Taxation Revenue

Taxation Revenue increases over the Forward Estimates are primarily due to increases in revenue from Duties, Payroll Tax, and Land Tax. The increase in Duties reflects growth in conveyance duties as a result of continuing turnover in the residential and commercial property markets. The increase in Payroll Tax revenue primarily reflects anticipated growth in the levels of average weekly earnings (AWE). The increase in Land Tax revenue reflects the increase in assessed land valuations.

Interest Income

The increase in Interest Income over the Forward Estimates is primarily due to an increase in the level of cash held in the Public Account and higher forecast interest rates.

Dividend, Tax and Rate Equivalent Income

The increase in Dividend, Tax and Rate Equivalent Income from \$148.9 million in 2007-08 to \$170.0 million in 2008-09 primarily reflects increased returns from Aurora Energy and Hydro Tasmania, which are partly offset by lower tax equivalent income from the Motor Accidents Insurance Board. The increase of \$15.1 million in 2009-10 reflects a further increase in the returns from Aurora Energy and Hydro Tasmania. In 2010-11, Dividend, Tax and Rate Equivalent Income is expected to fall to \$166.7 million, reflecting an easing in the profitability of Aurora Energy and Hydro Tasmania, and the conclusion of Special Dividend arrangements with the Motor Accidents Insurance Board.

Other Revenue

The decrease in Other Revenue from 2007-08 to 2008-09 primarily reflects an easing in expected returns from Mineral Royalties.

EXPENSES

Total expenses for the Forward Estimates on a same policy basis are estimated to be \$3 850.3 million in 2008-09, \$3 938.7 million in 2009-10 and \$3 987.3 million in 2010-11.

Explanation of Major Expense Variations

The major expense variations for 2008-09 to 2010-11 detailed in Table 9.1 are summarised below.

Employee Expenses

Employee Expenses are anticipated to be \$1 878.8 million in 2008-09, \$1 964.3 million in 2009-10 and \$2 018.7 million in 2010-11. This represents an average annual increase over the Forward Estimates of 3.6 per cent per annum. This primarily reflects the ongoing implementation of the Government's 2006 Election commitments and indexation of 3.5 per cent per annum for agencies to meet the cost of public sector wage increases.

Other Operating Expenses

The increase in Other Operating Expenses from 2007-08 to 2009-10 reflects the timing of the Government's 2006 Election commitments and other Budget initiatives. The decrease in Other Operating Expenses from 2009-10 to 2010-11 primarily reflects the end of payments made under the Tasmanian Community Forest Agreement.

Nominal Superannuation Interest Expense

The increase in the Forward Estimates expense for the Nominal Superannuation Interest Expense reflects an increasing superannuation liability. Detailed information regarding the superannuation liability is provided in Chapter 6 *Assets and Liabilities*, of this Budget Paper.

Grants and Transfers

Grants and Transfers expenditure decreases significantly over the Forward Estimates, primarily due to the decline of expenditure from the Special Capital Investment Funds.

NET ACQUISITION OF NON-FINANCIAL ASSETS

The Net Acquisition of Non-Financial Assets over the Forward Estimates on a same policy basis shows an anticipated net unfavourable impact of \$23.5 million in 2008-09, a net favourable impact of \$30.6 million in 2009-10, and a net favourable impact of \$67.8 million in 2010-11.

Purchases of Non-Financial Assets decrease across the Forward estimates primarily due to the completion of capital expenditure projects from the Special Capital Investment Funds and the timing of the Government's 2006 Election commitments.

FORWARD ESTIMATES BALANCE SHEET

The Balance Sheet for the Forward Estimates reflects the strengthening position of the State's finances, with the elimination of Net Debt and an improvement in all other key measures.

Table 9.2 summarises the anticipated Forward Estimate position for the General Government Sector between 30 June 2008 and 30 June 2011. The Balance Sheet estimates do not reflect the intention of the Government to divest certain Government businesses as announced in the Budget Speech.

Table 9.2: General Government - Balance Sheet Forward Estimates Summary as at 30 June

	2008 Budget	2009 Forward Estimate	2010 Forward Estimate	2011 Forward Estimate
	\$'000	\$'000	\$'000	\$'000
Assets				
Financial Assets				
Cash and Deposits	725 270	835 693	992 305	1 188 472
Advances Paid	49 340	46 015	42 843	39 532
Investments, Loans and Placements	2 286	2 286	2 286	2 286
Other Non-Equity Assets	1 005 826	1 011 878	1 045 595	1 093 347
Equity	3 232 348	3 361 654	3 507 714	3 669 888
Total	5 015 070	5 257 526	5 590 743	5 993 525
Non-Financial Assets				
Land and Fixed Assets	8 710 161	8 789 236	8 818 928	8 810 210
Other Non-Financial Assets	38 473	39 803	39 658	39 505
Total	8 748 634	8 829 039	8 858 586	8 849 715
Total Assets	13 763 704	14 086 565	14 449 329	14 843 240
Liabilities				
Advances Received	236 079	229 819	223 287	216 620
Borrowings	84 711	68 433	67 934	67 593
Superannuation Liability	3 675 287	3 791 405	3 888 430	3 974 274
Other Employee Provisions	400 381	418 731	435 812	451 251
Other Non-Equity Liabilities	305 152	278 396	275 860	284 685
Total Liabilities	4 701 610	4 786 784	4 891 323	4 994 423
NET WORTH¹	9 062 094	9 299 781	9 558 006	9 848 817
NET FINANCIAL WORTH²	313 460	470 742	699 420	999 102
NET FINANCIAL LIABILITIES³	3 219 181	3 205 663	3 142 217	3 028 197
NET DEBT⁴	(456 106)	(585 742)	(746 213)	(946 077)

Notes:

1. Net Worth represents Total Assets less Total Liabilities.
2. Net Financial Worth represents Financial Assets less Total Liabilities.

3. Net Financial Liabilities represents Net Debt plus Superannuation Liability.
4. Net Debt represents gross debt less selected financial assets.

Net Worth

The Forward Estimates on a same policy basis show that, as at 30 June, the Net Worth of the General Government Sector is \$9 299.8 million for 2009, \$9 558.0 million for 2010 and \$9 848.8 million for 2011. Net Worth is calculated as Total Assets less Total Liabilities, and incorporates a number of financial assets and liabilities not captured by the Net Debt measure, most notably accrued employee superannuation liabilities, ownership of equities, debtors and creditors.

Assets

Total Assets are anticipated to increase over the Forward Estimates to \$14 086.6 million in 2009, \$14 449.3 million in 2010, and \$14 843.2 million in 2011.

Cash and Deposits

The increase in Cash and Deposits primarily reflects growth in balances held in the Special Deposits and Trust Fund.

Advances Paid

The decrease in Advances Paid over the Forward Estimates is primarily due to reduced activity in the Home Ownership Assistance Program.

Other Non-Equity Assets

This category is primarily made up of Accounts Receivable; Income Tax Equivalentents and Dividends Receivable; Prepayments; Accrued Revenue; and GST Receivables.

Other Non-Equity Assets is estimated to be \$1 005.8 million as at 30 June 2008, \$1 011.9 million as at 30 June 2009, \$1 045.6 million as at 30 June 2010 and \$1 093.3 million as at 30 June 2011. Table 9.3 lists the major elements included within this category.

Table 9.3: Other Non-Equity Assets as at 30 June

	2008	2009	2010	2011
	Budget	Forward Estimate	Forward Estimate	Forward Estimate
	\$'000	\$'000	\$'000	\$'000
Accounts Receivable	124 750	120 647	145 882	175 728
Income Tax Equivalentents and Dividends Receivable	858 665	869 112	876 908	893 060
Prepayments	7 005	6 674	6 667	6 989
Accrued Revenue	6 504	6 338	6 806	8 007
GST Receivable	8 901	9 107	9 332	9 563
TOTAL OTHER NON-EQUITY ASSETS	1 005 825	1 011 878	1 045 595	1 093 347

Equity

The increase in Equity assets is primarily due to the increasing value of the Government's investment in Government Business Enterprises, State-owned Companies, Statutory Authorities and holdings in investments in private sector businesses.

Liabilities

Total Liabilities are anticipated to increase from \$4 786.8 million in 2009 to \$4 891.3 million in 2010 and \$4 994.4 million in 2011. The major factor influencing the level of liabilities in these years is the increase in the superannuation liability. For information on the Government's strategies to manage the superannuation liability, refer to Chapter 6 of this Budget Paper.

Net Financial Worth

The Forward Estimates on a same policy basis show that as at 30 June, Net Financial Worth is anticipated to be \$470.7 million in 2009, \$699.4 million in 2010 and \$999.1 million in 2011. Net Financial Worth is calculated as Financial Assets less Total Liabilities.

The increase in Net Financial Worth represents the strengthening position of the State's finances as the level of borrowings is reduced by the generation of cash surpluses, which translate to cash reserves.

Net Financial Liabilities

The Forward Estimates, on a same policy basis, show that as at 30 June, Net Financial Liabilities are anticipated to be \$3 205.7 million in 2009, \$3 142.2 million in 2010 and \$3 028.2 million in 2011. Net Financial Liabilities represents Net Debt plus Superannuation Liabilities.

Net Debt

Net Debt is the standard measure to assess the State Government's level of indebtedness. It is used to analyse the overall strength of the Government's fiscal position, and also provides an indicator of the Government's financial management performance over time. The reduction and eventual elimination of Net Debt has been part of the Government's Fiscal Strategy since 1998-99.

The Forward Estimates on a same policy basis show that as at 30 June, selected Financial Assets will exceed Gross Debt by \$585.7 million in 2009, \$746.2 million in 2010 and \$946.1 million in 2011.

FORWARD ESTIMATES CASH FLOW STATEMENT

The Forward Estimates Cash Surpluses on a same policy basis are \$123.5 million for 2008-09, \$157.6 million for 2009-10 and \$197.0 million for 2010-11. The Cash Surplus represents the Net Cash Flows from Operating Activities in addition to the Net Cash Flows from Investments in Non-Financial Assets.

The Net Increase in Cash Held over the Forward Estimates on a same policy basis is a Net Increase of \$110.1 million for 2008-09, \$156.0 million for 2009-10 and \$195.6 million for 2010-11.

Table 9.4 details the estimated cash flows over the Forward Estimate period.

Table 9.4: General Government - Cash Flow Statement Forward Estimates Summary

	2007-08 Budget	2008-09 Forward Estimate	2009-10 Forward Estimate	2010-11 Forward Estimate
	\$'000	\$'000	\$'000	\$'000
Cash Receipts from Operating Activities				
Taxes Received	751 927	772 056	808 266	846 913
Receipts from Sales of Goods and Service	313 890	319 533	319 850	323 938
Grants and Subsidies Received	2 378 089	2 437 303	2 465 275	2 490 491
Dividend, Tax and Rate Equivalent Income	148 923	169 954	185 067	166 748
Interest Received	45 265	51 498	58 472	66 647
Other Receipts	235 129	224 721	213 920	210 624
Total	3 873 223	3 975 065	4 050 850	4 105 361
Cash Payments for Operating Activities				
Payments for Goods and Services	(2 715 777)	(2 809 924)	(2 911 477)	(2 969 928)
Grants and Subsidies Paid	(655 840)	(641 894)	(633 824)	(629 218)
Interest Paid	(17 056)	(14 406)	(15 884)	(15 806)
Other Payments	(167 086)	(150 922)	(149 548)	(147 917)
Total	(3 555 759)	(3 617 146)	(3 710 733)	(3 762 869)
Net Cash Flows from Operating Activities	(A)	317 464	357 919	342 492
Net Cash Flows from Investments in Non-Financial Assets				
Sales of Non-Financial Assets	72 011	37 223	38 328	38 333
Purchases of Non-Financial Assets	(273 590)	(271 687)	(220 841)	(183 835)
Total	(B)	(201 579)	(182 513)	(145 502)
Net Cash Flows from Investments in Financial Assets for Policy Purposes	(C)	3 375	3 362	3 644
Net Cash Flows from Investments in Financial Assets for Liquidity Purposes	(D)	....	....	....
Net Cash Flows from Financing Activities				
Advances Received (net)	(6 002)	(6 261)	(6 533)	(6 668)
Borrowing (net)	(54 186)	(16 278)	1 384	1 542
Other Financing (net)	(447)	5 855	60	59
Total	(E)	(60 635)	(5 089)	(5 067)
Net Increase/(Decrease) in Cash Held¹	58 625	110 133	156 013	195 567
SURPLUS/(DEFICIT)²	115 885	123 455	157 604	196 990

Notes:

1. Net Increase in Cash Held is equal to A + B + C + D + E.

2. Cash Surplus is equal to A + B.

POLICY AND PARAMETER STATEMENT

A Policy and Parameter Statement (PPS) is included in the 2007-08 Budget Papers for the first time. The PPS is a reconciliation of the major movements in the Net Operating Balance and the Fiscal Balance between two points in time. In this section, the movement reflects changes between the Forward Estimates reported in the 2006-07 Budget Papers and the current Budget Forward Estimates. Amounts may not agree to the movements reflected earlier in this Chapter, as those amounts represent movements between the 2006-07 Budget estimates and the 2007-08 Budget. The movements are classified as revenue, expenses, or net acquisition of non-financial assets, and then further categorised as a policy or parameter change.

The classification of a variation as a policy or parameter change is a matter of judgment and it is recognised there may be some instances where part of a Government initiative may have both policy and parameter components.

Policy Variation

For the purpose of the PPS in this Chapter, a policy variation reflects a specific decision by the Government that has an impact on the Budget and Forward Estimates and is related to a new policy or represents a change in the Government's existing policy position. A decision to change a Budget or Forward Estimate aggregate, which is consistent with an existing policy, is not a policy decision.

Parameter Variation

A parameter variation reflects changes to the Budget and Forward Estimates due to the economic environment, the agency operating environment or the timing of a transaction.

Parameter variations will reflect the impact of demand and cost variations in agency service delivery, including the provision of indexation. Variations resulting from the rollover of a new Forward Estimate year and changes in accounting policies, such as a change in an agency depreciation policy, or where financial estimates are affected by a change in an accounting standard are classified as parameter variations.

Table 9.5 lists those policy and parameter changes that have impacted on the formulation of the 2007-08 Budget and Forward Estimates.

Table 9.5: Policy and Parameter Statement, 2007-08 to 2010-11

	2007-08 Budget	2008-09 Estimate	2009-10 Estimate	2010-11 Estimate ¹
	\$'000	\$'000	\$'000	\$'000
Forward Estimates (Net Operating Balance) as per the 2006-07 (A)				
Budget	(100 943)	(42 593)	(28 791)	....
Forward Estimates (Fiscal Balance) as per the 2006-07 Budget (B)	(65 067)	(44 471)	11 059	....
REVENUE				
Policy				
Taxation				
Motor Taxation ²	(6 968)	(9 368)	(9 446)	(9 526)
Motor Vehicle Registrations Duty ³	(3 550)	(4 874)	(5 019)	(5 168)
Payroll Tax - Group Training Exemption ⁴	....	(1 800)	(1 800)	(1 800)
Government Business Returns				
Special Dividends ⁵	13 000	13 000	13 000	3 000
Infrastructure, Energy and Resources				
Australian Energy Markets Commission Levy	414	429	446	465
Road Safety Strategy Levy	4 250	8 500	8 500	8 500
Total	7 146	5 887	5 681	(4 529)
Parameter Adjustments				
Taxation⁶				
Betting Exchanges	(17 278)	(28 954)	(39 722)	....
Casino Tax	(582)	(1 912)	(3 417)	....
Duties	12 723	10 286	11 342	....
Guarantee Fees	(1 114)	(565)	12	....
Land Tax	(2 208)	(2 918)	(4 454)	....
Lottery Tax	194	193	220	....
Motor Taxation	141	1 322	2 133	....
Motor Vehicle Taxes and Fees	365	374	383	....
Payroll Tax ⁴	1 298	2 664	2 658	....
State Fire Commission Revenue	582	1 310	1 933	....
Total Taxation	(5 879)	(18 200)	(28 912)	....

Notes:

1. The 2010-11 parameter adjustments are not reflected in this Table as the 2010-11 Forward Estimate was not published in the 2006-07 Budget. However, policy adjustments are reflected to show their full impact on the Forward Estimates.
2. Motor Taxation on light vehicles will be reduced from 1 October 2007, representing tax relief of \$7.0 million in 2007-08, with full-year taxation relief of \$9.4 million from 1 July 2008 and increasing thereafter.
3. Duty on the transfer of heavy vehicle registrations will be reduced by two-thirds from 1 October 2007, representing tax relief of \$3.6 million in 2007-08, with full year taxation relief of \$4.9 million from 1 July 2008 and increasing thereafter.
4. The estimate for Payroll Tax – Group Training Exemption was included on 28 June 2007 to correctly reflect the policy decision to exempt group training schemes from Payroll Tax from 1 July 2008. This was originally included in the parameter adjustment estimates for Payroll Tax.

5. In 2007-08, the Motor Accidents Insurance Board will remit a Special Dividend of \$10.0 million. This payment is the first tranche of a \$30.0 million Special Dividend that will be paid over three years. In addition, TOTE Tasmania will remit a \$3.0 million Special Dividend, which reflects the first tranche of \$12.0 million Special Dividend paid over four years.
6. Further information on Taxation is provided in Chapter 5, Budget Paper No 1 *The Budget*.

Table 9.5: Policy and Parameter Statement, 2007-08 to 2010-11 (continued)

	2007-08	2008-09	2009-10	2010-11
	Budget	Estimate	Estimate	Estimate
	\$'000	\$'000	\$'000	\$'000
Parameter Adjustments (continued)				
Government Business Returns	7 906	914	(1 153)	....
Interest Revenue	8 258	1 086	(9 081)	....
Australian Government Funding	119 845	183 676	137 338	....
Agency Revenue	44 147	39 639	75 108	....
Total Parameter Adjustments	174 277	207 115	173 300	....
TOTAL REVENUE VARIATIONS	(C) 181 423	213 002	178 981	....
EXPENSES				
Policy Decisions				
Economic Development				
Community Recreation Grants	1 000	1 000	1 000	1 000
Expansion of the Enterprise Growth Program	163	650	975	1 300
Replacement of the Tasmanian Trainee and Apprentice Incentive Scheme	....	2 500	2 500	2 500
Finance-General				
Drought Assistance	750	....	....	....
Payroll Tax Assistance - Phase out from 1 January 2008	(403)	(5 310)	(5 635)	(5 960)
Petroleum and Diesel Subsidies - Abolish from 30 September 2007 ¹	(10 518)	(14 242)	(14 465)	(14 694)
Health and Human Services				
Royal Hobart Hospital Redevelopment	5 000	5 000	5 000	5 000
Infrastructure, Energy and Resources				
Australian Energy Markets Commission Payment	414	429	446	465
Core Passenger Services	2 768	(327)	(872)	(1 220)
Road Safety Strategy	1 870	1 855	1 912	3 600
Justice				
Land Use Planning	750	750	....	....
Sexual Assault Services	500	500	500	500

Note:

1. The Petroleum and Diesel Subsidies - Abolish from 30 September 2007 was amended on 28 June 2007 from the figure originally published to correctly reflect the policy components of the Government's initiative to abolish petroleum and diesel subsidies, and to reduce Motor Taxation and Motor Vehicle Registrations Duty.

Table 9.5: Policy and Parameter Statement, 2007-08 to 2010-11
(continued)

	2007-08	2008-09	2009-10	2010-11
	Budget	Estimate	Estimate	Estimate
	\$'000	\$'000	\$'000	\$'000
Policy Decisions (continued)				
Premier and Cabinet				
Main Street Makeover	1 000	1 000	....	....
Stolen Generation Costs	5 290	....	....	....
Primary Industries and Water				
Climate Change	1 000	1 000	1 000	....
Tourism, Arts and the Environment				
Arts Grants	1 500	1 500	1 500	1 500
Bushfire Hazard Reduction Strategy	497	497	497	497
AFL Arrangement - Hawthorn Football Club Agreement	2 435	3 360	3 590	3 625
Parks Maintenance	3 000	3 000	3 000	3 000
Tasmanian Symphony Orchestra Payroll Tax Funding	220	220	220	220
Treasury and Finance				
Water and Sewerage Services Project	1 150	1 150	1 150	1 150
Total Policy Decisions	18 386	4 532	2 318	2 483
Parameter Adjustments				
Depreciation	14 146	15 760	19 060	....
Nominal Superannuation Interest Expense	24 429	26 362	27 111	....
Agency Expenditure	76 079	98 747	87 400	....
Petroleum and Diesel Subsidies - Demand Decrease ²	(1 824)	(2 198)	(2 615)	....
Special Capital Investment Funds	(11 903)	4 877	92	....
Total Parameter Adjustments	100 927	143 548	131 048	....
TOTAL EXPENSE VARIANCE	(D) 119 313	148 080	133 366	....
NET OPERATING BALANCE¹	(38 833)	22 329	16 824	17 057

Notes:

1. Net Operating Balance is equal to A + C - D
2. The Petroleum and Diesel Subsidies - Demand Decrease was included in Table 9.5 on 28 June 2007 to correctly reflect the parameter decrease in petroleum and diesel subsidies arising from a projected decrease in demand based on 2006-07 actual expenditure.

Table 9.5: Policy and Parameter Statement, 2007-08 to 2010-11
(continued)

		2007-08	2008-09	2009-10	2010-11
		Budget	Estimate	Estimate	Estimate
		\$'000	\$'000	\$'000	\$'000
<i>Less</i> NET ACQUISITION OF NON-FINANCIAL ASSETS					
Purchase of Non-Financial Assets					
Policy Decisions					
Infrastructure, Energy and Resources					
	Road Safety Strategy	2 380	6 645	6 588	4 900
Education					
	Building for the Future	5 000	7 000	10 000	8 000
	Total Policy Decisions	7 380	13 645	16 588	12 900
Parameter Adjustments					
	Movement in Agency Capital Expenditure	26 196	26 521	7 495	....
	Special Capital Investment Funds	25 656	(10 533)	1 542	....
	Total Parameter Adjustments	51 852	15 988	9 037	....
	Total Purchases of Non-Financial Assets	(E) 59 232	29 633	25 625	....
	Sale of Non-Financial Assets - Total Parameter Adjustments	(F) 16 665	(7 720)	(2 710)	....
	Depreciation - Total Parameter Adjustments	(G) 14 146	15 760	19 060	....
	TOTAL NET ACQUISITION OF NON-FINANCIAL ASSETS (H)				
	VARIANCE¹	28 421	21 593	9 275	....
	FISCAL SURPLUS/(DEFICIT)²	(31 378)	(1 142)	47 399	84 849

Notes:

1. Net Acquisition of Non-Financial Assets is equal to E – F – G
2. Fiscal Surplus/(Deficit) is equal to B + C – D – H

10 COMMONWEALTH-STATE FINANCIAL ARRANGEMENTS

Features

- It is estimated that revenue transfers from the Australian Government to Tasmania will total \$2 391.4 million in 2007-08, and comprise 63.8 per cent of total Tasmanian Government revenue.
- In 2007-08, Tasmania's share of Goods and Services Tax (GST) revenue is forecast to be \$1 646.4 million.
- In 2007-08, Specific Purpose Payments (SPPs), including the Health Care Grant, are expected to total \$745.0 million.
- The growth in Tasmania's GST revenue is driven by an increase in the GST pool in 2007-08, moderated by decreases in Tasmania's GST relativity and the State's share of the national population, which reduce Tasmania's potential GST revenue by an estimated \$5.1 million and \$12.0 million respectively.
- Tasmania has met all of its tax reform obligations associated with the reform of Commonwealth-State financial relations and has adopted one of the fastest timeframes for this reform.
- While the Australian Government Budget Papers show that, in 2007-08, Tasmania will receive more in GST revenue than it would have received under the old system of Financial Assistance Grants, this does not reflect the cost to revenue associated with tax cuts delivered by the State Government since 2000, independent of the national tax reform process associated with the introduction of the GST.
- In addition, the estimated benefit does not recognise the revenue foregone by Tasmania from reforms to taxes listed for review, but not abolition, in the intergovernmental agreement governing access to the revenue from the GST by the states, as some states are yet to abolish them in full.
- When the Australian Government's discontinuation of National Competition Policy payments to the states is added to the revenue foregone from the above tax reforms, the substantive benefit to Tasmania's budget from overall tax reform in 2007-08 will equate to less than one per cent of the State's GST revenue.
- Far from being the recipient of a revenue windfall, the State Government has used the introduction of the GST as an opportunity to reform a wider range of State taxes than was agreed to between the states and the Australian Government at the time the national tax reform process was negotiated.

INTRODUCTION

Revenue transfers from the Australian Government are a vital source of revenue for all states. This revenue is required to address the significant imbalance between the revenue raising powers and functional responsibilities of the Australian and state governments. In 2006-07, it is estimated that the Australian Government will collect 74 per cent of total national General Government revenue, but will only be directly responsible for 55 per cent of all General Government expenditure.

In 2007-08, it is expected that revenue transfers from the Australian Government will comprise 63.8 per cent of Tasmania's total General Government Sector revenue. These payments fall into two categories:

- General Purpose Payments (GPPs), which are untied payments and can be used at the State's discretion. The GST distribution will be the only GPP received by Tasmania in 2007-08; and
- Specific Purpose Payments (SPPs), which must be spent only for purposes as agreed with the Australian Government.

There are many different factors that influence the quantum of revenue transferred from the Australian Government to the states. Foremost amongst these factors are: the provisions of the *Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations* (IGA); actions taken by the Australian Government in relation to the IGA; the determinations of the Commonwealth Grants Commission (CGC); and the outcomes of SPP negotiations.

The purpose of this Chapter is to provide information regarding:

- the importance of revenue transfers from the Australian Government to the State Budget;
- the significant issues currently affecting Commonwealth-State financial arrangements; and
- the size and nature of the estimated revenue transfers from the Australian Government to Tasmania during 2007-08.

Background information is also provided in the appendices to this Chapter that explains: why Australian Government payments to the states are essential; some facts about Horizontal Fiscal Equalisation (HFE); and the role of the CGC.

SUMMARY OF REVENUE TRANSFERS FROM THE AUSTRALIAN GOVERNMENT

The following table provides a summary of the estimated amount and nature of revenue transfers from the Australian Government to Tasmania in 2007-08.

Table 10.1: Summary of Revenue Transfers from the Australian Government, 2007-08

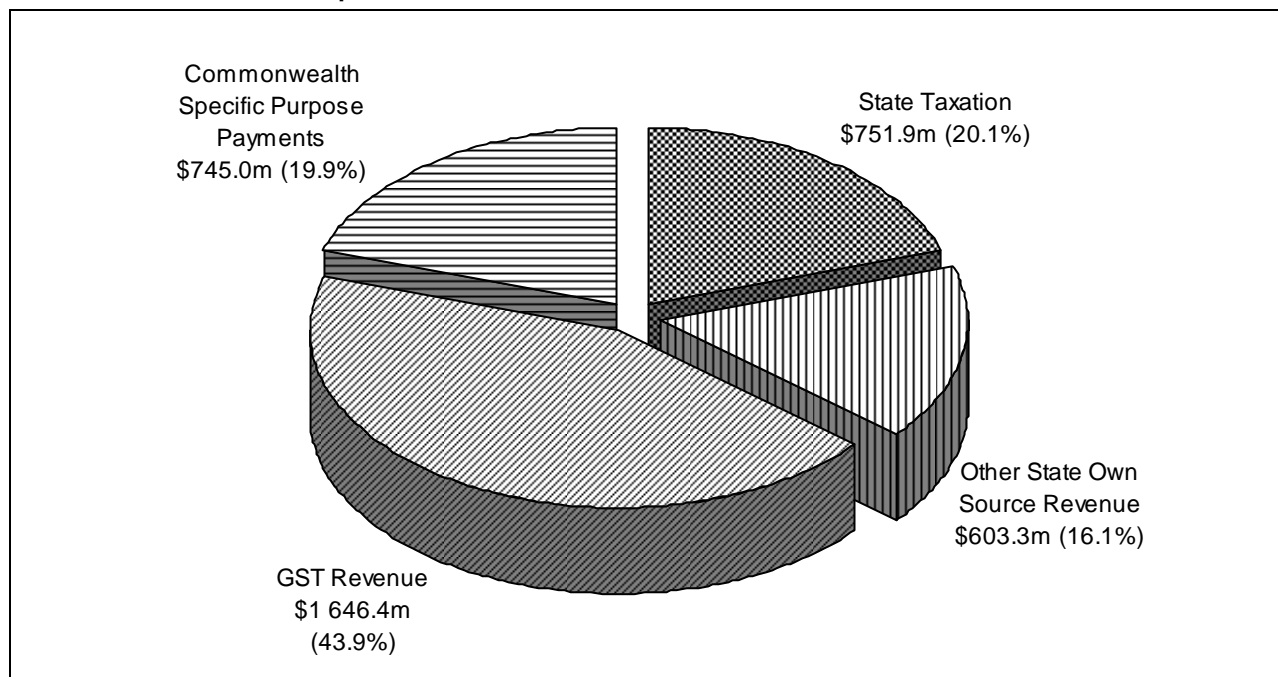
	2006-07 Budget	2007-08 Budget
	\$m	\$m
General Purpose Payments		
GST Revenue	1 557.3	1 646.4
Total General Purpose Payments	1 557.3	1 646.4
Specific Purpose Payments		
Health Care Grant	196.4	203.5
Other Specific Purpose Payments	478.9	541.5
Total Specific Purpose Payments	675.3	745.0
Total Revenue Transfers from the Australian Government	2 232.6	2 391.4

Source: Department of Treasury and Finance estimates.

Tasmania's GST revenue will comprise 68.9 per cent of the Australian Government's total revenue transfers to the State in 2007-08. The second largest individual transfer will be the Health Care Grant, which will comprise 8.5 per cent of the total estimated transfers of revenue. Total receipts from the Australian Government in 2007-08 are projected to increase by 7.1 per cent on 2006-07 levels. This is 3.1 per cent higher than the level of year-on-year growth forecast in the 2006-07 Budget. The reasons for this increase, and further information about the various revenue transfers made to Tasmania by the Australian Government, are provided later in this Chapter.

Chart 10.1 shows a break-down of revenue to the Tasmanian Budget between own-source revenue (darker shading) and transfers to Tasmania by the Australian Government (lighter shading). In 2007-08, it is estimated that total transfers to Tasmania by the Australian Government will comprise 63.8 per cent of total State revenue, 3.2 times the level of funding that the State generates from its own taxation revenue sources.

Chart 10.1: Revenue Transfers from the Australian Government as a Proportion of Total Revenue, 2007-08

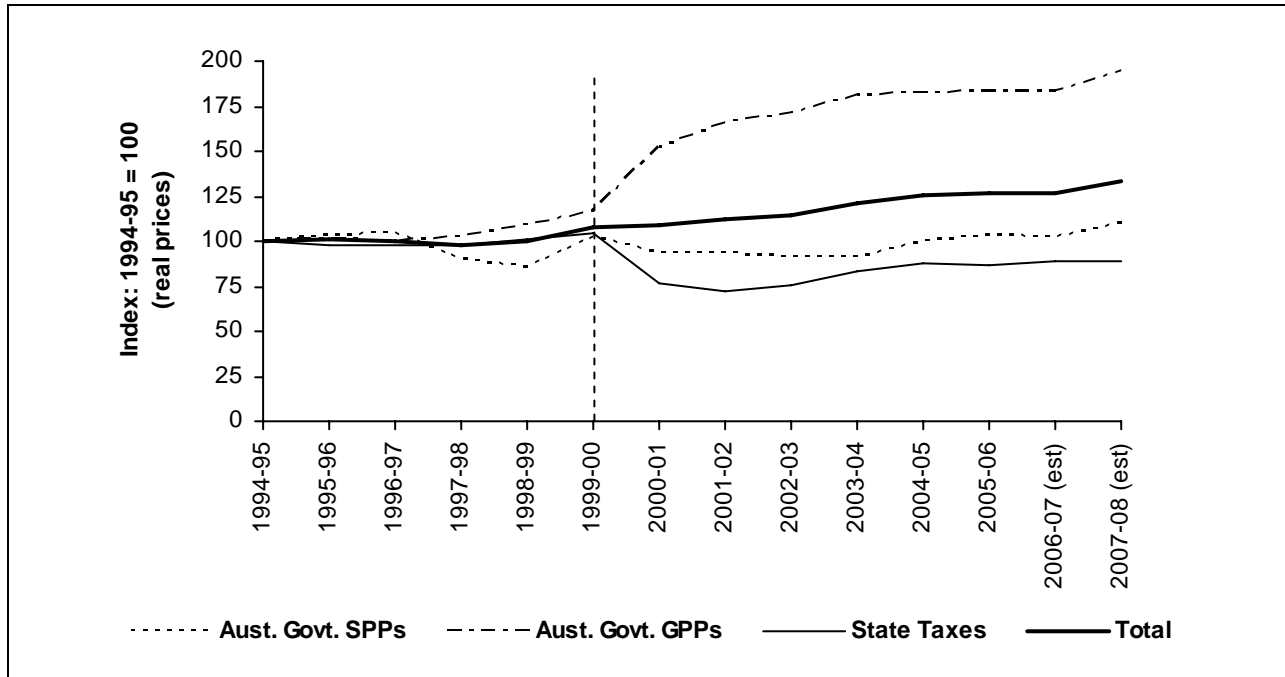


Source: Department of Treasury and Finance estimates.

Chart 10.2 summarises the major trends that have occurred in State revenue sourced from the Australian Government over the past decade. Major points to be made in relation to Chart 10.2 are:

- a major change in the composition of transfers of revenue by the Australian Government to the states occurred in 2000-01 as a result of the implementation of the IGA. This change resulted in a significant increase in the level of General Purpose Payments (GPPs);
- while GPPs appear to have grown appreciably as a source of revenue since 2000-01, SPPs have changed little, if at all;
- despite the GST having increased the level of GPPs, this increase has been partially offset by decreases in, and the abolition of, State taxes that were required under the agreement governing state access to the GST. In addition, the increase in GPPs has been negated to some extent by the significantly increased expenditure required of the State under the national tax reform arrangements, as well as the Government's decision to abolish additional State taxes that had merely been listed for review under the GST sharing agreement;
- since 2000, the State Government has, of its own volition, also provided significant tax relief, which has returned much of the benefit associated with the growth in GPPs to the Tasmanian community;
- the extent of this tax relief can be seen in the fact that state tax receipts, in real terms, have remained flat in recent years, despite Tasmania's buoyant property market and strong economic performance; and
- when both revenue, sourced from the Australian Government, and the revenue derived from State taxes is taken into account, the total revenue to Tasmania from these sources has grown only marginally in real terms since 2000.

Chart 10.2: Changes in Major Sources of Budget Revenue (Real Terms)



Source: Australian Government *Final Budget Outcome* (various years); Australian Government *Budget 2007-08*; Department of Treasury and Finance, Tasmanian Budget Paper No 1 *Budget Overview* (various years).

MAJOR ISSUES IN COMMONWEALTH-STATE FINANCIAL RELATIONS

The following sections highlight a number of current major issues in the area of Commonwealth-state financial relations.

2007 Treasurers' Conference

The IGA established the Treasurers' Conference, chaired by the Australian Government Treasurer and attended by the Treasurer of each state. The Treasurers' Conference meets annually and its major functions are to:

- oversee the operation of the GST;
- oversee and coordinate the implementation of the IGA;
- discuss the CGC's recommendations regarding GST revenue sharing relativities, prior to the Australian Government Treasurer making a determination; and
- make recommendations to the Australian Government Treasurer on the level of general purpose revenue transferred to each state under the terms of the IGA.

The most recent Treasurers' Conference was held on 30 March 2007. The states confirmed that they have met all of the tax abolition requirements under the IGA. Tasmania has been a leader in this regard, having an accelerated abolition schedule in comparison with other jurisdictions.

Consistent with its IGA commitments, the Tasmanian Government has legislated to fully abolish mortgage duty from 1 July 2007, having halved the rate from 1 July 2006. It has also legislated to abolish non-real-property business conveyance duty from 1 July 2008. Tasmania has already abolished, or never imposed, the remainder of the taxes that were agreed to be abolished under the IGA.

The Australian Government continues to misrepresent the states' obligation in respect of conveyance duty on real business property. The IGA contains no obligation to abolish this tax, and the states have met their obligation to review this revenue measure.

Since 2000, the Tasmanian Government has delivered tax cuts that will be worth almost \$67 million in 2007-08, in addition to the tax relief required under the IGA. (This does not include the reduction in motor tax and vehicle registration transfer duty announced in this Budget, on the basis that those reforms are intended to be revenue neutral.) In so doing, the Government has more than met the broadest interpretation of the IGA tax cut requirements, delivered substantial tax relief for Tasmanian businesses and provided targeted tax relief to the wider Tasmanian community.

The state Treasurers informed the Australian Treasurer of the significant progress that has been made in harmonising payroll tax by 1 July 2008. Tasmania, along with Victoria and New South Wales, has led the way by agreeing to fully harmonise payroll tax arrangements, except for tax rates and thresholds.

A range of other state taxes were discussed at the Conference including taxes in relation to housing affordability. The states highlighted the significant support already offered and in place to first home buyers to address this issue.

General Purpose Payments

Description

General Purpose Payments (GPPs) from the Australian Government can be applied at the State's discretion. With the unilateral decision of the Australian Government to discontinue National Competition Policy (NCP) payments in 2006-07, revenue from the GST will be the only GPP received by Tasmania in 2007-08.

GST Revenue

Under the terms of the IGA, the Australian Government distributes all the revenue it receives from the GST to the states. Like all states, Tasmania's share of GST revenue is based on its share of the national population, adjusted by weighting factors known as GST relativities that reflect the State's assessed per capita financial needs. The relativities for each state are determined by the Commonwealth Grants Commission (CGC), in accordance with the principle of horizontal fiscal equalisation (HFE). HFE, the CGC, and its most recent recommendations are discussed later in this Chapter and in the Appendices.

Estimates published in the Australian Government's 2007-08 Budget forecast net national GST collections of nearly \$41.9 billion in 2007-08. It is estimated that Tasmania's share of this revenue will be \$1 646.4 million, an increase of \$73.0 million (4.6 per cent) over the expected final outcome for 2006-07 of \$1 573.3 million. The expected final outcome for 2006-07 is \$16.0 million (1.0 per cent) higher than was forecast in the 2006-07 State Budget.

In real per capita terms, Tasmania's GST revenue is forecast to increase by less than 1.6 per cent in 2007-08.

Aside from the total amount of GST available for distribution to the states in any given year, the main factors that determine Tasmania's share of GST revenue are the State's population and its GST relativity. Table 10.2 provides an explanation of the change in Tasmania's share of GST revenue between the 2006-07 and 2007-08 Budget Estimates.

Table 10.2: Reconciliation of the Change in Tasmania's GST Revenue, 2006-07 to 2007-08

	\$m	\$m
GST Revenue 2006-07 – Budget Estimate		1 557.3
Plus		
Change due to decline in share of national population	(12.0)	
Change due to growth in GST revenue pool ¹	106.8	
Change due to lower GST relativity	(5.1)	
Change due to suspension of compensation for GST deferral ²	<u>(0.6)</u>	
		<u>89.1</u>
GST Revenue Share 2007-08 – Budget Estimate		<u><u>1 646.4</u></u>

Source: Budget Paper No 1 *Budget Overview 2006-07*; Department of Treasury and Finance estimates.

Notes:

1. The GST pool includes unquarantined Health Care Grants paid to the states, which inform the calculation of GST revenue distribution between the states.
2. Compensation relates to the Australian Government's decision to allow taxpayers that voluntarily register for GST to lodge their Business Activity Statements annually, rather than quarterly or monthly. As a result of lower than expected take-up rates by eligible taxpayers, it is estimated that there has been an overpayment by the Australian Government of compensation to the states. Further payments have been suspended to prevent added overpayment. The issue is to be resolved once final tax return data for 2007-08 are available.

The states entered into the IGA with the expectation that the GST would deliver a source of revenue that would grow over time with the Australian economy, and that they would eventually be financially better off than they would have been under the preceding arrangements. By the end of 2007-08, eight years after the process of national tax reform began, Tasmania is forecast to have received a total of \$11.1 billion in revenue under the IGA. While the cumulative benefit to the State during that time is forecast by the Australian Government to reach \$504.2 million, as a percentage of the total amount of GST revenue transferred to the State, Tasmania will only be 4.5 per cent better off as a result of the GST, based on the Australian Government's estimates.

The Australian Government's estimated benefit to Tasmania in 2007-08 of \$117.0 million takes into account \$81.2 million in taxation revenue foregone as the result of the State abolishing a number of taxes, and reducing the rates of others, under the terms of the IGA. However, the Australian Government's methodology for calculating the benefit to the states from the GST does not recognise the full extent of the revenue foregone from the abolition of these taxes, which included financial institutions duty and debits tax. This is because, with the benefit of hindsight, it is clear that the taxes the states gave away would have generated significantly more revenue than was estimated at the time the reforms were being planned, given the economy's performance since their abolition. As a result, the GST benefit calculated by the Australian Government is inherently overstated.

Regardless, the Australian Government's estimated benefit calculation for 2007-08 does not take into account the cost to Tasmania's revenue of the abolition of a number of IGA taxes that were listed for review – but not abolition – in the IGA. This is because some states have not yet abolished them, or are yet to abolish them in full, and the Australian Government will not recognise this tax relief, for any state, until such time as every state has abolished the same tax. It is conservatively estimated that Tasmania will forego

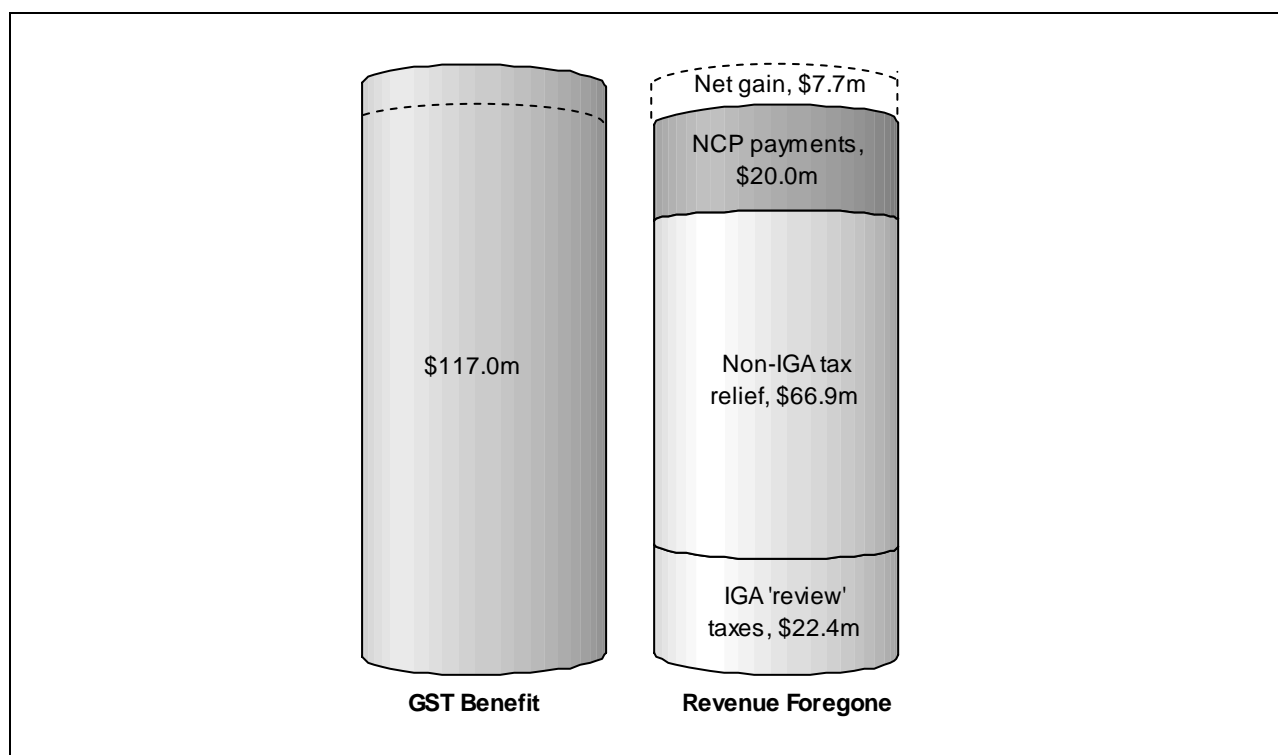
\$22.4 million of own source revenue in 2007-08 as the result of reforms to these taxes, without receiving any compensating increase in revenue or recognition of its loss.

The State Government has also used the introduction of the GST as an opportunity to reform a far wider range of State taxes than was envisaged at the time the process of national tax reform was agreed upon by the states and the Australian Government. The tax relief provided by these reforms is conservatively estimated to represent nearly \$67 million in 2007-08 alone. While these reforms have been outside the scope of the IGA, they are, nonetheless, reforms that were made possible by the transfer of GST revenue to Tasmania. Therefore, it is appropriate that, when considering the gain to Tasmania from national tax reform and the GST, the tax relief provided by the Tasmanian Government, independently of the IGA, is taken into account. The above measures alone, if recognised, reduce the Australian Government's claim of a net benefit for Tasmania in 2007-08 from \$117.0 million down to \$27.7 million.

It is also appropriate that any comparison of Tasmania's current general purpose revenue with its pre-IGA revenues also reflects the loss of the State's only other source of general purpose funding from the Australian Government, NCP payments. With NCP payments to Tasmania having reached nearly \$20 million per annum by the time they were abolished by the Australian Government in 2005-06, the withdrawal of these payments represents a significant loss of revenue to Tasmania.

As can be seen from Chart 10.3, most of the estimated benefit to Tasmania from the GST and the IGA in 2007-08 is offset by revenue foregone as the result of a range of tax reforms, some of which fall under the scope of the IGA, and the Australian Government's unilateral decision to discontinue making NCP payments to the states beyond 2005-06. Once these offsets are taken into consideration, Tasmania is left with a substantive gain from tax reform of less than \$8 million, or less than one per cent of the State's GST revenue in 2007-08.

Chart 10.3: Tasmania's Revenue Change from Tax Reforms, 2007-08



Source: Department of Treasury and Finance estimates.

Commonwealth Grants Commission 2007 Update Report

The CGC's 2007 Update Report provides information on relativities for the distribution of GST revenue amongst the states.

The CGC's 2007 Update Report indicates that Tasmania's per capita GST relativity has declined since the 2006 Update Report, meaning that it will receive an estimated \$5.1 million less in GST revenue for 2007-08 than it would have done were GST to be distributed to the states according to the 2006-07 relativities. The main reason for this decrease was because of the abolition of certain taxes as prescribed in the IGA. Tasmania had below average revenue raising capacity for the taxes being phased out, thus resulting in a fall in its assessed fiscal need when compared with previous updates.

Commonwealth Grants Commission 2010 Review

Every five years the CGC conducts a review of the methodology used to determine the distribution of GST revenue, according to terms of reference given to it by the Australian Government.

Any change in methodology can have significant financial implications for Tasmania and the other states. The review is currently underway, and the outcomes will determine the calculation of relativities to be used from 2010 onwards (2010 Review). The terms of reference instruct the CGC to undertake a review of its methodology that is far more significant than in past reviews. In particular, the CGC has been instructed to simplify its assessments by:

- simplifying (where reasonably possible) existing assessments;
- eliminating unreliable category assessments; and

- applying materiality thresholds to assessments to ensure that only those assessments that have an appreciable impact on the redistribution outcome are included.

The CGC's strategy to address the terms of reference is to start with a clean slate approach when it comes to assessment methods and to adopt a top-down approach to category assessments, where revenue and expenditure categories will only be disaggregated where necessary. The terms of reference also require that the outcome of the simplification process is consistent with the principle of Horizontal Fiscal Equalisation (HFE).

The CGC is required to report to the Ministerial Council for Commonwealth-State Financial Relations (Treasurers' Conference) on its progress in addressing the terms of reference. The 2007 Progress Report was provided to the Treasurers' Conference in March 2007 and provides further details of the 2010 Review, the work conducted to date and planned future work.

Specific Purpose Payments

Description

SPPs are grants provided for specific purposes, either agreed between each state and the Australian Government, or as prescribed by the Australian Government.

SPPs are usually determined through the Australian Government Budget and normally result in specific fixed term funding agreements, usually of three or five year durations. Often the states have to commit to matching these grants, dollar for dollar, in order to receive the funds being made available. Conditions such as this reduce a 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 seeking to remove such conditions from new or renegotiated inter-government agreements.

The largest SPPs are for public hospitals, roads, housing and education. Other significant SPPs include payments in relation to Home and Community Care (HACC), the Supported Accommodation Assistance Program (SAAP) and Disability Services programs. Together, these SPPs represent considerable tied funding.

The Australian Government has made the broad guarantee that funding for SPPs will not be reduced as a result of the reform of Commonwealth-State financial arrangements. This guarantee is being monitored each year by the Treasurers' Conference.

Total Specific Purpose Payments

Total SPPs to Tasmania, including the Health Care Grants (HCGs), are estimated to be \$745.0 million in 2007-08, representing a real terms increase of 7.1 per cent over the 2006-07 estimate of \$675.3 million. Table 10.3 compares estimates for the major SPPs for 2007-08 with estimates from 2006-07.

Table 10.3: Specific Purpose Payments – Tasmania, 2006-07 and 2007-08

Program	2006-07	2007-08	Real Terms
	Budget	Budget	Change Over 2006-07
	\$m	\$m	%
Health Care Grant	196.4	203.5	0.6
CSHA Block Assistance ¹	21.8	21.4	(4.8)
Government Schools ¹	60.9	62.4	(0.6)
Roads ²	37.7	32.3	(16.9)
HACC and SAAP	29.5	31.4	3.2
Disability Services	20.8	21.1	(1.2)
Local Government General Purpose Payments	54.6	57.4	1.9
Other ³	253.5	315.5	20.8
TOTAL⁴	675.3	745.0	7.1

Source: Budget Paper No 1 *Budget Overview 2006-07*; Department of Treasury and Finance estimates.

Notes:

1. Recurrent grants only.
2. The decrease in Roads SPPs primarily reflects decreased expenditure on National Highway System projects in 2007-08 as they near completion: Bass Highway – Penguin to Ulverstone Stage 2 (\$3.4 million), Sisters Hill (\$2.9 million) and Bridport Main Road (\$1.3 million).
3. Comprised of all remaining SPPs (including capital SPPs) from the Australian Government to Tasmania.
4. Figures may not total due to rounding.

Specific Purpose Payments 'To' the State and 'Through' the State

It is important to note that the amounts in Table 10.3 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 assists 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 is also important to note that in the years prior to the 2003-04 Budget, this table only presented estimates of SPPs to be paid into the Consolidated Fund. However, under the new accruals presentation, the table now also includes SPPs which pass through the Special Deposits and Trust Fund.

Table 10.4 illustrates the destination of Tasmania's SPPs in 2006-07 and 2007-08.

Table 10.4: Classification of Specific Purpose Payments by Destination, 2006-07 and 2007-08

Destination	2006-07	2007-08	Real Terms
	Budget	Budget	Change Over 2006-07
	\$m	\$m	%
'Through' the State (to Local Government)	54.6	57.4	1.9
'Through' the State (to other organisations)	117.5	137.9	13.9
Total 'Through' the state	172.1	195.3	10.1
'To' the State	503.2	549.7	6.0
TOTAL SPECIFIC PURPOSE PAYMENTS	675.3	745.0	7.1

Source: Budget Paper No 1 *Budget Overview 2006-07*; Department of Treasury and Finance estimates.

In addition to these payments, the Australian Government will make approximately \$27 million of direct payments to local government in 2007-08.

Monitoring of Commonwealth SPP Commitments

The terms of the IGA include a commitment that 'the Commonwealth will continue to provide 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 governments being financially better off under the new arrangements.'

This commitment 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 growth in GST revenue, the Australian Government would use this as an opportunity to reduce other transfers through SPP agreements.

In light of the importance of this issue to the states, a monitoring process has been established, reporting to the Treasurers' Conference in March of each year, to assess whether the Australian Government is meeting its commitment in relation to the level of SPPs. While the Australian Government has refused to formally endorse these monitoring arrangements, the process has shown that it has met its commitments in relation to 2005-06 and, based on its *Mid-Year Economic and Fiscal Outlook 2006-07*, is expected to meet its commitments for 2006-07 and 2007-08.

The Australian Government commitment in relation to SPPs has been assessed by comparing the level of SPPs made in 2005-06, and those estimated to be made in 2006-07 and 2007-08, with the level that would have been necessary to maintain the level of SPPs in 1999-00 in real per capita terms. Notwithstanding the results of the SPP monitoring undertaken to date, a guarantee to maintain SPPs in real per capita terms is not meaningful when the costs of most SPP programs grow at a much faster rate than the Consumer Price Index and population. While the Australian Government may have met this guarantee, the increase in input controls, and the administrative burden the Australian Government is now imposing on jurisdictions, significantly reduces the states' Budget flexibility. The states continue to maintain that SPP arrangements should facilitate service delivery policy and practice that will result in better outcomes, and not be focused on highlighting the Australian Government's financial contributions or its ability to override State policy.

Major Specific Purpose Payment Issues

SPPs from the Australian Government are a significant source of funds for Tasmania. This section highlights some major issues currently existing in relation to SPPs.

There are two major SPPs that are due to expire on 30 June 2007 and another three due to expire at the end of June 2008.

Commonwealth State Territory Disability Agreement

The Commonwealth State Territory Disability Agreement (CSTDA) is an agreement between the Australian and State governments that provides a framework for the delivery of specialist disability services. The CSTDA is due to expire on 30 June 2007.

The new agreement is currently being formulated and it is understood that the Australian Government is seeking improvements in four priority areas. These are:

- agreeing to focus on improving transparency and accountability;
- quantifying unmet needs;
- initiating independent accreditation systems; and
- improving access to mainstream disability services for Indigenous people.

While in principle there is merit in progressing these four areas, Tasmania is concerned that in practice they could significantly increase prescriptiveness and the administrative burden, which can lead to outcomes that are sub-optimal in terms of effectiveness and efficiency. Tasmania is also concerned that Australian Government investment (including indexation arrangements) will continue to be inadequate, and that there is a prospect that sanctions may be included in the next agreement for non-compliance with Australian Government policy.

Negotiations for the next CSTDA should consider the recommendations of the Australian Senate Community Affairs Committee inquiry into the funding and operation of the CSTDA. Some of the recommendations included that:

- the Australian and state governments jointly commit to substantial additional funding to address identified unmet need for specialist disability services, particularly for accommodation services and support;
- the Australian Government consider removing the (implicit) efficiency dividend from the indexation formula for funds allocated through the CSTDA;
- the Australian Government set an indexation level in line with the actual costs of service delivery to be provided; and
- the next CSTDA ensure 'matched funding' commitments do not provide a disincentive to governments to not provide additional funding for specialist disability services.

Home and Community Care

The Home and Community Care (HACC) Program is a jointly funded Commonwealth and State program that aims to provide basic community care services to frail older people, younger people with disabilities and their carers. A revised agreement has been negotiated between the State and Australian governments, and has introduced a three-year planning framework and increased emphasis on accountability. A reform agenda has been incorporated into the agreement, seeking to provide greater consistency between HACC services and those community aged care programs fully funded and managed by the Australian Government. The potential for 'micro-management' by the Australian Government (where it should only have a broad policy interest) remains an issue for concern, along with the strong input controls and current lack of ability to acquit state expenditures across a broader range of SPP services with overlapping scope.

The revised HACC agreement is expected to come into effect on 1 July 2007.

Commonwealth-State Housing Agreement

The Commonwealth-State Housing Agreement (CSHA) is a joint Commonwealth-State funding arrangement that is designed to provide strategic direction and funding certainty for the provision of housing assistance. The current CSHA expires in June 2008.

The CSHA is under review, the results of which will form the basis for discussions between states and the Australian Government concerning a new housing assistance agreement.

Tasmania believes that certain issues need to be considered when developing a new housing assistance agreement. Some of the issues include:

- a more collaborative approach between state and Australian governments in order to achieve shared objectives in the provision of housing assistance;
- greater flexibility in funding and a recognition of client needs so funding is not restricted to capital projects but also funds support services in addition to public housing;
- recognition that the CSHA does not operate in isolation and that other program areas also provide services to the same client group, such as mental health or disability services. There is an opportunity to better integrate program areas to create more efficient, effective and coordinated services to clients;
- performance monitoring and reporting focused on outcomes for clients, rather than process inputs; and

- adequate indexation in funding to recognise the cost demands on the states.

It should be noted that the majority of funds received from the Australian Government under the CSHA are returned to the Australian Government to retire its debt associated with the provision of public housing.

Natural Resource Management Programs

There is a range of Natural Resource Management (NRM) Programs, the most significant of which are the Natural Heritage Trust Extension (NHT) and National Action Plan for Salinity and Water Quality (NAP). Both are implemented by bilateral agreements and are due to expire on 30 June 2008.

The Australian Government announced in its 2007-08 Budget that on the expiry of the NHT and NAP, they will be combined into a third phase of the NHT. There are a range of concerns regarding the NRM programs. These issues include:

- uncertainty over future matching arrangements;
- inadequate recognition of pre-existing State effort;
- a lack of focus on measurable outcomes;
- excessive micro-management; and
- a lack of strategic focus including the tendency to address symptoms rather than causes.

The Australian Government's new funding commitment is for a further five years to 2012-13.

Australian Health Care Agreements

The current Australian Health Care Agreements (AHCAs) provide for the joint funding of public hospital services. The AHCAs are the basis for the provision of health care grants (HCGs) to the states. The HCGs are the single largest source of Australian Government revenue to the states after GST revenue.

The HCGs differ from other SPPs because of their links to the GST pool arrangements and, unlike conventional SPPs, the funds are not 'tied' to expenditure for a particular purpose. However, in order for states to receive the HCG funding, they are required to meet strict performance targets in the delivery of public hospital and other health services. Notwithstanding the in-principle distinction from SPPs, under the current AHCAs, the HCGs now share a greater number of characteristics with the more conventional SPP agreements.

The AHCAs funding consists of four 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 the implementation of the National Mental Health Reform Strategy;
- funding for a Pathways Home program to assist the move nationally to a greater focus on the care and services provided to support the transition from hospital to home; and
- a compliance payment, receipt of which is conditional on meeting matching, reporting and other performance requirements.

The current AHCAs were reluctantly signed by the states in August 2003 after the Australian Government had refused to continue negotiations and had indicated that it would impose significant financial penalties on those states that failed to sign. The Australian Government has effectively reduced HCGs to all states by

\$1 billion over the five years of the Agreement, when compared to what the states would have received had the AHCAs been rolled over on the same basis as the previous Agreement. Given the significant increases in health care costs, combined with the increase in demand for health services, this offer was considered inadequate by all states. Unfortunately, the Australian Government refused to enter into any meaningful discussion about the issue, and the states were left with no option but to take the Australian Government's offer.

In addition to the reduction in funding, the AHCAs impose significant compliance conditions on the states, including the extension of matching of Australian Government funding (this effectively reduces the states' sovereignty over their own Budgets) and costly administrative requirements. It also introduced an annual compliance penalty on any state that is deemed to be non-compliant with the Australian Government conditions.

These issues remain relevant and Tasmania will seek to have its concerns addressed in negotiating the next AHCAs. In addition, there is an opportunity to address rigidities in the current AHCAs that impede efficient and effective health outcomes.

The current AHCAs are due to expire at the end of June 2008.

Total Revenue Transfers from the Australian Government

The reforms to Commonwealth-State financial relations significantly increased the level of revenue sourced from the Australian Government by the states from 2000-01.

Table 10.5 shows the (nominal) amounts and shares that Tasmania has received, or is estimated to receive, in GPPs, SPPs and total revenue transfers from the Australian Government over the period 1994-95 to 2007-08. The last column of the table shows the decline in Tasmania's population as a proportion of Australia's population.

Table 10.5 also shows that there has been no increase in Tasmania's share of the revenue distributed to the states by the Australian Government 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 10.5: Australian Government Revenue Transfers – 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	%	%
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 ¹	677.7	4.2	480.1	3.3	1 157.8	3.7	2.5
1998-99 ¹	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 ^{2,3}	1 098.4	4.0	522.7	2.7	1 621.1	3.5	2.4
2001-02	1 218.9	3.9	535.4	2.6	1 754.3	3.3	2.4
2002-03	1 297.2	4.0	537.4	2.5	1 834.6	3.4	2.4
2003-04	1 411.7	4.2	548.1	2.4	1 959.8	3.5	2.4
2004-05	1 463.5	4.0	626.1	2.6	2 089.6	3.4	2.4
2005-06	1 515.5	4.0	664.0	2.5	2 179.5	3.4	2.4
2006-07 (est) ⁴	1 557.3	4.0	675.3	2.4	2 232.6	3.3	2.4
2007-08 (est)	1 646.4	3.9	745.0	2.5	2 391.3	3.3	2.3

Sources: Australian Government *Final Budget Outcome, Part 4: Federal Financial Relations* (numerous years); Australian Government Budget, *Federal Financial Relations 2006-07*; Australian Government Budget, *Federal Financial Relations 2006-07*, Department of Treasury and Finance.

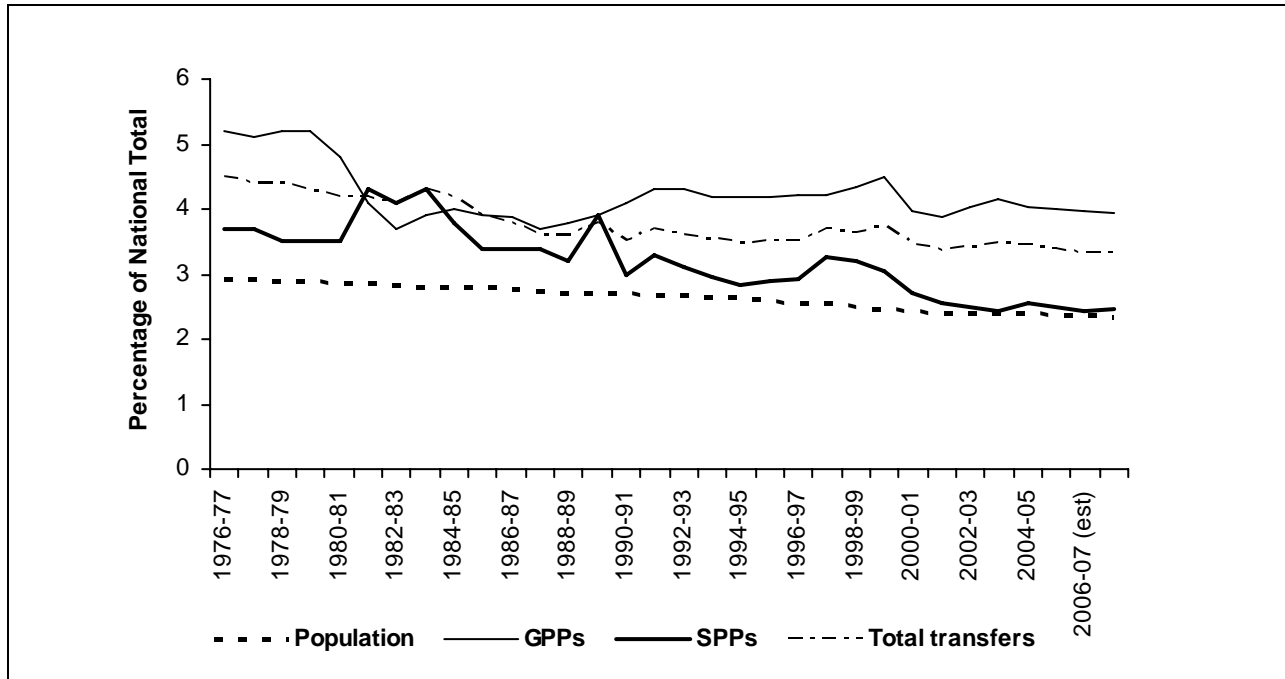
Notes:

1. General Purpose Payments for 1996-97 to 1998-99 are net of State Fiscal Contributions and include NCP payments in 1997-98 and 1998-99.
2. General Purpose Payments from 2000-01 onwards include GST revenue, Budget Balancing Assistance (where applicable) and NCP payments made to Tasmania.
3. As a result of the changes to Commonwealth-State financial arrangements, General Purpose Payments to the states from 2000-01 onwards are not directly comparable with previous years.
4. The amount Total Grants in 2006-07 and the associated Grant Share published in the 2006-07 Budget Papers (\$2 060.5 million and 3.5 per cent) were published in error.

Chart 10.4 compares the decline in Tasmania's share of revenue transfers by the Australian Government to the states with the change in the State's share of the national population. It shows that, despite the continuous use of horizontal fiscal equalisation (since the 1930s) to distribute financial transfers between the two levels of government, over the long term, Tasmania's share of Australian Government funding has declined at a faster rate than the State's share of the national population.

Between the mid-1970s and mid-1980s, the difference between Tasmania's grant share and population share fell from around 1.5 percentage points to around 1.0 percentage point, where it has essentially remained since. However, when examining the two components of Tasmania's grant share, two different trends emerge: General Purpose Payments have remained relatively stable since the mid-1980s, while Specific Purpose Payments have declined so that Tasmania now receives closer to its population share.

Chart 10.4: Tasmania's Share of Australian Government Revenue Transfers



Sources: Australian Government *Final Budget Outcome, Part 4: Federal Financial Relations* (numerous years); Australian Government Budget, *Federal Financial Relations 2006-07*; Australian Government Budget, *Federal Financial Relations 2006-07*, Department of Treasury and Finance.

APPENDIX 1

Why Revenue Transfers from the Australian Government are Essential

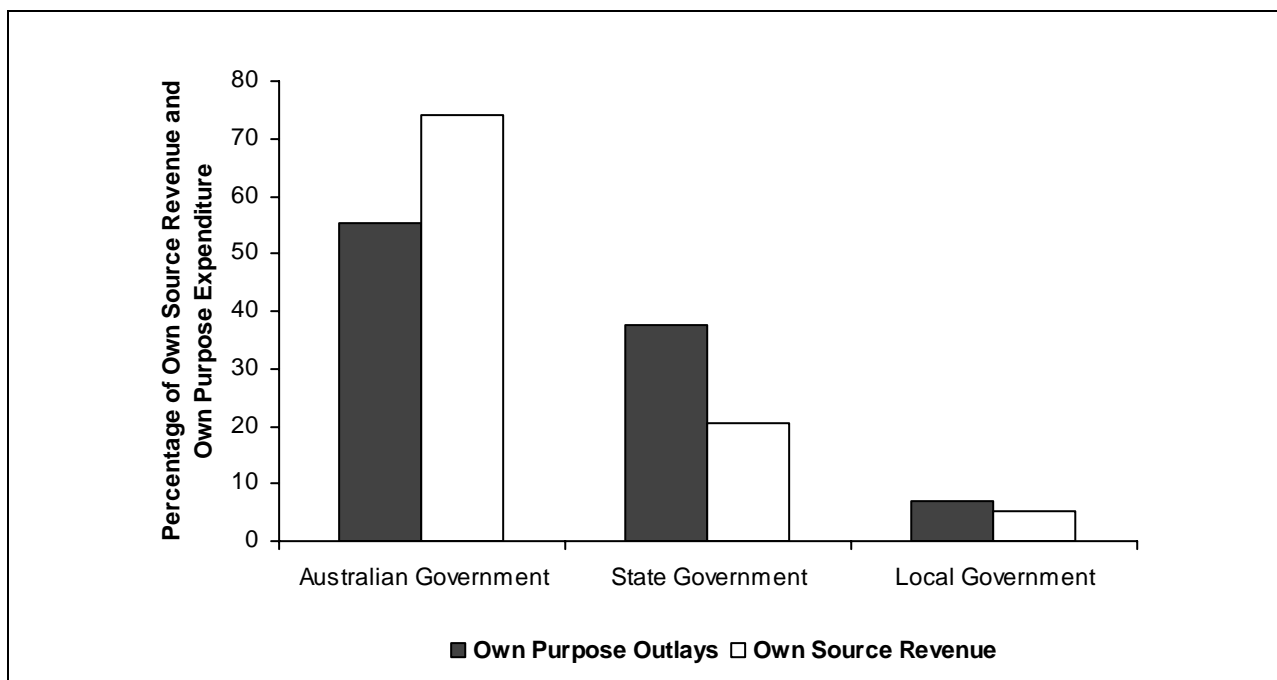
The transfer of revenue by the Australian Government to the states is an essential part of the financial relations that exist between the different levels of government in Australia. These transfers are fundamentally linked to the nature of the Australian Federation and the way in which it has developed. In particular, Commonwealth-state financial relations both derive from and reflect the differing powers and responsibilities of each level of government. The need for, and principles governing, the distribution of these revenue transfers to the states is 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 Australian Government 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, the practical limits to reducing this imbalance have 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 10.5, which compares the percentage shares of revenue and expenditure on a consolidated basis for the Australian Government, state, and local governments. It shows that, in 2006-07, the Australian Government will have raised 74 per cent of total (General Government) revenue, whereas its own purpose (General Government) spending will have only been 55 per cent of total General Government outlays. In contrast, the states' share of this revenue will have only been 20 per cent, while combined state General Government outlays will have represented 38 per cent of the national total. Revenues and expenditures for local government are estimated to be much more closely aligned.

Chart 10.5: Vertical Fiscal Imbalance, 2006-07



Source: *Government Financial Estimates 2006-07*, Australian Bureau of Statistics (ABS).

As a result of VFI, there is a requirement for significant financial transfers from the Australian Government to the states on an ongoing basis. As detailed in this Chapter, Australian Government financial assistance to the states is provided in a variety of ways.

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 abolished a number of taxes under the IGA (financial institutions duty, marketable securities duty, debits duty and bed taxes) and have foregone revenue replacement payments and Financial Assistance Grants. States have also abolished, or agreed to abolish, all but part of one of the taxes listed for review, rather than abolition, under the IGA, and by so doing are going beyond what they committed to. Nevertheless, the IGA arrangements provide the states with a greater level of certainty in relation to transfers from the Australian Government. This is because they sever the link between the quantum of revenue transfers and Australian Government fiscal policy decisions. The states are continually mindful of entering into agreements that may increase VFI beyond current levels.

Horizontal Fiscal Equalisation

In addition to the differences that exist between the powers and responsibilities of the Australian 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. In per capita terms, there are differences between states in the cost of providing a range of common services and the financial resources available to fund them, including own source revenues and certain transfers from the Australian Government (apart from General Purpose Payments). The causes of this horizontal fiscal imbalance are complex and varied (demographic, geographic and economic to name a few). Those causes over which a state has no policy control are the explicit focus of the HFE process.

In the absence of an arrangement whereby General Purpose Payments and HCGs are distributed in accordance with HFE, those states that 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 that 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 CGC's assessments attempt to measure the level of services each state could provide, and the amount of revenue it could raise, if it made the average Australian effort. The difference between the assessed levels of service and revenue and the Australian average determines the shares of GST revenue. 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 so as to enable them to discharge their standard functions without necessarily having to impose above average revenue raising measures on their communities.

In 2007-08, it is estimated that Tasmania will receive approximately \$664.4 million more of the GST revenue pool than it would if the GST revenue pool were distributed on an equal per capita basis. Without HFE, Tasmania would be significantly disadvantaged, relative to the average fiscal circumstances of all states, because of its higher costs of providing services and lower capacity to raise revenue, both of which are unavoidable.

APPENDIX 2

The Facts About Horizontal Fiscal Equalisation (HFE)

There has been increasing debate as to how HFE is defined and implemented in Australia. This is essentially a debate over what level of 'equality' is acceptable in Australian society. A significant shift away from HFE would undermine the long-held regard for equal opportunity in Australia.

To put HFE in perspective, less than seven per cent of the GST revenue pool needs to be redistributed among the states to achieve equalisation. The remaining 93 per cent of the GST revenue pool is distributed on an equal per capita basis (EPC).

Moreover, when considered in the context of General Government revenues, HFE results in a relatively small redistribution away from the large donor states. By contrast, the redistribution to the smaller states, such as Tasmania and the Northern Territory, is significant. This point is illustrated in Table 10.6.

In order for Tasmania and the Northern Territory to have the capacity to provide an average level of services to their residents, these jurisdictions require equalisation payments that represent 17.2 per cent and 51.5 per cent respectively of their General Government revenue. In contrast, the cost of equalisation for New South Wales and Victoria is much less significant, at 4.4 per cent and 3.8 per cent respectively. This cost is simply a reflection that these states have net advantages that would result in them having a capacity to provide services to their residents above the Australian average if the GST revenue pool were distributed on an equal per capita basis, to the detriment of residents in the other states. Distributing the GST revenue pool on an equal per capita basis, therefore, would result in interstate inequality.

Table 10.6: Comparison of GST Revenue Pool Shares, on HFE and Equal Per Capita Bases, 2006-07

	GST Share (HFE) \$m	GST Share (EPC) \$m	Difference \$m	General Government Revenue	Difference as % of Revenue	Per Capita Redistribution \$
New South Wales	13 786.4	15 791.9	(2 005.5)	45 203.0	(4.4)	(290.1)
Victoria	10 527.0	11 758.6	(1 231.6)	32 749.0	(3.8)	(274.5)
Queensland	9 617.3	9 396.5	220.8	29 568.0	0.7	97.5
Western Australia	4 768.0	4 747.0	21.0	17 155.0	0.1	55.7
South Australia	4 250.1	3 577.0	673.1	11 404.0	5.9	449.0
Tasmania	1 745.1	1 126.8	618.3	3 605.0	17.2	1 222.1
Australian Capital Territory	868.1	758.0	110.1	2 775.3	4.0	316.4
Northern Territory	2 072.7	479.1	1 593.6	3 092.0	51.5	7 217.3
Total²	47 634.8	47 634.8				

Source: Australian Government 2006-07 Mid-Year Economic and Fiscal Outlook Report, States 2006-07 Budget Reviews (UPF Basis).

Notes:

1. To maintain comparability, the table does not use latest estimates from the Australian Government and state 2007-08 Budgets as not all budgets have been delivered.
2. Figures may not total due to rounding.

It is sometimes argued that fiscal equalisation provides a disincentive for states to promote economic reform and development because the benefits, through higher revenue, are equalised away. This argument overlooks that there are a range of incentives for state governments to pursue economic reform and development, the most significant of which is the desire to improve the welfare of their communities. For example:

- Tasmania has been one of the lead states to implement National Competition Policy reforms;
- Tasmania has an Industry Development Plan, providing an integrated range of strategies to foster growth and development for the Tasmanian economy and key industries; and
- a fundamental element of Tasmania's Fiscal Strategy is a commitment to maintaining a competitive business environment.

If HFE was a disincentive to economic development, these activities would not be undertaken. Moreover, there is no evidence that the large donor states are not pursuing economic development on the basis that any gains are being equalised away.

It is argued, at times, that HFE has indirect efficiency impacts, by, for example, supporting uneconomic population distributions. Research commissioned in 2001 by the governments of New South Wales, Victoria and Western Australia into Commonwealth-State funding (known as the Garnaut-Fitzgerald Review) demonstrates that any theoretical efficiency losses arising from the application of HFE are minimal. The research found that the welfare gains from moving to an equal per capita distribution were between \$150 million and \$250 million per year. This is insignificant compared to Australian GDP of around \$900 billion per annum. This is a small price to pay to ensure that all Australians are treated equally,

irrespective of the state in which they reside. Other research shows that moving away from a HFE basis would actually result in net efficiency losses.

APPENDIX 3

The Commonwealth Grants Commission

Established in 1933, the CGC is an independent Australian Government statutory body charged with the task of making recommendations to the Australian Treasurer, in the form of per capita relativity factors, on how GST revenue should be distributed between the states each year.

Since 1981, the basis for its recommendations has been an assessment of the relative fiscal capacities of the states. These assessments are carried out in accordance with the principle of HFE.

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 degree to which a state exploits its available own-source revenue raising opportunities is captured by the CGC through the revenue raising effort ratio. This is expressed as a ratio of the revenue that a state actually raised from its own sources to how much it could have raised if it applied the average Australian tax (or other revenue) raising effort. The average Australian effort is effectively an average of states' tax and other revenue policies, as judged by the CGC. What a state could raise if it made the average Australian effort is based on the CGC's assessment of its relative revenue raising capacity, which takes into account the differences between states in the value of their tax bases.

This is a similar concept to tax severity except that, in addition to state taxation, revenue raising effort also includes property and mining royalties, income from interest earnings, and contributions to government from public trading enterprises.

A ratio above 100 indicates that a state is applying a revenue raising effort above the Australian average. A ratio below 100 indicates that it is making an effort below the Australian average.

The revenue raising effort ratios have been calculated for each state and are shown for the five years to 2005-06 in Table 10.7. Chart 10.6 shows the revenue raising effort ratio of each state for the 2005-06 financial year, the most recent year for which Commission data is available.

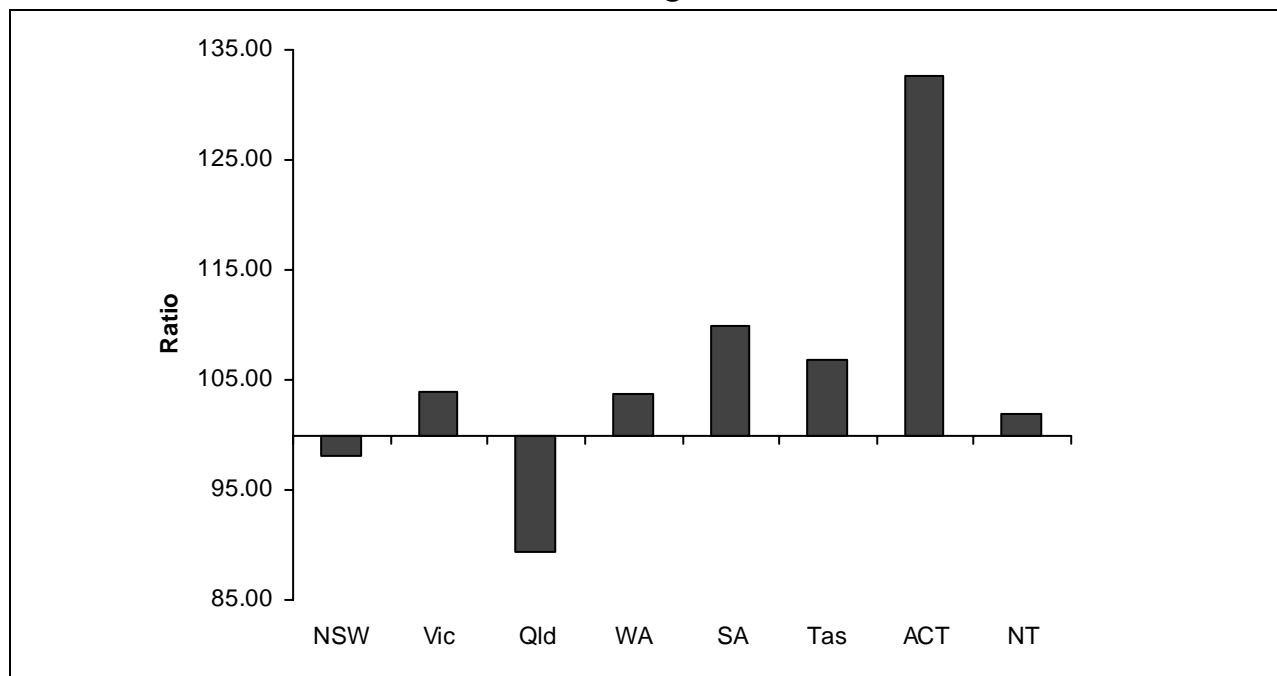
Table 10.7: Trends in State Revenue Raising Effort Ratios

State/Territory	2001-02	2002-03	2003-04	2004-05	2005-06
New South Wales	101.34	98.31	99.86	100.94	102.40
Victoria	100.70	103.59	99.10	99.39	98.79
Queensland	93.34	93.19	90.88	89.66	88.70
Western Australia	104.05	105.72	111.70	109.36	109.30
South Australia	103.06	105.92	110.34	109.88	106.39
Tasmania	102.22	107.23	105.74	105.54	101.28
Australian Capital Territory	95.72	97.27	100.19	105.11	115.29
Northern Territory	89.85	97.89	97.01	102.29	98.91

Source: *Relative Fiscal Capacities of the States 2007*, Commonwealth Grants Commission.

It should also be noted that because the CGC updates the data used to assess revenue raising effort each year, the indices for 2001-02 to 2004-05 in Table 10.7 are not directly comparable with those published last year in Budget Paper No 1 *Budget Overview 2006-07*.

Chart 10.6: State Revenue Raising Effort Ratios, 2005-06



Source: *Relative Fiscal Capacities of the States 2007*, Commonwealth Grants Commission.

Similar concepts apply to service delivery. The CGC examines the effort that states go to in providing services relative to other states, through the calculation of the level of service provision ratio. The ratio measures what a state is spending on service delivery compared to what it would need to spend (taking into account its cost advantages and disadvantages) in order to provide the Australian average level of services. The Australian average level of service is calculated by the CGC and covers all areas of state general government expenditure, including: health; education; law, order and public safety; culture and recreation; and so on.

A ratio greater than 100 indicates that a state is providing a level of services above the Australian average. A ratio below 100 indicates a level of service provision below the Australian average.

The level of service provision ratios for each state for the five years to 2005-06 are presented in Table 10.8.

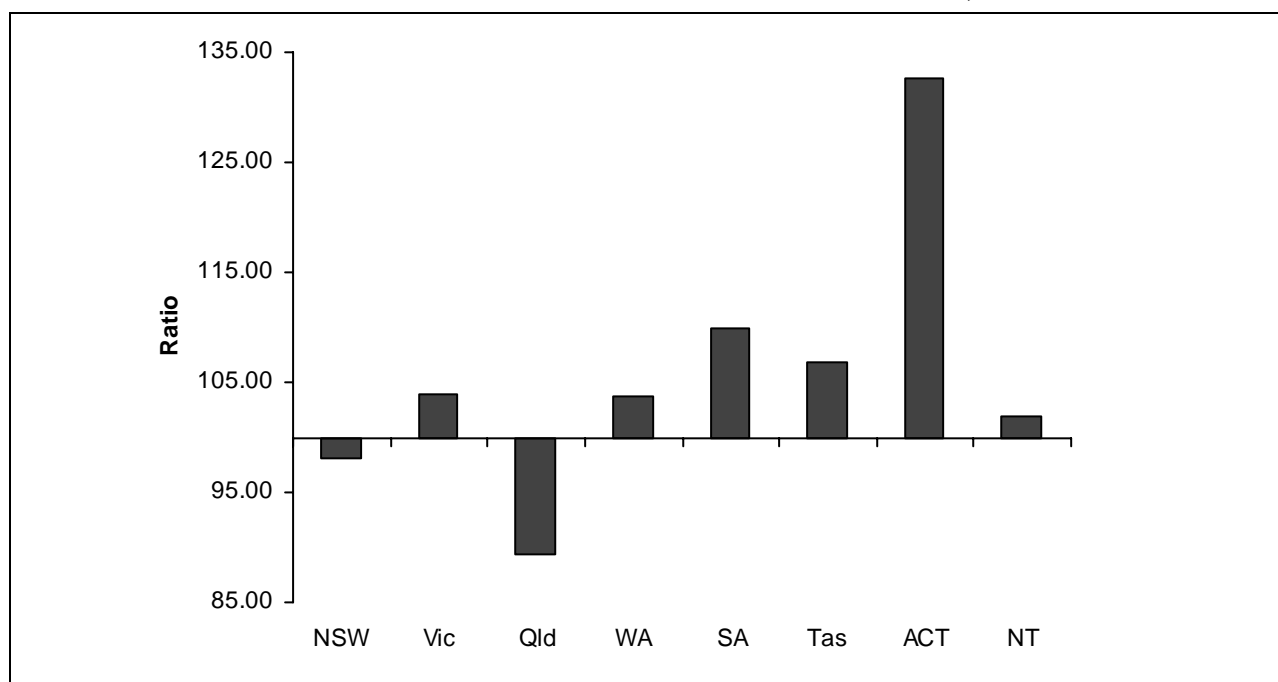
The figures are shown graphically in Chart 10.7 for 2005-06, which is the most recent year for which Commission data is available.

Table 10.8: Trends in State Level of Service Provision Ratios

State/Territory	2001-02	2002-03	2003-04	2004-05	2005-06
New South Wales	95.60	97.42	99.80	99.75	98.04
Victoria	98.87	99.80	104.03	102.85	103.90
Queensland	103.00	98.93	87.19	86.88	89.28
Western Australia	100.67	102.09	101.83	103.96	103.66
South Australia	107.68	106.06	108.48	110.69	109.93
Tasmania	102.22	102.10	102.82	102.30	106.80
Australian Capital Territory	119.44	119.27	133.77	137.17	132.71
Northern Territory	106.18	103.01	107.46	105.24	101.87

Source: *Relative Fiscal Capacities of the States 2007*, Commonwealth Grants Commission.

Chart 10.7: State Level of Service Provision Ratios, 2005-06



Source: *Relative Fiscal Capacities of the States 2007*, Commonwealth Grants Commission.

It should be noted that because the CGC updates the data used to assess the level of service provision each year, the above indices are not directly comparable with the corresponding Table and Chart published in Budget Paper No 1 *Budget Overview 2006-07*.

APPENDIX 1 UNIFORM GOVERNMENT REPORTING

Features

- To satisfy Loan Council requirements, this Appendix brings together information presented elsewhere in the Budget Papers for the General Government Sector, together with Budget information for the Public Non-Financial Corporations (PNFC) Sector and the Total Non-Financial Public Sector.
- Government Finance Statistics data are presented in accordance with accrual concepts, consistent with the Uniform Presentation Framework agreed by the Australian Loan Council in March 2000.
- The budgeted Fiscal Balance for 2007-08 is a deficit of \$31 million for the General Government Sector, a deficit of \$117 million for the PNFC Sector and a deficit of \$143 million for the Total Non-Financial Public Sector.
- Between 30 June 2007 and 30 June 2008, General Government Net Debt is forecast to improve from negative \$350 million to negative \$456 million, Public Non-Financial Corporations Net Debt is to increase from \$1 746 million to \$1 841 million and Total Non-Financial Public Sector Net Debt to decrease from \$1 396 million to \$1 385 million.
- Tasmania's budgeted Loan Council Allocation (LCA) for 2007-08 is a deficit of \$52 million compared with the nomination of a deficit of \$87 million.

INTRODUCTION

The financial performance information in this Appendix has been prepared in accordance with the Uniform Presentation Framework (UPF) using the Government Finance Statistics (GFS) framework.

This Appendix provides 2005-06 outcomes, 2006-07 revised estimates and 2007-08 Budget estimates for the Operating Statement, Balance Sheet and Cash Flow Statement for the Tasmanian General Government, Public Non-Financial Corporations (PNFC) and Total Non-Financial Public Sectors. Forward Estimates are provided for all Sectors for the period 2008-09 to 2010-11.

In the 2007-08 Budget Papers, Forward Estimates for the PNFC and Total Non-Financial Public Sectors are included for the first time to improve the transparency of reporting for the State. In accordance with the UPF, information on the actual end of year results will be released in the *Treasurer's Annual Financial Report 2006-07*. The Report will be publicly released by no later than 31 October 2007.

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 Appendix. Under the terms of the UPF, this information is reported in the Loan Council Outcomes Report, which will be produced within the *Treasurer's Annual Financial Report 2006-07*.

GFS data is prepared by all states and territories and the Australian Government on the basis of common concepts and classifications to facilitate inter-jurisdictional comparisons. Some comparisons with other states and territories are provided later in this Appendix.

The purpose of this Appendix is to:

- report on Tasmania's recent financial performance;
- enable a comparison with the recent financial performance of other states and territories;
- 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.

GOVERNMENT FINANCIAL ESTIMATES

Tables A1.1 to A1.9 provide details of the Operating Statements, Balance Sheets and Cash Flow Statements for the General Government, PNFC 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.

Table A1.1: General Government – Operating Statement

	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
	Actual	Revised Estimate	Budget Estimate	Forward Estimate	Forward Estimate	Forward Estimate
	\$m	\$m	\$m	\$m	\$m	\$m
Revenue						
Grants and Subsidies	2 215	2 290	2 391	2 471	2 476	2 490
Taxation Revenue	703	736	752	772	808	847
Sales of Goods and Services	299	297	317	321	331	335
Interest Income	33	37	45	52	59	67
Dividend and Income Tax Equivalent Income	188	174	149	170	185	167
Other Revenue	134	92	92	87	96	97
Total	3 572	3 627	3 747	3 873	3 956	4 004
Expenses						
Depreciation	206	200	209	211	213	213
Employee Expenses	1 612	1 716	1 820	1 879	1 964	2 019
Other Operating Expenses	874	938	892	906	908	902
Nominal Superannuation Interest Expense	137	175	188	194	199	204
Other Interest Expense	27	19	17	15	16	16
Grants and Transfers	596	650	659	645	637	633
Total	3 453	3 698	3 785	3 850	3 939	3 987
NET OPERATING BALANCE	120	(72)	(39)	22	17	17
Less Net Acquisition of Non-Financial Assets						
Purchase of Non-Financial Assets	293	236	274	272	221	184
less Sale of Non-Financial Assets	50	56	72	37	38	38
less Depreciation	206	200	209	211	213	213
Total	37	(20)	(7)	23	(31)	(68)
Equals FISCAL BALANCE	83	(52)	(31)	(1)	47	85

Table A1.2: General Government – Balance Sheet as at 30 June

	2006	2007	2008	2009	2010	2011
	Actual	Revised Estimate	Budget Estimate	Forward Estimate	Forward Estimate	Forward Estimate
	\$m	\$m	\$m	\$m	\$m	\$m
Assets						
Financial Assets						
Cash and Deposits	607	668	725	836	992	1 188
Advances Paid	56	53	49	46	43	40
Investments, Loans and Placements	2	2	2	2	2	2
Other Non-Equity Assets	1 039	985	1 006	1 012	1 046	1 093
Equity	3 049	3 119	3 232	3 362	3 508	3 670
Total	4 752	4 827	5 015	5 258	5 591	5 994
Non-Financial Assets						
Land and Fixed Assets	8 584	8 658	8 710	8 789	8 819	8 810
Other Non-Financial Assets	58	34	38	40	40	40
Total	8 643	8 692	8 749	8 829	8 859	8 850
Total Assets	13 395	13 519	13 764	14 087	14 449	14 843
Liabilities						
Advances Received	248	242	236	230	223	217
Borrowings	157	131	85	68	68	68
Superannuation Liability	3 199	3 554	3 675	3 791	3 888	3 974
Other Employee Provisions	356	380	400	419	436	451
Other Non-Equity Liabilities	327	335	305	278	276	285
Total Liabilities	4 287	4 642	4 702	4 787	4 891	4 994
NET WORTH¹	9 108	8 877	9 062	9 300	9 558	9 849
NET FINANCIAL WORTH²	464	185	313	471	699	999
NET FINANCIAL LIABILITIES³	2 940	3 204	3 219	3 206	3 142	3 028
NET DEBT⁴	(259)	(350)	(456)	(586)	(746)	(946)

Notes:

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

Table A1.3: General Government – Cash Flow Statement

	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
	Actual	Revised Estimate	Budget Estimate	Forward Estimate	Forward Estimate	Forward Estimate
	\$m	\$m	\$m	\$m	\$m	\$m
Cash Receipts From Operating Activities						
Taxes Received	699	736	752	772	808	847
Receipts from Sales of Goods and Services	268	294	314	320	320	324
Grants and Subsidies Received	2 258	2 309	2 378	2 437	2 465	2 490
Dividend and Income Tax Equivalent Income	164	174	149	170	185	167
Interest Received	32	37	45	51	58	67
Other Receipts	259	224	235	225	214	211
Total	3 680	3 775	3 873	3 975	4 051	4 105
Cash Payments for Operating Activities						
Payments for Goods and Services	(2 446)	(2 652)	(2 716)	(2 810)	(2 911)	(2 970)
Grants and Subsidies Paid	(616)	(647)	(656)	(642)	(634)	(629)
Interest Paid	(34)	(19)	(17)	(14)	(16)	(16)
Other Payments	(132)	(160)	(167)	(151)	(150)	(148)
Total	(3 229)	(3 479)	(3 556)	(3 617)	(3 711)	(3 763)
Net Cash Flows from Operating Activities	451	296	317	358	340	342
Net Cash Flows from Investments in Non-Financial Assets						
Sale of Non-Financial Assets	50	56	72	37	38	38
Purchases of Non-Financial Assets	(262)	(236)	(274)	(272)	(221)	(184)
Total	(213)	(180)	(202)	(234)	(183)	(146)
Net Cash Flows from Investments in Financial Assets for Policy Purposes						
	5	3	3	3	3	4
Net Cash Flows from Investments in Financial Assets for Liquidity Purposes						
	8	....	....	....	....	....
Net Cash Flows from Financing Activities						
Advances Received (Net)	(13)	(6)	(6)	(6)	(7)	(7)
Borrowing (Net)	(254)	(27)	(54)	(16)	1	2
Other Financing (Net)	(16)	(25)	....	6	....	....
Total	(283)	(57)	(61)	(17)	(5)	(5)
Net Increase/(Decrease) in Cash Held	(31)	61	59	110	156	196
SURPLUS/(DEFICIT) ¹	238	115	116	123	158	197

Note:

1. Cash Surplus/(Deficit) is equal to Net Cash Flows from Operating Activities plus Net Cash Flows from Investments in Non-Financial Assets.

Table A1.4: Public Non-Financial Corporations Sector – Operating Statement

	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
	Actual	Revised Estimate	Budget Estimate	Forward Estimate	Forward Estimate	Forward Estimate
	\$m	\$m	\$m	\$m	\$m	\$m
Revenue						
Grants and Subsidies	75	79	81	82	84	85
Sales of Goods and Services	1 675	1 775	1 881	1 932	2 019	2 146
Interest Income	14	5	5	5	5	5
Other Revenue	45	30	42	44	47	48
Total	1 809	1 889	2 009	2 063	2 155	2 284
Expenses						
Depreciation	227	226	235	247	261	277
Employee Expenses	303	329	348	361	374	390
Other Operating Expenses	1 006	1 088	1 099	1 096	1 123	1 205
Other Interest Expenses	118	125	136	145	153	156
Dividend and Income Tax Equivalent Expenses	125	88	79	101	118	128
Grants and Transfers	30	22	24	25	26	27
Total	1 809	1 878	1 923	1 975	2 055	2 183
NET OPERATING BALANCE	....	11	86	88	100	101
Less Net Acquisition of Non-Financial Assets						
Purchase of Non-Financial Assets	405	381	443	430	454	410
less Sale of Non-Financial Assets	7	143	4	5	4	3
less Depreciation	227	226	235	247	261	277
Total	171	12	204	178	189	130
equals FISCAL BALANCE	(172)	(1)	(117)	(90)	(89)	(29)

Table A1.5: Public Non-Financial Corporations Sector – Balance Sheet as at 30 June

	2006	2007	2008	2009	2010	2011
	Actual	Revised Estimate	Budget Estimate	Forward Estimate	Forward Estimate	Forward Estimate
	\$m	\$m	\$m	\$m	\$m	\$m
Assets						
Financial Assets						
Cash and Deposits	74	100	89	90	123	151
Investments, Loans and Placements	128	95	129	173	192	193
Other Non-Equity Assets	377	333	350	363	379	417
Equity	80	80	80	80	80	80
Total	658	607	648	706	774	841
Non-Financial Assets						
Land and Fixed Assets	6 545	6 522	6 776	6 996	7 216	7 381
Other Non-Financial Assets	246	357	329	331	335	336
Total	6 791	6 879	7 105	7 327	7 551	7 717
Total Assets	7 449	7 487	7 753	8 033	8 326	8 558
Liabilities						
Borrowings	1 930	1 941	2 059	2 180	2 302	2 331
Superannuation Liability	472	418	425	430	435	440
Other Employee Provisions	73	118	122	126	132	137
Other Non-Equity Liabilities	2 201	2 161	2 183	2 197	2 211	2 242
Total Liabilities	4 675	4 638	4 788	4 933	5 079	5 150
Shares and Other Contributed Capital	2 774	2 848	2 965	3 100	3 246	3 408
NET WORTH ¹	....	....	....	....	....	....
NET FINANCIAL WORTH ²	(6 791)	(6 880)	(7 105)	(7 327)	(7 551)	(7 717)
NET FINANCIAL LIABILITIES ³	2 201	2 165	2 266	2 347	2 422	2 427
NET DEBT ⁴	1 729	1 746	1 841	1 917	1 987	1 987

Notes:

1. Net Worth represents Total Assets less Total Liabilities and Shares and Other Contributed Capital.
2. Net Financial Worth represents Total Financial Assets less Total Liabilities and Shares and Other Contributed Capital.
3. Net Financial Liabilities represents Net Debt plus Superannuation Liability.
4. Net Debt represents Borrowings less the sum of Cash and Deposits and Investments, Loans and Placements.

Table A1.6: Public Non-Financial Corporations Sector – Cash Flow Statement

	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
	Actual	Revised	Budget	Forward	Forward	Forward
	Estimate	Estimate	Estimate	Estimate	Estimate	Estimate
	\$m	\$m	\$m	\$m	\$m	\$m
Cash Receipts from Operating Activities						
Receipts from Sales of Goods and Services	1 834	1 686	1 860	1 901	1 992	2 083
Grants and Subsidies Received	79	56	57	57	59	60
Interest Received	15	6	5	5	5	5
Other Receipts	246	181	197	190	199	210
Total	2 174	1 929	2 119	2 153	2 255	2 359
Cash Payments for Operating Activities						
Payments for Goods and Services	(1 341)	(1 175)	(1 281)	(1 274)	(1 310)	(1 362)
Grants and Subsidies Paid	(12)	(12)	(13)	(13)	(14)	(14)
Interest Paid	(123)	(121)	(132)	(142)	(152)	(159)
Other Payments	(323)	(339)	(324)	(311)	(314)	(322)
Total	(1 799)	(1 647)	(1 751)	(1 740)	(1 790)	(1 857)
Net Cash Flows from Operating Activities	376	283	368	412	464	502
Net Cash Flows from Investments in Non-Financial Assets						
Sales of Non-Financial Assets	7	143	4	5	4	3
Purchases of Non-Financial Assets	(405)	(381)	(443)	(430)	(454)	(410)
Total	(398)	(238)	(438)	(425)	(450)	(407)
Net Cash Flows from Investments in Financial Assets for Policy Purposes						
	(50)	....	....	....	....	....
Net Cash Flows from Investments in Financial Assets for Liquidity Purposes						
	(15)	(11)	(29)	(34)	(4)	4
Net Cash Flows from Financing Activities						
Distributions Paid	(129)	(113)	(63)	(104)	(125)	(129)
Borrowing (Net)	(17)	25	117	120	121	29
Other Financing (Net)	62	....	....	....	....	....
Total	(84)	(88)	54	16	(3)	(100)
Net Increase/(Decrease) in Cash Held	(171)	(55)	(44)	(30)	7	(1)
SURPLUS/(DEFICIT) ¹	(151)	(69)	(133)	(116)	(111)	(35)

Note:

1. Cash Surplus/(Deficit) is equal to Net Cash Flows from Operating Activities plus Net Cash Flows from Investments in Non-Financial Assets plus Distributions Paid.

Table A1.7: Total Non-Financial Public Sector – Operating Statement

	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
	Actual	Revised	Budget	Forward	Forward	Forward
	Estimate	Estimate	Estimate	Estimate	Estimate	Estimate
	\$m	\$m	\$m	\$m	\$m	\$m
Revenue						
Grants and Subsidies	2 215	2 290	2 391	2 471	2 476	2 490
Taxation Revenue	680	736	752	772	808	847
Sales of Goods and Services	1 939	2 072	2 198	2 253	2 350	2 481
Interest Income	47	42	50	57	64	72
Dividend and Income Tax Equivalent						
Income	61	56	76	55	53	44
Other Revenue	177	122	134	131	143	145
Total	5 117	5 318	5 602	5 738	5 893	6 080
Expenses						
Depreciation	432	426	444	458	474	490
Employee Expenses	1 914	2 045	2 168	2 240	2 338	2 409
Other Operating Expenses	1 843	2 026	1 991	2 002	2 031	2 107
Nominal Superannuation Interest Expenses	137	175	188	194	199	204
Other Interest Expenses	139	144	153	160	169	172
Grants and Transfers	532	593	602	588	579	575
Total	4 997	5 409	5 548	5 642	5 791	5 956
NET OPERATING BALANCE	122	(91)	54	96	102	124
Less Net Acquisition of Non-Financial Assets						
Purchase of Non-Financial Assets	698	617	717	702	675	594
less Sale of Non-Financial Assets	57	199	76	42	42	41
less Depreciation	432	426	444	458	474	490
Total	209	(8)	197	201	158	62
equals FISCAL BALANCE	(87)	(83)	(143)	(105)	(57)	61

Table A1.8: Total Non-Financial Public Sector – Balance Sheet as at 30 June

	2006	2007	2008	2009	2010	2011
	Actual	Revised Estimate	Budget Estimate	Forward Estimate	Forward Estimate	Forward Estimate
	\$m	\$m	\$m	\$m	\$m	\$m
Assets						
Financial Assets						
Cash and Deposits	681	768	814	926	1 115	1 339
Advances Paid	55	47	44	40	37	34
Investments, Loans and Placements	128	103	137	181	200	201
Other Non-Equity Assets	556	540	550	559	601	670
Equity	355	351	347	342	342	342
Total	1 775	1 808	1 891	2 047	2 295	2 587
Non-Financial Assets						
Land and Fixed Assets	15 110	15 180	15 486	15 785	16 035	16 191
Other Non-Financial Assets	304	391	367	371	375	376
Total	15 414	15 571	15 854	16 156	16 410	16 567
Total Assets	17 189	17 380	17 745	18 203	18 705	19 153
Liabilities						
Advances Received	248	242	236	230	223	217
Borrowings	2 086	2 072	2 144	2 248	2 370	2 399
Superannuation Liability	3 671	3 972	4 100	4 221	4 323	4 414
Other Employee Provisions	429	498	522	545	568	588
Other Non-Equity Liabilities	1 668	1 718	1 682	1 659	1 663	1 687
Total Liabilities	8 102	8 502	8 684	8 904	9 147	9 304
Shares and Other Contributed Capital	....	....	....	....	....	....
NET WORTH ¹	9 086	8 878	9 061	9 299	9 559	9 849
NET FINANCIAL WORTH ²	(6 327)	(6 694)	(6 792)	(6 856)	(6 852)	(6 718)
NET FINANCIAL LIABILITIES ³	5 140	5 368	5 485	5 553	5 564	5 455
NET DEBT ⁴	1 469	1 396	1 385	1 331	1 241	1 041

Notes:

1. Net Worth represents Total Assets less Total Liabilities and Shares and Other Contributed Capital.
2. Net Financial Worth represents Total Financial Assets less Total Liabilities and Shares and Other Contributed Capital.
3. Net Financial Liabilities represents Net Debt plus Superannuation Liability.
4. Net Debt represents the sum of Advances Received and Borrowings less the sum of Cash and Deposits, Advances Paid and Investments, Loans and Placements.

Table A1.9: Total Non-Financial Public Sector – Cash Flow Statement

	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
	Actual	Revised Estimate	Budget Estimate	Forward Estimate	Forward Estimate	Forward Estimate
	\$m	\$m	\$m	\$m	\$m	\$m
Cash Receipts from Operating Activities						
Taxes Received	675	736	752	772	808	847
Receipts from Sales of Goods and Services	2 064	1 980	2 174	2 221	2 312	2 407
Grants and Subsidies Received	2 258	2 309	2 378	2 437	2 465	2 490
Interest Received	47	43	50	56	63	72
Other Receipts	531	461	508	470	466	464
Total	5 575	5 530	5 862	5 956	6 115	6 281
Cash Payments for Operating Activities						
Payments for Goods and Services	(3 735)	(3 827)	(3 997)	(4 084)	(4 221)	(4 332)
Grants and Subsidies Paid	(547)	(603)	(612)	(598)	(589)	(583)
Interest Paid	(150)	(140)	(149)	(156)	(168)	(175)
Other Payments	(437)	(499)	(491)	(462)	(464)	(470)
Total	(4 869)	(5 070)	(5 250)	(5 300)	(5 442)	(5 560)
Net Cash Flows from Operating Activities	705	460	612	655	673	721
Net Cash Flows from Investments in Non-Financial Assets						
Sales of Non-Financial Assets	57	199	76	42	42	41
Purchases of Non-Financial Assets	(667)	(617)	(717)	(702)	(675)	(594)
Total	(610)	(418)	(640)	(659)	(633)	(553)
Net Cash Flows from Investments in Financial Assets for Policy Purposes						
	(45)	3	3	3	3	4
Net Cash Flows from Investments in Financial Assets for Liquidity Purposes						
	(7)	(11)	(29)	(34)	(4)	4
Net Cash Flows from Financing Activities						
Advances Received (Net)	(13)	(6)	(6)	(6)	(7)	(7)
Borrowing (Net)	(277)	(2)	63	104	122	31
Other Financing (Net)	50	(25)	....	6	....	....
Total	(240)	(32)	56	103	116	24
Net Increase/(Decrease) in Cash Held	(196)	1	4	69	156	201
SURPLUS /(DEFICIT) ¹	95	41	(27)	(5)	41	169

Note:

1. Cash Surplus/(Deficit) is equal to Net Cash Flows from Operating Activities plus Net Cash Flows from Investments in Non-Financial Assets.

Table A1.10: General Government Expenses by Purpose

	2005-06	2006-07	2007-08
	Actual	Revised	Budget
	Estimate	Estimate	Estimate
	\$m	\$m	\$m
General Public Services	247	203	203
Public Order and Safety	295	332	375
Education	971	968	992
Health ¹	976	897	959
Social Security and Welfare ¹	113	225	219
Housing and Community Amenities	143	211	232
Recreation and Culture	101	103	101
Fuel and Energy	1	19	2
Agriculture, Forestry, Fishing and Hunting	79	172	109
Mining and Mineral Resources Other than Fuels, Manufacturing and Construction	6	8	7
Transport and Communications	167	182	202
Other Economic Affairs	135	142	135
Nominal Interest on Superannuation	137	175	188
Other Purposes	82	62	62
TOTAL EXPENSES	3 453	3 698	3 785

Notes:

1. The variance between the 2006-05 outcome and the 2006-07 Revised Estimate reflects the reclassification of Disability services expenditure from Health to Social Security and Welfare.

Table A1.11: General Government Taxes

	2005-06	2006-07	2007-08
	Actual	Revised Estimate	Budget Estimate
	\$m	\$m	\$m
Employers' Payroll Taxes	214	220	226
<i>Taxes on Property</i>			
Land Tax	49	62	69
Fire Service Levies	41	39	41
Government Guarantee Fees	7	9	9
Taxes on Financial and Capital Transactions	152	159	157
Total Taxes on Property	250	269	276
<i>Taxes on the Provision of Goods and Services</i>			
Taxes on Gambling			
Casino Taxes	55	55	58
Other Gambling Taxes	25	29	31
Total Taxes on Gambling	80	84	89
Taxes on Insurance	37	38	40
Total Taxes on the Provision of Goods and Services	117	122	129
<i>Taxes on Use of Goods and Performance of Activities</i>			
Motor Vehicle Fees and Taxes	121	127	122
Total Taxes on Use of Goods and Performance	121	127	122
TOTAL TAXES	703	736	752

TREND IN FISCAL MEASURES

Fiscal Balance

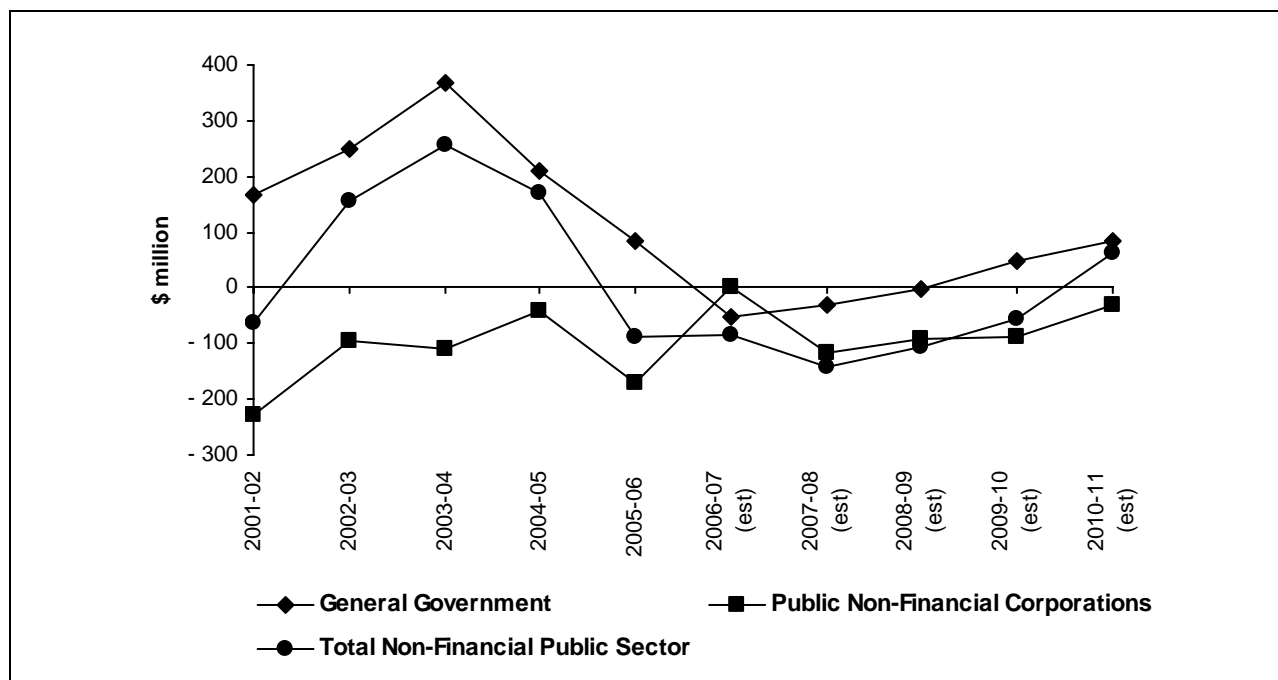
Chart A1.1 illustrates the Fiscal Balance for the General Government, PNFC and Total Non-Financial Public Sectors from 2001-02 to 2010-11.

In 2007-08, the Fiscal Balance for the Total Non-Financial Public Sector is estimated to be a deficit of \$143 million, an increase of \$60 million from the 2006-07 revised Fiscal Balance deficit of \$83 million. This is due to an estimated increase of \$116 million in the PNFC Fiscal Deficit due primarily to the proceeds from the sale of *Spirit of Tasmania III*, which are recognised in the revised 2006-07 estimates, offset by a reduction in the General Government's Fiscal Deficit of \$21 million.

Chart A1.1 shows that the General Government Sector achieved Fiscal Surpluses from 2001-02 to 2005-06 and is estimated to achieve Fiscal Surpluses from 2009-10 to 2010-11. The Fiscal Deficits in 2006-07 to 2008-09 reflect the Government's 2006 Election commitments and the significant investment in the State's physical assets. Further information on the budgeted Fiscal Balance for 2007-08 is provided in Chapter 4 *Revenue and Expense Estimates, 2007-08*.

The PNFC Sector recorded Fiscal Deficits from 2001-02 to 2005-06 and is estimated to record a Fiscal Deficit of \$117 million in 2007-08, a decrease of \$116 million from the 2006-07 revised Fiscal Deficit of \$1 million. The Fiscal Deficits are primarily a result of the significant capital expenditure program that is occurring in the PNFC Sector. The trend is steadily improving with an estimated Fiscal Deficit of \$29 million in 2010-11.

Chart A1.1: Fiscal Balance, 2001-02 to 2010-11

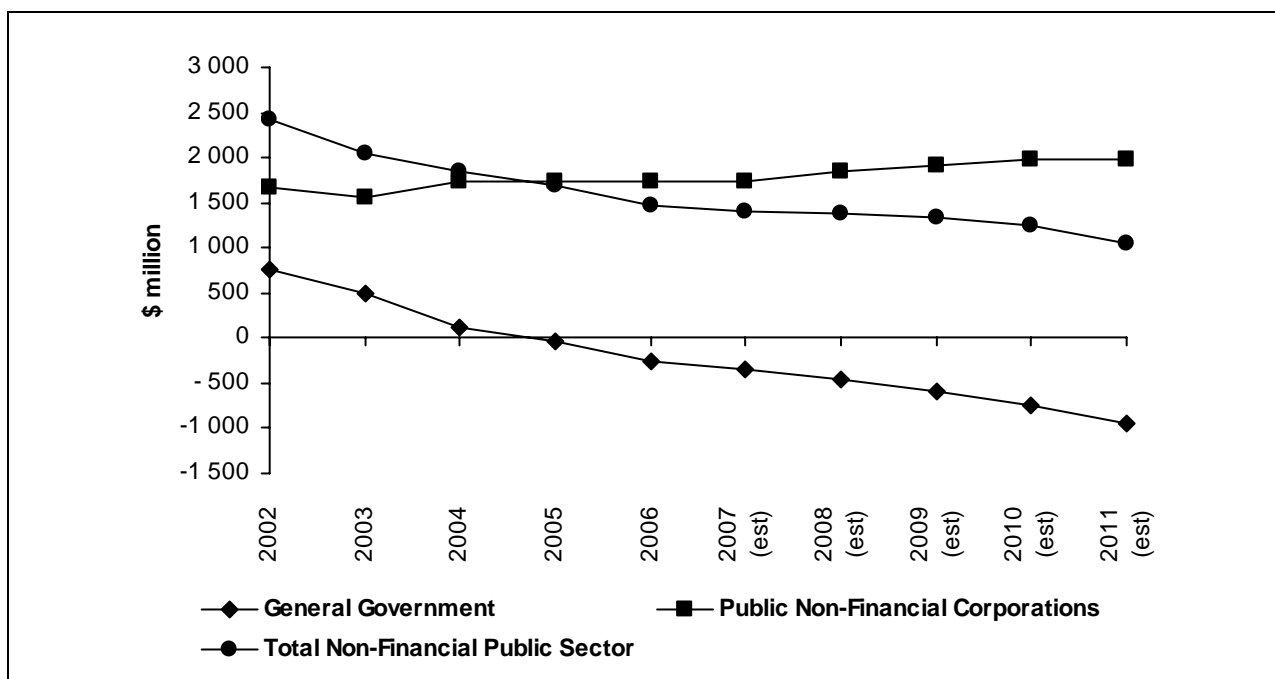


Net Debt

Chart A1.2 shows Net Debt from 2002 to the estimated Net Debt outcome for 2011.

Net Debt for the Total Non-Financial Public Sector is estimated to be \$1 385 million as at 30 June 2008. This is a decrease of \$11 million from the 2006-07 revised estimate of \$1 396 million. This reflects an improvement in estimated General Government Sector Net Debt of \$106 million in 2007-08, partially offset by an increase in estimated PNFC Sector Net Debt of \$95 million. Net Debt for the Total Non-Financial Public Sector is forecast to continue to decline with an estimated balance of \$1 041 million as at 30 June 2011.

Chart A1.2: Net Debt, 2002 to 2011

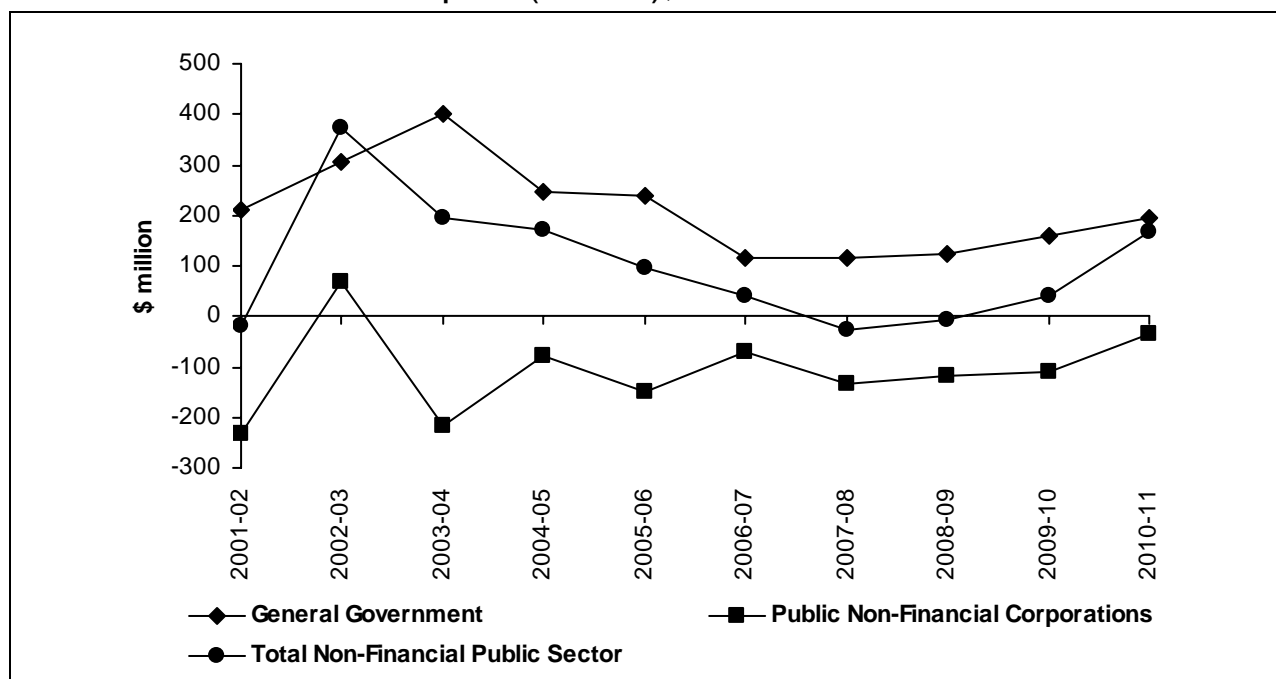


Cash Surplus/(Deficit)

The 2007-08 Cash Surplus/(Deficit) for the Total Non-Financial Public Sector is estimated to be a deficit of \$27 million, a decrease of \$68 million from the 2006-07 revised Cash Surplus of \$41 million. The decrease reflects a \$1 million increase in the General Government Sector estimated Cash Surplus and a decrease of \$64 million in the PNFC estimated Cash Surplus.

Chart A1.3 shows the Cash Surplus/(Deficit) from 2001-02 to 2010-11.

Chart A1.3: Cash Surplus/(Deficit), 2001-02 to 2010-11



LOAN COUNCIL

Loan Council Arrangements

Loan Council arrangements require each state and territory to nominate a Loan Council Allocation (LCA) based on the estimated combined underlying General Government Sector and 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 focuses on the call of the public sector on national savings.

The Loan Council considers the appropriateness of the 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.

The 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 Government Finance Statistics Cash 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, which was first reached at the May 1991 Premiers' Conference.

Loan Council Allocations

The LCAs nominated for 2007-08 are listed in Table A1.12. At its meeting of 30 March 2007, the Loan Council considered that the aggregate of 2007-08 LCA nominations was consistent with current macro-economic policy objectives and endorsed each jurisdiction's nomination without change.

Table A1.12: Approved LCAs for 2007-08

	NSW	Vic	Qld	SA	WA	Tas	NT	ACT	AUST
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Nominated LCA	4 729	2 357	5 765	(149)	(14)	87	44	29	(17 163)

The Tasmanian 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 of Tasmania.

After combining the underlying surplus and net cash flows from investments in financial assets for policy purposes, with the memorandum items for Local Government and University borrowing, the result was a deficit LCA nomination for Tasmania of \$87 million for 2007-08. This compares with the surplus LCA nomination in 2006-07 of \$63 million.

A tolerance band calculated as two per cent of Total Non-Financial Public Sector revenue (estimated to be \$109 million for 2007-08) applies between the approved LCA and the budgeted LCA. Applying this band to Tasmania's approved LCA for 2007-08 gives a tolerance band of \$(22) million to \$196 million. The tolerance band recognises that LCAs are nominated at early stages of the Budget process and that estimates are likely to change as a result of policy and parameter changes before and after Budgets are brought down. Certain reporting obligations arise where the budgeted LCA falls outside of this tolerance band. Table A1.13 shows that Tasmania's budgeted LCA for 2007-08 of \$52 million is inside the tolerance band.

The tolerance band also applies between the budgeted LCA and the LCA outcome. Applying this to Tasmania's budgeted LCA for 2007-08 gives a tolerance band of \$(57) million to \$161 million. The LCA Outcome will be presented in the *Treasurer's Annual Financial Report 2006-07*.

Table A1.13: Comparison of Budgeted Loan Council Allocation and the LCA Approved Nomination for 2007-08

	2007-08 Approved Loan Council Allocation	2007-08 Budgeted Loan Council Allocation
	\$m	\$m
General Government Underlying Deficit/(Surplus)	(85)	(116)
Public Non-Financial Corporations (PNFC) Underlying Deficit/(Surplus)	148	133
Non-Financial Public Sector Underlying Deficit/(Surplus)	63	17
Net Cash Flows from Investments in Financial Assets for Policy Purposes	3	3
Memo Items		
Local Government	21	32
TOTAL LCA	87	52

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, transactions between the Department of Treasury and Finance and the Department of Primary Industries and Water 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 entity. However, such transactions are netted out for the purposes of the Total Non-Financial Public Sector table. The following table outlines the entities classified according to the GFS conceptual framework.

Table A1.14: Classification of Public Sector Entities

Name	Institutional Sector
Economic Development	General Government
Education	General Government
Health and Human Services including Housing Division	General Government
House of Assembly	General Government
Infrastructure, Energy and Resources	General Government
Justice	General Government
Legislative Council	General Government
Legislature-General	General Government
Office of the Governor	General Government
Office of the Ombudsman	General Government
Police and Emergency Management	General Government
Premier and Cabinet	General Government
Primary Industries and Water	General Government
Tasmanian Audit Office	General Government
Tourism, Arts and the Environment	General Government
Treasury and Finance	General Government
Inland Fisheries Service	General Government
Marine <i>and</i> Safety Tasmania	General Government
Royal Tasmanian Botanical Gardens	General Government
State Fire Commission	General Government
TAFE Tasmania	General Government
The Nominal Insurer	General Government
Motor Accidents Insurance Board	PFC
Tasmanian Public Finance Corporation	PFC
Aurora Energy Pty Ltd	PNFC
Forestry Tasmania	PNFC
Hydro Tasmania	PNFC
Metro Tasmania Pty Ltd	PNFC
Port Arthur Historic Site Management Authority	PNFC
Printing Authority of Tasmania	PNFC
Private Forests Tasmania	PNFC
Rivers and Water Supply Commission	PNFC
Southern Regional Cemetery Trust	PNFC
Tasmanian Ports Corporation Pty Ltd	PNFC
The Public Trustee	PNFC
TOTE Tasmania Pty Ltd	PNFC
Transend Networks Pty Ltd	PNFC
TT-Line Company Pty Ltd	PNFC

APPENDIX 2 CONSOLIDATED FUND ESTIMATES

Features

- Information in this Appendix is provided for the receipts and payments into, and from, the Consolidated Fund.
- In 2006-07, it is estimated the Consolidated Fund Surplus (CFS) will be \$4.6 million. This compares to the budgeted CFS of \$3.8 million for 2006-07.
- Total receipts are estimated to be \$3 204.4 million in 2006-07, an increase of \$74.4 million or 2.4 per cent on the 2006-07 budgeted receipts of \$3 130.0 million.
- Expenditure in 2006-07 is estimated to be \$3 199.7 million, an increase of \$73.4 million or 2.3 per cent on 2006-07 budgeted expenditure of \$3 126.3 million.
- In 2007-08, it is estimated that the CFS will be \$10.3 million.
- Total Consolidated Fund receipts are estimated to be \$3 321.4 million in 2007-08, an increase of \$191.4 million or 6.1 per cent on 2006-07 budgeted receipts of \$3 130.0 million.
- Consolidated Fund expenditure in 2007-08 is estimated to be \$3 311.1 million, an increase of \$184.8 million or 5.9 per cent over the 2006-07 budgeted expenditure of \$3 126.3 million.
- Consolidated Fund projections for 2008-09 to 2010-11 on a same policy basis are:
 - 2008-09: \$11.1 million surplus;
 - 2009-10: \$16.3 million surplus; and
 - 2010-11: \$18.0 million surplus.

INTRODUCTION

This Appendix provides information on the 2006-07 Consolidated Fund Estimated Outcome, the 2007-08 Consolidated Fund Budget Estimates and the Consolidated Fund Forward Estimates for the years 2008-09 to 2010-11. The information in this Appendix has been prepared on a cash basis, representing receipts into and payments from the Consolidated Fund.

The 2006-07 Consolidated Fund Estimated Outcome has been determined from agency assessments of their indicative funding requirements or potential savings, based on the latest available information prior to the finalisation of the 2007-08 Budget Papers. Estimates are determined using information from a number of sources including the latest advice from the Australian Government, Government Business Enterprises, State-owned Companies and agencies.

Detailed information on the final Consolidated Fund Outcome for 2006-07 will be published in:

- the Preliminary Outcomes Report, which will be published by 15 August 2007;
- the Treasurer's Annual Financial Report, which will be tabled in Parliament by 31 October 2007; and
- Agency Annual Reports, which will be tabled in Parliament by 31 October 2007.

ESTIMATED OUTCOME, 2006-07

Estimated Consolidated Fund Surplus

The Consolidated Fund Surplus (CFS) is the excess of Consolidated Fund receipts over the expenditure of these funds.

Table A2.1 provides details of the estimated Consolidated Fund outcome for 2006-07 and expected variances from the 2006-07 Budget estimates by major receipt and expenditure categories. The budgeted CFS was \$3.8 million. The estimated CFS for 2006-07 is \$4.6 million.

Table A2.1: Consolidated Fund Surplus, Estimated 2006-07

	2006-07		Variation
	2006-07 Budget	Estimated Outcome	
	\$'000	\$'000	%
Receipts			
Commonwealth Sources			
Recurrent Receipts	1 995 719	2 031 166	1.8
Capital Receipts	52 922	45 986	(13.1)
Total Commonwealth Sources	2 048 641	2 077 152	1.4
State Sources			
Recurrent Receipts	1 081 135	1 126 969	4.2
Capital Receipts	270	234	(13.3)
Total State Sources	1 081 405	1 127 203	4.2
Total Receipts	3 130 046	3 204 355	2.4
Less Expenditure			
Recurrent Services			
Appropriation Act	2 796 927	2 888 436	3.3
Reserved By Law	121 475	118 470	(2.5)
Total Recurrent Services	2 918 402	3 006 906	3.0
Works and Services			
Capital Investment Program	186 543	171 483	(8.1)
Economic and Social Infrastructure Fund	21 325	21 325	....
Total Works and Services	207 868	192 808	(7.2)
Total Expenditure	3 126 270	3 199 714	2.3
Consolidated Fund Surplus	3 776	4 641	22.9

Estimated Receipts, 2006-07

Total Consolidated Fund receipts for 2006-07 are estimated to be \$3 204.4 million, which is \$74.4 million greater than the Budget estimate of \$3 130.0 million. Table A2.2 provides information on estimated variances from the Budget estimate by major receipt category.

Table A2.2: Consolidated Fund - Estimated Receipts, 2006-07

	2006-07		Variation
	2006-07 Budget	Estimated Outcome	
	\$'000	\$'000	%
Recurrent Receipts			
Commonwealth Sources			
General Purpose Payments ¹	1 557 300	1 573 300	1.0
Specific Purpose Payments ²	438 419	457 866	4.4
Total Commonwealth Sources	1 995 719	2 031 166	1.8
State Sources			
Taxation ³	747 169	754 102	0.9
Receipts from Government Business Enterprises, State-owned			
Companies and State Authorities ⁴	156 428	182 239	16.5
Departmental Fees and Recoveries	78 129	77 970	(0.2)
Recoveries of State Debt Charges	609	585	(3.9)
Sale and Rent of Government Property ⁵	22 300	9 725	(56.4)
Resource Rents and Royalties ⁶	23 076	36 583	58.5
Other Recurrent Receipts ⁷	53 424	65 765	23.1
Total State Sources	1 081 135	1 126 969	4.2
Total Recurrent Receipts	3 076 854	3 158 135	2.6
Capital Receipts			
Commonwealth Sources ⁸	52 922	45 986	(13.1)
State Sources	270	234	(13.3)
Total Capital Receipts	53 192	46 220	(13.1)
Total Receipts	3 130 046	3 204 355	2.4

Notes:

1. The increase in General Purpose Payments of \$16.0 million reflects additional Goods and Services Tax (GST) Revenue due to growth in the national GST collections forecast for 2006-07.
2. The increase in Specific Purpose Payments of \$19.4 million primarily reflects additional funding from the Australian Government for the Tasmanian Community Forest Agreement.
3. The increase in Taxation receipts of \$6.9 million is primarily due to additional Payroll Tax of \$6.0 million and Duties revenue of \$9.1 million, partially offset by decreases in Betting Exchange Taxes and Levies of \$7.3 million and Motor Taxation of \$1.4 million.
4. The increase in Receipts from Government Business Enterprises, State-owned Companies and State Authorities of \$25.8 million reflects an increase in dividends from Transend Networks Pty Ltd of \$4.9 million, and an increase in Income Tax Equivalents from the Motor Accidents Insurance Board of \$10.0 million, Hydro Tasmania of \$10.2 million and Transend Networks Pty Ltd of \$4.0 million.

5. The decrease in Sale and Rent of Government Property of \$12.6 million reflects a decrease in receipts from the Crown Lands Administration Fund relating to delays in the sale of non-core business assets previously held by the Hobart Ports Corporation Pty Ltd.
6. The increase in Resource Rents and Royalties of \$13.1 million primarily relates to additional Mineral Royalties receipts and reflects strong commodity prices for mineral resources.
7. The increase in Other Recurrent Receipts of \$12.4 million is primarily due to an increase in Interest on Investments of \$9.0 million, reflecting an increase in the level of cash held in the Public Account and higher forecast interest rates.
8. The decrease in Commonwealth Capital Receipts of \$7.0 million relates to a reduction in funding from the Australian Government for National Highways due to savings on a number of completed highway projects.

Estimated Expenditure, 2006-07

Total Consolidated Fund expenditure in 2006-07 is estimated to be \$3 199.7 million, which is \$73.4 million, or 2.4 per cent greater than the Budget estimate of \$3 126.3 million.

Table A2.3 provides information on expected variances from original Budget estimates on a major category basis.

Table A2.3: Consolidated Fund - Estimated Expenditure, 2006-07

	2006-07		Variation
	2006-07 Budget	Estimated Outcome	
	\$'000	\$'000	%
Recurrent Services			
Appropriation Act	2 786 927	2 888 436	3.6
Reserved by Law	111 475	118 470	6.3
Treasurer's Reserve ¹	20 000	....	(100.0)
	2 918 402	3 006 906	3.0
Works and Services			
Capital Investment Program	186 543	171 483	(8.1)
Economic and Social Infrastructure Fund	21 325	21 325	....
	207 868	192 808	(7.2)
Total Expenditure	3 126 270	3 199 714	2.3

Note:

1. The Treasurer's Reserve is reported separately from the Budget expenditure, but is included as an expenditure saving in the estimated outcome. Expenditure authorised from the Treasurer's Reserve is included in agency expenditure under the Appropriation Act. Net additional revenue and expenditure savings may be used to supplement the amount provided in the Budget for the Treasurer's Reserve.

Table A2.4 provides information on expected Consolidated Fund variances for 2006-07 on an agency basis.

Table A2.4: Consolidated Fund - Estimated Expenditure by Agency, 2006-07

Agency	2006-07 Estimated Outcome				Total	Variation
	2006-07 Budget ¹	Recurrent Services	Reserved by Law	Works and Services		
	\$'000	\$'000	\$'000	\$'000	\$'000	%
Economic Development	46 038	49 138	....	....	49 138	6.7
Education	775 895	762 479	....	16 236	778 715	0.4
Finance-General	417 407	357 983	102 269	21 325	481 577	15.4
Health and Human Services	1 092 484	1 058 814	....	33 174	1 091 988	....
House of Assembly	5 379	1 992	4 101	....	6 093	13.3
Infrastructure, Energy and Resources	219 869	116 480	52	95 903	212 435	(3.4)
Justice	123 128	97 112	8 154	19 904	125 170	1.7
Legislative Council	4 495	2 405	2 509	....	4 914	9.3
Legislature-General	4 531	4 531	....	....	4 531	....
Ministerial and Parliamentary Support	17 514	16 880	641	....	17 521	....
Office of the Governor	2 798	2 373	425	....	2 798	....
Office of the Ombudsman	1 229	1 229	....	....	1 229	....
Police and Emergency Management	157 312	159 873	....	1 100	160 973	2.3
Premier and Cabinet	40 095	46 132	....	500	46 632	16.3
Primary Industries and Water	85 559	83 718	....	1 147	84 865	(0.8)
Tasmanian Audit Office	319	....	319	....	319	....
Tourism, Arts and the Environment	96 513	91 444	....	3 519	94 963	(1.6)
Treasury and Finance	35 705	35 853	....	....	35 853	0.4
TOTAL EXPENDITURE	3 126 270	2 888 436	118 470	192 808	3 199 714	2.3

Note:

1. The 2006-07 Budget has been recast to reflect the current administrative arrangements as specified in the *Administrative Arrangements Order (No 2) 2006*.

Explanation of Estimated Major Expenditure Variations

The reasons for the major Consolidated Fund expenditure variations are detailed below by agency.

Economic Development

Total expenditure for the Department of Economic Development is anticipated to be \$49.1 million, \$3.1 million or 6.7 per cent above the Budget estimate of \$46.0 million. The increase relates to additional grants funding of \$1.2 million for Callington Mill at Oatlands, and \$1.9 million to the National Fitness Southern Recreation Association (NFSRA) to meet maintenance costs associated with the Clarence and Moonah Sports Centres.

Education

Total expenditure for the Department of Education is anticipated to be \$778.7 million, \$2.8 million or 0.4 per cent above the Budget estimate of \$775.9 million. The increase is primarily due to additional

expenditure of \$1.0 million for the Early Childhood Reading Challenge; an increase in non-government school grants of \$696 000; and an increase in Teachers' Nexus funding of \$726 000. This additional expenditure is partially offset by a decrease of \$2.8 million relating to delays in the Kingston High School redevelopment.

Finance-General

Expenditure for Finance-General is anticipated to be \$64.2 million above Budget. The increase in expenditure is offset against the Provision for Wage Increase (\$13.0 million) and the Treasurer's Reserve (\$20.0 million) being reflected in agency expenditure. The major increases relate to:

- funding of \$10.0 million towards the upgrade of the Launceston flood levees;
- the establishment of a \$9.5 million provision to fund the acquisition from Ericsson of the radio network used by the Police and the Tasmanian Electricity Supply Industry and to settle outstanding litigation with Ericsson;
- an additional \$5.4 million allocation to the Economic and Social Infrastructure Fund for sporting projects, including Aurora Netball Stadium and the Tasmanian Hockey Centre;
- an increase of \$1.2 million in First Home Owners Scheme grants;
- an increase of \$2.4 million for State Fire Commission fire suppression costs;
- an additional \$18.0 million received from the Australian Government relating to the Tasmanian Community Forest Agreement which was subsequently paid into the Tasmanian Community Forest Agreement Fund held in the Special Deposits and Trust Fund; and
- additional interest expense of \$11.2 million reflecting higher interest rates and an increase in the cash balances held in the Public Account for projects such as the East Tamar Highway and the Intelligent Island initiative.

House of Assembly

Expenditure for the House of Assembly is anticipated to be \$6.1 million, \$714 000 or 13.3 per cent above the Budget estimate of \$5.4 million. This reflects an increase in the Reserved by Law funding for Members' allowances and entitlements as recommended by the *Report of the Second Committee of Review Inquiring into Allowances and Benefits Provided to Members of Parliament*.

Infrastructure, Energy and Resources

Expenditure for the Department of Infrastructure, Energy and Resources is anticipated to be \$212.4 million, \$7.4 million or 3.4 per cent below the Budget estimate of \$219.9 million. This decrease primarily reflects a reduction in Australian Government funding for the National Highway System of \$7.3 million due to the final cost being less than originally estimated for a number of completed projects; and a decrease in rail costs of \$3.1 million due to delays in finalising the Rail Rescue Package arrangements. These decreases are partially offset by additional funding of \$3.8 million to cover the increased cost of contract payments to transport operators.

Justice

Expenditure for the Department of Justice is anticipated to be \$125.2 million, \$2.1 million or 1.7 per cent above the Budget estimate of \$123.1 million. The increase in expenditure reflects costs associated with the Beaconsfield mine inquiry of \$1.0 million; additional funds required to meet increased costs for judges' salaries of \$642 000; and additional Victims of Crime payments of \$400 000.

Legislative Council

Expenditure for the Legislative Council is anticipated to be \$4.9 million, \$419 000 or 9.3 per cent above the Budget estimate of \$4.5 million. This reflects an increase in the Reserved by Law funding for Members' allowances and entitlements as recommended by the *Report of the Second Committee of Review Inquiring into Allowances and Benefits Provided to Members of Parliament*.

Police and Emergency Management

Expenditure for the Department of Police and Emergency Management is anticipated to be \$161.0 million, \$3.7 million or 2.3 per cent above the Budget estimate of \$157.3 million. This increase is primarily due to additional funding for the replacement of motors in the 'Seeker' and 'Devil Cat' class marine vessels; the replacement of the *Freycinet* marine vessel; and the purchase of key forensic laboratory assets.

Premier and Cabinet

Total expenditure for the Department of Premier and Cabinet is anticipated to be \$46.6 million, \$6.5 million or 16.3 per cent above the Budget estimate of \$40.1 million. The increase in expenditure primarily relates to a payment to the Flinders Council of \$2.0 million following the transfer of Crown land on Cape Barren and Clarke Islands to the Tasmanian Aboriginal community; additional funding of \$2.0 million for the refurbishment of new accommodation for the Telecommunications Management Division at Salamanca Place; and additional funding of \$1.8 million to manage the implementation of the Council of Australian Governments (COAG) agenda items, and the agreement of all states and territories to establish and fund the Council for the Australian Federation.

Department of Tourism, Arts and the Environment

Expenditure for the Department of Tourism, Arts and the Environment is anticipated to be \$95.0 million, \$1.5 million or 1.6 per cent below the Budget estimate of \$96.5 million. The decrease primarily relates to delays in the Cradle Mountain Sewage Treatment project (\$5.8 million). This saving is partially offset by additional funds of \$500 000 provided to ensure that six Tasmanian convict sites nominated for World Heritage listing meet the criteria for World Heritage List assessment; \$500 000 refurbishment of the seats at the Theatre Royal; \$400 000 for improvement of the acoustics in the Tasmanian Symphony Orchestra Concert Hall; and additional fire suppression costs of \$1.3 million.

Table A2.5: Reconciliation of Estimated Consolidated Fund Surplus to Fiscal Balance

	2006-07 Budget \$'000	2006-07 Estimated Outcome \$'000
CONSOLIDATED FUND SURPLUS	3 776	4 641
Add Special Deposits and Trust Fund Movements		
Transfers from the Consolidated Fund ¹	209 280	279 233
Statutory Authorities Movements	2 964	1 721
Other Agency Movements ²	(163 403)	(170 234)
CASH SURPLUS	<u>52 617</u>	<u>115 361</u>
Less Accrual Items		
Nominal Interest on Superannuation ³	157 589	174 986
Superannuation ⁴	(47 513)	(53 943)
Other Movements ⁵	27 027	46 040
NET ACCRUAL ADJUSTMENTS	<u>137 103</u>	<u>167 083</u>
FISCAL BALANCE - SURPLUS/(DEFICIT)	<u><u>(84 486)</u></u>	<u><u>(51 722)</u></u>

Notes:

1. Transfers from the Consolidated Fund include the contribution to the Superannuation Provision Account and the transfer to the Economic and Social Infrastructure Fund for the Tasmanian Museum and Art Gallery, the Tourism Promotion Plan, and the Hospital Medical Equipment Fund.
2. Other Agency Movements include payments from the Special Capital Investment Fund.
3. Nominal Interest on Superannuation represents the notional interest expense on the State's unfunded superannuation liability.
4. The Accrual Superannuation adjustment reflects the timing difference between recognition of the superannuation expense and the actual cash expense.
5. Other Movements reflects changes in the level of creditors and debtors, and movements in accrued revenue and expenses and assets and liabilities.

BUDGET ESTIMATES, 2007-08

Consolidated Fund Surplus, 2007-08

In 2007-08, it is estimated the Consolidated Fund Surplus will be \$10.3 million.

Table A2.6: Consolidated Fund Surplus, 2007-08

	2006-07	2007-08
	Budget	Budget
	\$'000	\$'000
Receipts		
Commonwealth Sources		
Recurrent Receipts	1 995 719	2 101 014
Capital Receipts	52 922	66 016
Total Commonwealth Sources	<u>2 048 641</u>	<u>2 167 030</u>
State Sources		
Recurrent Receipts	1 081 135	1 154 139
Capital Receipts	270	253
Total State Sources	<u>1 081 405</u>	<u>1 154 392</u>
Total Receipts	<u>3 130 046</u>	<u>3 321 422</u>
Less Expenditure		
Recurrent Services		
Expenditure on Outputs		
Appropriation Act	2 796 927	2 951 066
Reserved by Law	121 475	143 235
Total Recurrent Services	<u>2 918 402</u>	<u>3 094 301</u>
Works and Services		
Capital Investment Program	186 543	196 857
Economic and Social Infrastructure Fund	21 325	19 950
Total Works and Services	<u>207 868</u>	<u>216 807</u>
Total Expenditure	<u>3 126 270</u>	<u>3 311 108</u>
Consolidated Fund Surplus	<u>3 776</u>	<u>10 314</u>

Consolidated Fund Receipts, 2007-08

Consolidated Fund receipts are estimated to be \$3 321.4 million in 2007-08, an increase of \$191.4 million or 6.1 per cent on the 2006-07 Budget estimate of \$3 130.0 million.

Table A2.7 outlines the variations between the 2007-08 and the 2006-07 Budget estimates by major category.

Table A2.7: Consolidated Fund – Summary of Receipts, 2006-07 and 2007-08

	2006-07 Budget	2007-08 Budget	Variation
	\$'000	\$'000	%
Recurrent Receipts			
Commonwealth Sources	1 995 719	2 101 014	5.3
State Sources	1 081 135	1 154 139	6.8
	<u>3 076 854</u>	<u>3 255 153</u>	5.8
Capital Receipts			
Commonwealth Sources	52 922	66 016	24.7
State Sources	270	253	(6.3)
	<u>53 192</u>	<u>66 269</u>	24.6
Total Receipts	<u>3 130 046</u>	<u>3 321 422</u>	6.1

A detailed list of receipts to the Consolidated Fund is provided in Table A2.8.

Table A2.8: Consolidated Fund Receipts, 2006-07 and 2007-08

	2006-07	2007-08
	Budget	Budget
	\$'000	\$'000
COMMONWEALTH SOURCES		
Recurrent Receipts		
General Purpose Payments		
GST Revenue ¹	1 557 300	1 646 400
Total General Purpose Payments	1 557 300	1 646 400
Specific Purpose Payments		
Education		
National Child Care Strategy	217	230
Primary and Secondary Education ²	60 944	62 439
Technical and Further Education	26 765	27 550
Finance-General		
Assistance for Concessions	6 449	6 634
Grant to the State for Local Government ³	54 632	57 361
Health and Human Services		
Commonwealth-State Housing Agreement	21 849	21 422
Disability Services Grant	20 754	21 124
Health Care Grant ⁴	196 396	203 549
High Cost Drugs ⁵	11 505	13 412
Home and Community Care Program ⁶	22 142	24 114
Public Health Outcomes Funding Agreement	5 784	5 900
Supported Accommodation Assistance Program	7 354	7 245
Police and Emergency Management		
Natural Disasters Organisations	228	234
Tourism, Arts and the Environment		
World Heritage Area	3 400	3 400
Total Recurrent Specific Purpose Payments	438 419	454 614

Notes:

1. The increase in GST Revenue of \$89.1 million relates to growth in the size of the GST Revenue pool, offset by a decline in the State's share of the national population and a decrease in Tasmania's relative need for Commonwealth financial assistance.
2. The increase in Primary and Secondary Education payments of \$1.5 million relates to additional Australian Government funding for the Early Years Literacy Program, and information and communications technology infrastructure and business systems.
3. The increase in the Grant to the State for Local Government of \$2.7 million reflects movement in the population and the Consumer Price Index.
4. The increase in Health Care Grant receipts of \$7.2 million reflects an increase in the base grant amount, which assists with the provision of hospital services, public hospital quality improvement and the provision of palliative care.
5. The increase in payments for High Cost Drugs of \$1.9 million is based on the level of subsidy now anticipated to be provided in 2006-07.
6. The increase in Home and Community Care Program receipts of \$2.0 million is due to the indexation provided under the Home and Community Care Agreement.

Table A2.8: Consolidated Fund Receipts, 2006-07 and 2007-08
(continued)

	2006-07 Budget \$'000	2007-08 Budget \$'000
Capital Receipts		
Specific Purpose Payments		
Education		
Primary and Secondary Education	7 501	7 984
Technical and Further Education	4 420	4 420
Health and Human Services		
Housing	3 275	3 986
Infrastructure, Energy and Resources		
National Highway System ¹	37 726	32 326
Rail ²	....	17 300
Total Capital Specific Purpose Payments	<u>52 922</u>	<u>66 016</u>
Total Specific Purpose Payments	<u>491 341</u>	<u>520 630</u>
Total Commonwealth	<u>2 048 641</u>	<u>2 167 030</u>
STATE SOURCES		
Taxation		
Land Tax ³	60 520	68 600
Motor Taxation ⁴	58 841	53 531
Payroll Tax ⁵	309 798	328 766
Financial Transaction Taxes		
Duties ⁶	225 568	233 622
Gambling Taxes		
Betting Exchange Taxes and Levies ⁷	12 860	6 672
Casino Tax and Licence Fees	56 181	58 177
Lottery Tax	<u>23 401</u>	<u>24 181</u>
Total Taxation	<u>747 169</u>	<u>773 549</u>

Notes:

1. The decrease in National Highway System funding from the Australian Government of \$5.4 million reflects completion of a quantity of major highway projects funded by the program.
2. The increase in Rail receipts of \$17.3 million relates to the provision of Australian Government funding for the Rail Rescue Package.
3. The increase in Land Tax of \$8.1 million reflects the movement in land valuations.
4. The decrease in Motor Taxation reflects expected underlying growth in the number of registered motor vehicles, offset by tax relief of \$7.0 million resulting from a reduction in the rates of motor tax on light vehicles from 1 October 2007.
5. The increase in Payroll Tax of \$19.0 million reflects higher levels of employment and, more significantly, salary and wages growth and, accordingly, higher levels of average weekly earnings (AWE).
6. The increase in Duties of \$8.1 million is due to a rise in conveyance duties reflecting the continuing confidence in the residential and commercial property markets offset, in part, by lower receipts from duty on transfers of heavy vehicles registrations arising from the 2007-08 Budget taxation relief initiative.
7. The decrease in Betting Exchange Taxes and Levies of \$6.2 million reflects advertising bans experienced by Betfair Australia in other Australian jurisdictions.

Table A2.8: Consolidated Fund Receipts, 2006-07 and 2007-08
(continued)

	2006-07	2007-08
	Budget	Budget
	\$'000	\$'000
Receipts from Government Business Enterprises and State-owned Companies		
Dividends		
Aurora Energy Pty Ltd ¹	10 656	9 333
Forestry Tasmania ²	1 038	....
Hydro Tasmania ³	21 195	....
Motor Accidents Insurance Board ⁴	21 600	31 858
Tasmanian Public Finance Corporation ⁵	541	2 061
Tasmanian Ports Corporation ⁶	500	3 555
The Public Trustee	290	135
Transend Networks Pty Ltd	13 889	14 800
Sub-total	69 709	61 742
Special Dividends		
Motor Accidents Insurance Board ⁷	....	10 000
TOTE Tasmania ⁸	....	3 000
Sub-total	....	13 000

Notes:

1. The decrease in Dividends from Aurora Energy Pty Ltd reflects a proposed change in the treatment of customer contributions for capital projects and its consequential impact on its dividend payment.
2. The decrease in Dividends from Forestry Tasmania to nil reflects a further decrease in demand for its export pulpwood.
3. The decrease in Dividends from Hydro Tasmania is largely due to drought conditions and lower inflows into water storages. These unfavourable conditions have resulted in Hydro Tasmania importing more electricity across Basslink and incurring higher gas costs to ensure electricity supplies are maintained.
4. The increase in Dividends from the Motor Accidents Insurance Board (MAIB) reflects higher profitability in 2006-07 from increased investment revenue and decreased claims expenses.
5. The Tasmanian Public Finance Corporation (Tascorp) pays a predetermined combined dividend and tax equivalent payment to Government each year. Tascorp's income tax equivalents vary with its prior year profitability, and its dividend payments reflect the difference between the pre-determined total amount, and the tax liability. Accordingly, the increase in dividends is offset by reduced tax equivalents.
6. The increase in Dividends from the Tasmanian Ports Corporation reflects its first full year of operations as a consolidated company in 2006-07.
7. The increase in Special Dividends from MAIB reflects the first tranche of a \$30.0 million Special Dividend that will be paid over three years.
8. The increase in Special Dividends from TOTE Tasmania reflects the first tranche of a \$12.0 million Special Dividend that will be paid over four years.

**Table A2.8: Consolidated Fund Receipts, 2006-07 and 2007-08
(continued)**

	2006-07	2007-08
	Budget	Budget
	\$'000	\$'000
Tax Equivalents		
Aurora Energy Pty Ltd ¹	10 974	15 984
Hydro Tasmania ²	19 244	6 000
Motor Accidents Insurance Board ³	20 000	30 000
TOTE Tasmania Pty Ltd	480	640
Tasmanian Ports Corporation	3 733	3 105
Tasmanian Public Finance Corporation ⁴	2 959	1 439
The Public Trustee	200	115
Transend Networks Pty Ltd ⁵	15 475	12 900
Total Tax Equivalents	73 065	70 183
Rates Equivalents		
Hydro Tasmania	4 090	3 998
Total Rates Equivalents	4 090	3 998
Guarantee Fees		
Aurora Energy Pty Ltd	1 836	1 604
Forestry Tasmania	163	163
Hydro Tasmania	5 218	5 356
Metro Tasmania Pty Ltd	13	11
Rivers and Water Supply Commission	21	77
TOTE Tasmania Pty Ltd	10	5
TT-Line Company Pty Ltd ⁶	1 900	750
Tasmanian Ports Corporation	253	423
Transend Networks Pty Ltd	150	300
Total Guarantee Fees	9 564	8 689
Total Recoveries from GBEs, SOCs and State Authorities	156 428	157 612

Notes:

1. The increase in Tax Equivalents from Aurora Energy Pty Ltd primarily reflects the anticipated outcome of its distribution and retail pricing determinations in 2007-08.
2. The decrease in Tax Equivalents from Hydro Tasmania primarily reflects lower profitability arising from its decreased water storages and higher generation costs arising from the drought.
3. The increase in Tax Equivalents from the Motor Accidents Insurance Board primarily reflects the flow on benefits of increased investment revenue and decreased claims expenses in 2006-07.
4. The decrease in Tax Equivalents from the Tasmanian Public Finance Corporation in 2007-08 reflects lower returns from its reinvestment activity following the introduction of strategies to address the volatility inherent in mark-to-market accounting under Australian Accounting Standards.
5. The decrease in Tax Equivalents from Transend Networks Pty Ltd primarily reflects the tax effect of gifted assets that were received by Transend in 2005-06.
6. The decrease in Guarantee Fees from TT-Line Company Pty Ltd primarily reflects a decrease in its debt levels, following the sale of *Spirit of Tasmania III* and an equity injection of \$22.5 million from the Government in 2006-07.

**Table A2.8: Consolidated Fund Receipts, 2006-07 and 2007-08
(continued)**

	2006-07 Budget	2007-08 Budget
	\$'000	\$'000
Departmental Fees and Recoveries		
Education	659	490
Health and Human Services	16	16
Infrastructure, Energy and Resources	36 576	36 243
Justice	9 395	10 142
Police and Emergency Management	612	1 419
Premier and Cabinet	2	2
Primary Industries and Water ¹	28 524	29 159
Tourism, Arts and the Environment ¹	1 743	1 981
Treasury and Finance	602	637
Total Departmental Fees and Recoveries	78 129	80 089
Recoveries of State Debt Charges		
Interest	609	506
Total Recoveries of State Debt Charges	609	506
Sale and Rent of Government Property		
Crown Lands Administration Fund ²	22 300	36 675
Total Sale and Rent of Government Property	22 300	36 675
Resource Rents and Royalties		
Mineral Royalties ³	20 000	33 100
Regional Water Authority Licence Fees	1 911	1 911
Rent and Fees from Mineral Lands	939	1 159
Storage of Explosives and Inflammable Liquids Fees	226	163
Total Resource Rents and Royalties	23 076	36 333

Notes:

1. The 2006-07 Budget estimate of Departmental Fees and Recoveries for the Department of Primary Industries and Water included fees collected for Environment related activities. These fees are now collected by the Department of Tourism, Arts and the Environment. The 2006-07 Budget estimate has been adjusted to enable an accurate comparison between the 2006-07 and 2007-08 Budget estimates.
2. The increase in the Crown Lands Administration Fund relates to the expected proceeds from the sale of non-core business assets previously held by the Hobart Ports Corporation Pty Ltd.
3. The increase in Mineral Royalties receipts of \$13.1 million reflects higher commodity prices on the world market for mineral resources.

Table A2.8: Consolidated Fund Receipts, 2006-07 and 2007-08
(continued)

	2006-07	2007-08
	Budget	Budget
	\$'000	\$'000
Other Recurrent Receipts		
Fines - Infringement Notices	7 500	7 950
Fines and Fees	3 700	3 950
Interest on Investments - Finance-General ¹	30 000	45 286
Interest on Investments - Rivers and Water Supply Commission	20	20
Miscellaneous	10 654	10 659
Recoveries from Departmental Business Units	1 500	1 500
Stamp Duties - Instalment Payments	50	10
Total Other Recurrent Receipts	53 424	69 375
Capital Receipts		
Midway Point Improvement Act 1975	35	14
Public Bodies Assistance Act 1971	24	28
State Loans and Loan Guarantees Act 1976	11	11
Private Forests Loans	200	200
Total Capital Receipts	270	253
Total State	1 081 405	1 154 392
Total Receipts	3 130 046	3 321 422

Note:

1. The increase in Interest on Investments – Finance-General is primarily due to an increase in the level of cash held in the Public Account and higher forecast interest rates.

Consolidated Fund Expenditure, 2007-08

Expenditure in 2007-08 is expected to be \$3 311.1 million, an increase of \$184.8 million or 5.9 per cent greater than the 2006-07 budgeted expenditure of \$3 126.3 million.

Table A2.9: Consolidated Fund - Expenditure, 2006-07 and 2007-08

	2006-07 Budget \$'000	2007-08 Budget \$'000	Variation %
Recurrent Services			
Appropriation Act	2 796 927	2 951 066	5.5
Reserved by Law	121 475	143 235	17.9
	<u>2 918 402</u>	<u>3 094 301</u>	<u>6.0</u>
Works and Services			
Appropriation Act	207 868	216 807	4.3
Total Appropriations	<u>3 126 270</u>	<u>3 311 108</u>	<u>5.9</u>

Further information on expenditure is provided in Table A2.10. A listing of all Reserved by Law items is provided in Table A2.11. Descriptions of the activities of departments funded through the Consolidated Fund are provided in Budget Paper No 2 *Government Services*.

Recurrent Services

Total expenditure on Recurrent Services is estimated to be \$3 094.3 million in 2007-08, an increase of \$175.9 million or 6.0 per cent higher than the 2006-07 budgeted amount of \$2 918.4 million. The increase in recurrent expenditure primarily relates to the provision of additional funding for the Government's 2006 Election commitments and other 2007-08 Budget Initiatives.

Works and Services

Works and Services expenditure in 2007-08 is anticipated to be \$216.8 million, an increase of \$8.9 million or 4.3 per cent above the 2006-07 Budget of \$207.9 million. The increase in the Works and Services Appropriation reflects an increase of \$9.8 million in infrastructure investment, primarily relating to an additional \$9.6 million allocated to the Department of Tourism, Arts and the Environment for the Cradle Mountain Sewage Treatment project. More detailed information in relation to Infrastructure Investment is provided in Chapter 7 of this Budget Paper.

Table A2.10: Consolidated Fund Expenditure by Agency, 2007-08

Agency	2007-08 Budget				Total	Variation
	2006-07 Budget	Recurrent Services	Reserved by Law	Works and Services		
	\$'000	\$'000	\$'000	\$'000	\$'000	%
Economic Development	46 038	45 494	....	....	45 494	(1.2)
Education	775 895	792 739	....	24 704	817 443	5.4
Finance-General	417 407	307 910	121 564	19 950	449 424	7.7
Health and Human Services	1 092 484	1 120 658	....	15 360	1 136 018	4.0
House of Assembly	5 379	2 219	4 273	....	6 492	20.7
Infrastructure, Energy and Resources	219 869	117 383	52	135 216	252 651	14.9
Justice	123 128	102 900	8 305	9 242	120 447	(2.2)
Legislative Council	4 495	2 654	2 611	....	5 265	17.1
Legislature-General	4 531	4 839	....	....	4 839	6.8
Ministerial and Parliamentary						
Support	17 514	17 429	662	....	18 091	3.3
Office of the Governor	2 798	2 616	425	....	3 041	8.7
Office of the Ombudsman	1 229	1 280	....	....	1 280	4.1
Police and Emergency Management	157 312	169 075	....	1 000	170 075	8.1
Premier and Cabinet	40 095	47 328	5 000	350	52 678	31.4
Primary Industries and Water	85 559	86 819	....	1 143	87 962	2.8
Tasmanian Audit Office	319	....	330	....	330	3.4
Tourism, Arts and the Environment	96 513	91 164	....	9 842	101 006	4.7
Treasury and Finance	35 705	38 559	13	....	38 572	8.0
TOTAL EXPENDITURE	3 126 270	2 951 066	143 235	216 807	3 311 108	5.9

Explanation of Estimated Major Expenditure Variations

The reasons for the major Consolidated Fund expenditure variations are detailed below by agency.

House of Assembly

In 2007-08, expenditure for the House of Assembly is forecast to be \$6.5 million, \$1.1 million or 20.7 per cent above the 2006-07 Budget of \$5.4 million. This reflects an increase in the Reserved by Law funding for Members' allowances and entitlements as recommended by the *Report of the Second Committee of Review Inquiring into Allowances and Benefits Provided to Members of Parliament*.

Infrastructure, Energy and Resources

In 2007-08, expenditure for the Department of Infrastructure, Energy and Resources is forecast to be \$252.7 million, \$32.8 million or 14.9 per cent above the Budget of \$219.9 million. This increase primarily reflects expenditure of additional Australian Government funding for the National Highway System of \$19.3 million and Rail Infrastructure of \$17.3 million.

Legislative Council

In 2007-08, expenditure for the Legislative Council is anticipated to be \$5.3 million, \$770 000 or 17.1 per cent above the 2006-07 Budget of \$4.5 million. This reflects an increase in the Reserved by Law funding for Members' allowances and entitlements as recommended by the *Report of the Second Committee of Review Inquiring into Allowances and Benefits Provided to Members of Parliament*.

Premier and Cabinet

In 2007-08, expenditure for the Department of Premier and Cabinet (DPAC) is forecast to be \$52.7 million, \$12.6 million or 31.4 per cent above the 2006-07 Budget of \$40.1 million. The increase in expenditure primarily relates to the provision of \$5.3 million for ex-gratia payments to eligible members of the Stolen Generations of Aborigines and their children; a revised *Service Tasmania* funding model which transferred funding of \$2.2 million from other departments to DPAC; additional funding of \$250 000 to refurbish *Service Tasmania* shops and replace essential technology in shops; and additional funding of \$2.5 million to manage the implementation of the Council of Australian Governments (COAG) agenda items, and the agreement of all states and territories to establish and fund the Council for the Australian Federation.

Reserved by Law

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

Table A2.11 details Expenditure on Reserved by Law items by Department.

Table A2.11: Expenditure on Reserved by Law Items

	2006-07 Budget	2007-08 Budget
	\$'000	\$'000
Finance-General		
Superannuation Benefits Payable under the <i>Solicitor-General Act 1983</i>	97	105
Payment to the Parliamentary Superannuation Fund and Parliamentary Retirement Benefits Fund (<i>Parliamentary Superannuation Act 1973 and Parliamentary Retiring Benefits Act 1985</i>)	1 853	1 988
Superannuation Benefits Payable under the <i>Judges' Contributory Pensions Act 1968</i>	1 255	2 052
Payments to Municipalities under the <i>Local Government (Rates and Charges Remissions) Act 1991</i>	15 687	16 308
Appropriation to the Treasurer's Reserve (<i>Public Account Act 1986, Section 11 (2)</i>)	10 000	10 000
Contribution to Tasmanian Racing Industry (<i>Gaming Control Act 1993, Section 152</i>) ¹	....	4 285
Financial Assistance under the <i>Rosetta Landslip Act 1991</i>	....	75
Contribution to the Superannuation Provision Account (<i>Retirements Benefits Act 1993, Section 13</i>)	73 513	81 491
Payments to the Tasmanian Community Fund (<i>Tasmanian Community Fund Act 2005, Section 4</i>)	4 986	5 197
Superannuation Benefits payable under the <i>Governor of Tasmania Act 1982</i>	65	63
Total	107 456	121 564
House of Assembly		
Parliamentary Salaries and Allowances (<i>Parliamentary Salaries, Superannuation and Allowances Act 1973</i>)	3 247	3 804
Travelling Allowances (<i>Parliamentary Salaries, Superannuation and Allowances Act 1973</i>)	109	438
Members' Committee Fees and Allowances (<i>Parliamentary Salaries, Superannuation and Allowances Act 1973</i>)	31	31
Total	3 387	4 273
Infrastructure, Energy and Resources		
Contribution towards Construction of Streets in Towns by Municipal Councils (<i>Local Government Act 1993</i>)	52	52
Justice		
Salary, Solicitor-General (<i>Solicitor-General Act 1983</i>)	333	357
Salary, Director of Public Prosecutions (<i>Director of Public Prosecutions Act 1993</i>)	352	383
Salaries of Magistrates (<i>Magistrates Court Act 1987</i>)	3 278	3 863
Salaries of Judges (<i>Supreme Court Act 1887</i>)	2 093	2 365
Salary and Travelling Allowance, Master of the Supreme Court (<i>Supreme Court Act 1959</i>)	301	313
Expenses of Parliamentary Elections and Referendums (<i>Electoral Act 1985 and Referendum Procedures Act 1994</i>)	740	989

Note:

1. In 2006-07, a contribution of \$5.0 million was paid to the Tasmanian Racing Industry. This payment was appropriated through the *Consolidated Fund Appropriation Act 2006*. In 2007-08, this payment is correctly classified as a Reserved by Law item.

Table A2.11: Expenditure on Reserved by Law Items (continued)

	2006-07 Budget	2007-08 Budget
	\$'000	\$'000
Expenses under the <i>Legislative Council Electoral Boundaries Act 1995</i>	10	10
Expenses of Aboriginal Land Council of Tasmania Elections (<i>Aboriginal Lands Act 1995, Section 17</i>)	5	25
Total	7 112	8 305
Legislative Council		
Parliamentary Salaries and Allowances (Parliamentary Salaries, Superannuation and Allowances Act 1973)	1 939	2 290
Travelling Allowances (Parliamentary Salaries, Superannuation and Allowances Act 1973)	111	281
Members' Committee Fees and Allowances (Parliamentary Salaries, Superannuation and Allowances Act 1973)	40	40
Total	2 090	2 611
Ministerial and Parliamentary Support		
Allowances of Ministers (Parliamentary Salaries, Superannuation and Allowances Act 1973)	634	662
Office of the Governor		
Salary, His Excellency the Governor (<i>Governor of Tasmania Act 1982</i>)	418	418
Salary, The Administrator (<i>Governor of Tasmania Act 1982, Section 5(1)</i>)	7	7
Total	425	425
Premier and Cabinet		
Stolen Generations Fund (Stolen Generations of Aboriginal Children Act 2006)	....	5 000
Tasmanian Audit Office		
Salary and Travelling Allowance, Auditor General (<i>Financial Management and Audit Act 1990</i>)	319	330
Treasury and Finance		
Contribution to the Community Support Levy Account from Betting Exchange Revenues (<i>Gaming Control Act 1993, Section 151</i>)	....	13
TOTAL ESTIMATED RESERVED BY LAW ITEMS	121 475	143 235

Table A2.12: Reconciliation of Consolidated Fund Surplus to Fiscal Balance, 2006-07 and 2007-08

	2006-07	2007-08
	Budget	Budget
	\$'000	\$'000
CONSOLIDATED FUND SURPLUS	3 776	10 314
Add Special Deposits and Trust Fund Movements		
Transfers from the Consolidated Fund ¹	209 280	283 237
Statutory Authorities Movements	2 964	5 742
Other Agency Movements ²	<u>(163 403)</u>	<u>(183 408)</u>
CASH SURPLUS	<u>52 617</u>	<u>115 885</u>
Less Accrual Items		
Nominal Interest on Superannuation ³	157 589	187 662
Superannuation ⁴	(47 513)	(57 305)
Other Movements ⁵	<u>27 027</u>	<u>16 906</u>
NET ACCRUAL ADJUSTMENTS	<u>137 103</u>	<u>147 263</u>
FISCAL BALANCE - SURPLUS/(DEFICIT)	<u><u>(84 486)</u></u>	<u><u>(31 378)</u></u>

Notes:

1. Transfers from the Consolidated Fund include the contribution to the Superannuation Provision Account; and the transfer to the Economic and Social Infrastructure Fund for the Tasmanian Museum and Art Gallery, the Tourism Promotion Plan, and the Hospital Medical Equipment Fund.
2. Other Agency Movements include payments from the Special Capital Investment Fund.
3. Nominal Interest on Superannuation represents the notional interest expense on the State's unfunded superannuation liability.
4. The Accrual Superannuation adjustment reflects the timing difference between recognition of the superannuation expense and the actual cash expense.
5. Other Movements reflects changes in the level of creditors and debtors, and movements in accrued revenue and expenses and assets and liabilities.

FORWARD ESTIMATES

It is estimated that the Consolidated Fund Surplus (CFS) will be \$10.3 million in 2007-08, \$11.1 million in 2008-09, \$16.3 million in 2009-10 and \$18.0 million in 2010-11.

Table A2.13 highlights the projected CFS for each of the financial years from 2007-08 to 2010-11.

Table A2.13: Consolidated Fund Surplus - Forward Estimates

	2007-08			
	Budget	2008-09	2009-10	2010-11
	\$'000	\$'000	\$'000	\$'000
Receipts				
Recurrent				
Commonwealth Sources	2 101 014	2 166 189	2 236 465	2 269 728
State Sources	1 154 139	1 180 650	1 232 291	1 247 809
	3 255 153	3 346 839	3 468 756	3 517 537
Capital				
Commonwealth Sources	66 016	63 371	39 907	37 722
State Sources	253	255	255	258
	66 269	63 626	40 162	37 980
Total Receipts	3 321 422	3 410 465	3 508 918	3 555 517
Expenditure				
Recurrent Services	3 094 301	3 182 334	3 316 744	3 383 969
Works and Services	216 807	216 995	175 910	153 553
Total Expenditure	3 311 108	3 399 329	3 492 654	3 537 522
Consolidated Fund Surplus	10 314	11 136	16 264	17 995

Table A2.14: Consolidated Fund Receipts - Forward Estimates

	2007-08	2008-09	2009-10	2010-11
	Budget			
	\$'000	\$'000	\$'000	\$'000
COMMONWEALTH SOURCES				
Recurrent Receipts				
General Purpose Payments ¹	1 646 400	1 708 200	1 776 100	1 809 200
Specific Purpose Payments ²	454 614	457 989	460 365	460 528
Capital Receipts				
Specific Purpose Payments ³	66 016	63 371	39 907	37 722
Total Commonwealth	2 167 030	2 229 560	2 276 372	2 307 450
STATE SOURCES				
Recurrent Receipts				
Taxation ⁴	773 549	794 096	830 607	869 910
Receipts from Government Business Enterprises, State-owned Companies and State Authorities ⁵	157 612	179 244	194 915	176 579
Departmental Fees and Recoveries	80 089	80 638	82 397	83 806
Recoveries of State Debt Charges	506	454	428	420
Sale and Rent of Government Property ⁶	36 675	13 900	....	....
Resource Rents and Royalties	36 333	35 333	29 733	26 433
Other Recurrent Receipts	69 375	76 985	94 211	90 661
Capital Receipts				
Capital Receipts	253	255	255	258
Total State	1 154 392	1 180 905	1 232 546	1 248 067
Total Receipts	3 321 422	3 410 465	3 508 918	3 555 517

Notes:

1. The increase in General Purpose Payments over the forward estimates is due to growth in GST Revenue reflecting growth in the size of the GST Revenue pool, offset by a decline in the State's share of the national population and a decrease in Tasmania's relative need for Commonwealth financial assistance.
2. The increase in Recurrent Specific Purpose Payments is primarily due to increases in funding from the Australian Government for the Health Care Grant and Grant to the State for Local Government.
3. The decrease in Capital Specific Purpose Payments over the forward estimates is primarily due to a reduction in funding from the Australian Government for the National Highway projects and Rail Infrastructure. The 'Rail Rescue Package', in accordance with the agreement between the State, the Australian Government and Pacific National Pty Ltd, will result in maintenance and capital upgrades of Tasmania's rail network. The National Highway projects reflect the agreed 2004-05 to 2008-09 five-year funding agreement under the Auslink Investment Program. Whilst reflecting decreases at this stage in 2009-10 and 2010-11, these allocations are only indicative at this stage and will be subject to further negotiation between the State and Australian Governments.
4. The increase in Taxation receipts primarily relate to increases in Payroll Tax, Land Tax and Duties revenue. The increase in Payroll Tax reflects higher levels of average weekly earnings (AWE). The increase in Land Tax reflects

upward movement in land valuations as a result of annual reassessments. The increase in Duties revenue is due to a rise in conveyance duties as a result of continuing turnover activity the residential and commercial property markets. Increases in taxation receipts are partially offset in a decrease in motor vehicle registrations reflecting the reduction in the rate of duty on the transfer of heavy vehicle registrations from 1 July 2007; a decrease in mortgage duty due to the Government's decision to cut mortgage duty by half from 1 July 2006 and completely abolish it from 1 July 2007; a decrease in Betting Exchange Taxes and Levies as a result of advertising bans experienced by Betfair Australia in other Australian jurisdictions; and a decrease in Motor Taxation resulting from taxation relief provided by a reduction in the rates of motor tax on light vehicles from 1 October 2007.

5. The increase in Dividend, Tax and Rate Equivalent Income from Government Business Enterprises, State-owned Companies and State Authorities from \$157.6 million in 2007-08 to \$179.2 million in 2008-09 primarily reflects the increased returns from Aurora Energy and Hydro Tasmania, which are partly offset by lower returns from Motor Accidents Insurance Board. The increase of \$15.7 million in 2009-10 reflects a further increase in returns from Aurora Energy and Hydro Tasmania. In 2010-11, Dividend, Tax and Rate Equivalent Income is expected to fall to \$176.6 million, reflecting an easing in the profitability of Aurora Energy and Hydro Tasmania, and the conclusion of Special Dividend arrangements with the Motor Accidents Insurance Board.
6. Sale and Rent of Government Property in 2006-07 and 2007-08 reflects major property asset sales. No major property asset sales are forecast in 2009-10 and 2010-11.

Table A2.15: Consolidated Fund Expenditure by Agency - Forward Estimates

	2007-08			
	Budget	2008-09	2009-10	2010-11
	\$'000	\$'000	\$'000	\$'000
Economic Development	45 494	47 688	47 878	49 167
Education ¹	792 739	818 613	843 384	871 909
Finance-General				
Debt Management	151 250	144 358	139 808	146 418
Employee Related Costs	6 570	6 570	6 570	6 570
Superannuation	85 899	93 802	102 927	112 360
Payments to Government Business Enterprises	5 050	5 050	5 050	5 050
Other ²	65 576	77 422	94 036	88 109
Administered Payments	115 129	109 845	113 929	115 387
Health and Human Services ³	1 120 658	1 164 880	1 233 931	1 260 828
House of Assembly	6 492	6 636	6 785	7 005
Infrastructure, Energy and Resources	117 435	115 452	117 906	119 969
Justice	111 205	114 655	117 155	121 219
Legislative Council	5 265	5 373	5 433	5 599
Legislature-General	4 839	4 921	4 997	5 129
Ministerial and Parliamentary Support	18 091	18 573	19 051	19 691
Office of the Governor	3 041	3 067	3 094	3 190
Office of the Ombudsman	1 280	1 322	1 365	1 423
Police and Emergency Management	169 075	171 463	177 795	185 682
Premier and Cabinet	52 328	53 642	57 489	40 575
Primary Industries and Water	86 819	86 323	85 691	85 180
Tasmanian Audit Office	330	342	354	366
Tourism, Arts and the Environment	91 164	92 594	91 393	91 221
Treasury and Finance	38 572	39 743	40 723	41 922
	3 094 301	3 182 334	3 316 744	3 383 969
Capital Investment Program (Departments) ⁴	57 824	61 427	46 441	48 329
Roads Program ⁵	134 716	139 575	117 343	100 815
Housing Program	4 317	3 343	3 376	3 409
Economic and Social Infrastructure Fund ⁶	19 950	12 650	8 750	1 000
	216 807	216 995	175 910	153 553
TOTAL	3 311 108	3 399 329	3 492 654	3 537 522

Notes:

1. The increase in expenditure for the Department of Education primarily relates to the ongoing impact of the Government's 2006 Election commitments, Non-Government School Grants, the estimated increase in Teachers salaries, additional Primary and Secondary Education Funding from the Australian Government for the Early Years Literacy Program, and the information and communications technology infrastructure and business systems.

2. The increase in Other for Finance-General primarily relates to an increase in the appropriation to the Economic and Social Infrastructure Fund of \$9.0 million in 2009-10 to meet costs of projects such as the Tasmanian Museum and Art Gallery.
3. The increase in expenditure for the Department of Health and Human Services primarily reflects the ongoing impact of the Government's 2006 Election commitments, additional Australian Government funding for the Home and Community Care program, the High Cost Drugs program, and an additional \$5.0 million in 2009-10 and 2010-11 for the development of a new Royal Hobart Hospital.
4. The decrease in the Capital Investment Program (CIP) post 2008-09 primarily reflects the completion of finance payments for the Prisons Infrastructure Redevelopment Program.
5. The decrease in the Roads Program over the forward estimates reflects the scheduled completion of 2006 Election commitment projects and a decrease in Australian Government funding for the National Highway System.
6. The decrease in the Economic and Social Infrastructure Fund (ESIF) over the forward estimates reflects the completion of projects within the ESIF.