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1 THE 2001-02 BUDGET DEVELOPMENT CONTEXT

Features

- The 2001-02 Budget represents a further step in the ongoing implementation, by the Government, of a range of key social, economic and fiscal strategies.
- These strategies include the Industry Development Plan, the Fiscal Strategy, Partnership Agreements with local government and other organisations and the overarching strategy of Tasmania *Together*.
- Achievement of these strategies is to be progressed through the implementation of a number of key initiatives totalling over $150 million in new spending:
  - a one-off contribution of $60 million to a new Infrastructure Fund;
  - reductions in State taxation totalling $31.8 million in 2001-02, rising to $34.7 million in 2002-03;
  - a significant increase in funding for recurrent services for social and other initiatives and increasing service costs; and
  - a 'North-West and West Coast' economic package to address an under-performing region of the economy in what has historically been one of the most productive areas of the State;
- A Consolidated Fund Surplus of $4.15 million, following a projected surplus of $3.16 million in 2000-01.
- The presentation, for the first time, of accrual Budget information which emphasises that this Budget is a fiscally responsible one.
- Continued improvement in the debt position of the State.
- This Chapter outlines the context within which the 2001-02 Budget has been developed and highlights the major strategies, Budget drivers and initiatives the Government is pursuing to ensure Tasmania's continued economic, social and financial development.

OVERVIEW

The Budget presented by the Government to Parliament represents the culmination of an extensive process of investigation, review and decision making by the Government. While the Budget itself has a very strong financial focus, its development is the result of the consideration by the Government of a broad range of economic and social issues as well as financial issues.

A key driver for the initiatives outlined by the Government in this Budget has been the national economic slowdown and the need to maintain overall growth and employment levels in Tasmania until the national economic environment improves. Uncertainty over the international position, particularly in the USA and Japan, also makes this approach highly desirable.

The 2001-02 Budget is, therefore, an expansionary Budget which will deliver short-term employment opportunities as well as long-term economic growth through the ongoing benefits associated with tax cuts and improved economic infrastructure in the State. In regard to the latter, through the establishment of an Infrastructure Fund, the Government is providing an additional $40 million in funding for the development of economic infrastructure.

The Budget also continues the strong focus on the achievement of the Government's important social policy objectives through the provision of further recurrent funding increases for health and human services, education, police and justice. These recurrent funding increases are supported by expenditure from the new Infrastructure Fund, with $20 million allocated to social infrastructure.

The Budget is also a fiscally responsible Budget. The fiscal stimulus, which totals over $150 million in increased expenditure and reduced taxation in 2001-02, is fully funded without the need to resort to borrowing. Indeed Consolidated Fund Surpluses will be returned in 2001-02 and future years, and General Government net debt is projected to decline by a further $83 million in 2001-02, taking the total reduction in net debt since June 1998 to more than $600 million. This represents a 45 per cent reduction in the State's net debt in four years. All the targets set in November 1998 under the five year Fiscal Strategy have now been exceeded in three years.

The key features of the Budget are:

- reductions in state taxation totalling $31.8 million in 2001-02, with this rising to $34.7 million in 2002-03;
- a one-off contribution of $60 million to a new Infrastructure Fund;
- a $70 million increase, over 2000-01, in funding for recurrent services for social and other initiatives and increasing service costs;
- a 'North-West and West Coast' economic package to address an under-performing region of the economy in what has historically been one of the most productive areas of the State;
- a Consolidated Fund Surplus of $4.15 million, following a projected surplus of $3.16 million in 2000-01;
- the presentation, for the first time, of accrual Budget information which emphasises that this Budget is a fiscally responsible one; and
- continued substantial improvement in the debt position of the State.

Further information on the initiatives and issues outlined above is provided in the subsequent sections of this introductory Chapter, with detailed information being provided in other chapters of this Budget Paper and also within Budget Paper No 2 *Operations of Government Departments 2001-02.* Budget Paper No 2 outlines the Government's strategies and services on an agency by agency basis.

MAJOR 2001-02 BUDGET DRIVERS

The 2001-02 Budget tabled by the Government has been developed and finalised based upon the Government's commitment to the implementation of a number of key strategies (eg Tasmania *Together*, the Industry Development Plan, Partnership Agreements and the Fiscal Strategy) and its response to major issues (eg the economic situation and changes in Commonwealth-State financial arrangements). Detailed information on the economic Budget drivers and the status of the Tasmanian economy is provided in Chapter 2 of this Budget Paper. The following sections highlight the key Government strategies, progress with these strategies and other major 2001-02 Budget drivers.

Tasmania *Together* – Shaping Our Future

Tasmania *Together* is the overarching social, environmental and economic plan for Tasmania, and is being developed through broad consultation with the Tasmanian community. The concept is to develop broad goals that provide the framework for both government and non-government decision making. Ultimately, Tasmania *Together* is about the Government working in partnership with the broader community to achieve a shared vision of Tasmania in the year 2020.

Tasmania *Together* will provide the broad framework and links between major Government policy initiatives. The strategies and goals of the Government's Industry Development Plan, state and local government Partnership Agreements, the 10 Year Health Plan, *Learning Together* and other major initiatives, will all focus on achieving the vision and goals in Tasmania *Together.*

The Budget process has been amended to incorporate long-term planning and to link policy and financial planning to achieve the community's goals for the year 2020. Social, economic and environmental community outcomes will now be directly linked to agency Outputs and strategies. The Government's Budget strategy will concentrate on achieving the community outcomes to be set in Tasmania *Together.*

The Government, industry and the broader community's performance in achieving the goals outlined in Tasmania *Together* will be regularly monitored and reported against.

The Tasmania *Together* benchmarks will form an integral component of the plan and will be regularly assessed by the Tasmania *Together* Progress Board to ensure that all Tasmanians are aware of progress being made in achieving the goals. Reports will be made to Parliament and will be widely circulated throughout the community.

Both the Government's and the broader community's performance in implementing Tasmania *Together* will be closely and regularly monitored. Six Benchmarking Committees made up of stakeholder group representatives have been established by the Community Leaders' Group (CLG) to develop a set of benchmarks to measure progress towards achieving the community's goals. Agency performance measures will comply with, and contribute to, the benchmarks set in Tasmania *Together.*

The six Benchmarking Committees are Employment and Economy, Sustainable Development, Natural Environment, Arts, Culture and Heritage, Community Wellbeing, and Open and Inclusive Governance. The benchmarking process involves the agreement of the Committees on issues to be measured, the drafting of measurable statements or standards, sourcing and agreeing on indicators of progress, and agreement on targets.

It is anticipated that the work of these Committees will be finalised in June 2001 and forwarded to the CLG. The final Tasmania *Together* document, including the vision, goals and benchmarks, should be released shortly after this date.

Industry Development Plan

The Industry Development Plan (IDP) is a key Government initiative which was first presented by the Government in November 1998, within three months of the 1998 Election. While the IDP is an important initiative in its own right, it will also be one of the major vehicles through which the benchmarks to be established by the Tasmania *Together* process will be achieved.

A comprehensive document detailing all aspects of the IDP is published, each year, at the same time as the Budget. This section provides a short summary of the IDP and its achievements to date.

The IDP is a structured and systematic approach to rebuilding the Tasmanian economy. In 1998, the Government's aim was to ensure that a strong foundation for the IDP was put in place so that a sound building process for engagement with, and assistance to, business would occur. The foundation is based on four cornerstones:

- an effective industry arm of Government, the Department of State Development (DSD), which identifies and converts industry development opportunities into economic growth realities;
- the delivery of 10 industry based programs to address the barriers to local business growth, particularly for those businesses with a focus on export and import replacement;
- a statewide industry audit identifying local business capability and opportunity across eight industry sectors; and
- partnerships with local government so that new industry development proposals suggested by local communities and businesses have a formal link to IDP resources.

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

- the release of the Government's Audit response document *The Way Forward* in August 1999;
- the holding of 16 forums to brief industry and the community on the IDP and the Government's response;
- the establishment of the Centre for Research, Industry and Strategic Planning; and
- the formation of Industry Councils.

The IDP is now at its final stage. This stage includes Industry Councils developing Industry Sector Plans and providing advice directly to the Government on strategic development for the State and a number of Partnership Agreements being negotiated with local government and other important institutions.

As highlighted in the IDP document, the continued implementation of all initiatives encompassed by the IDP is an ongoing priority strategy for the Government.

Partnership Agreements

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

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

- identify opportunities to work in partnership with local government to progress agreed social, economic and environmental outcomes for local government areas; and
- ensure effective service delivery arrangements including, where appropriate, options to improve coordination and joint service delivery arrangements or address gaps and overlaps in service delivery.

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

- economic growth;
- social justice; and
- community development.

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

Bilateral Partnership Agreements have now been signed with the Circular Head, Launceston City, Glenorchy City and Flinders Councils.

Following a review of the pilot stage of the Partnerships Program, the Government is also in the final stages of negotiating the first regional Partnership Agreement with the Northern Tasmanian Municipal Organisation. Future agreements include bilateral Partnership Agreements with the Derwent Valley and Break O'Day Councils and a regional Partnership Agreement with the Cradle Coast Authority.

Through the Premier's Local Government Council, which was established in 2000, two statewide Partnership Agreements have been developed. These two statewide Partnership Agreements relate to a Framework for Planning Schemes and a Waste Management Partnership Agreement. The Council's agenda for 2001-02 will include consultation and communication arrangements and a project to reform state and local government financial relations.

Tasmania's Financial Position

The financial position of the State has been the subject of considerable debate for many years. Much of the focus of initiatives of successive governments over the past decade has been on improving the State's financial position.

In assessing the State's financial position, attention is focussed on a range of financial factors such as the annual Budget position, the State's liabilities and the State's assets.

The Budget Position

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

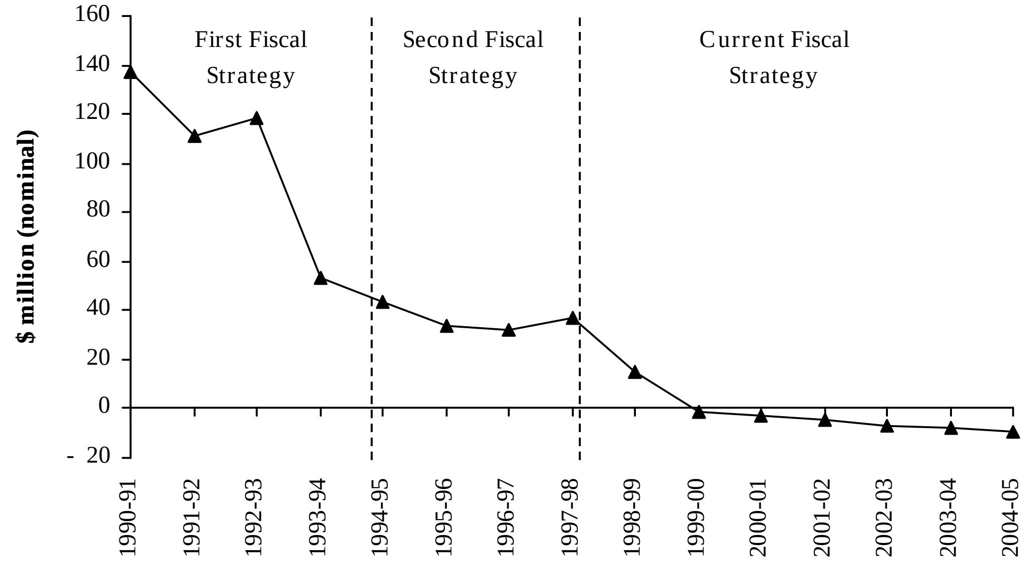
In 1990, the Field Labor Government introduced the first comprehensive Fiscal Strategy to be adopted by a Tasmanian Government. Between 1990 and the election of the Bacon Government in 1998, the implementation of a number of fiscal strategies by successive governments has resulted in a significant reduction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

The Bacon Government introduced a new Fiscal Strategy as part of the 1998-99 Budget. This Fiscal Strategy is outlined in detail later in this Chapter. Consistent with the requirements of the Fiscal Strategy, since 1999-00 the Budget deficit (NFR) has been eliminated and small, but increasing, Budget surpluses achieved. A Budget surplus is described as a Consolidated Fund Surplus (CFS).

The achievement of a CFS represented a significant milestone in the improvement of the financial position of the State. Nevertheless, significant pressures on the Budget remain due to the relatively high proportion of expenditure on debt servicing costs, the need to eliminate the unfunded superannuation liability and a range of other issues. The Government is committed to consolidating and improving the current position of the State Budget while also ensuring that funding is available to meet the cost of essential services.

The following chart shows the reduction and eventual elimination of the NFR during the 1990s and the recent achievement of a CFS. The chart also shows the projected CFS result for the next four years.

Chart 1.1: Net Financing Requirement, 1990-91 to 2004-05[1]



Note:

1. Figures for 2000-01 to 2004-05 are estimates only. The negative NFR shown in the above chart for 1999-00 and projected to be achieved in 2001-02 and subsequent years, represents a CFS.

Assets

As at 30 June 2000, the Tasmanian State Government sector controlled assets (on a consolidated basis) totaling $13 950 million.

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

- General Government sector assets of $7 041 million;
- Public Trading Enterprise sector assets of $5 918 million; and
- Public Financial Enterprise sector assets of $5 548 million.

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

- infrastructure assets ($6 903 million) – this includes road, bridge, water, electricity and other infrastructure assets;
- land, buildings and forest estate ($3 701 million) – this includes assets such as schools, hospitals, other buildings and Crown land (including national parks and conservation areas); and
- cash and investments ($2 479 million) – this includes assets such as the balance of cash in the Public Account, investment in State-owned Companies and Commonwealth debt on-lent to Government Business Enterprises.

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

Liabilities

As at 30 June 2000, liabilities of the Tasmanian State Government sector (on a consolidated basis) totalled $7 699 million.

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

- General Government sector liabilities of $3 905 million;
- Public Trading Enterprise sector liabilities of $2 341 million; and
- Public Financial Enterprise sector liabilities of $5 474 million.

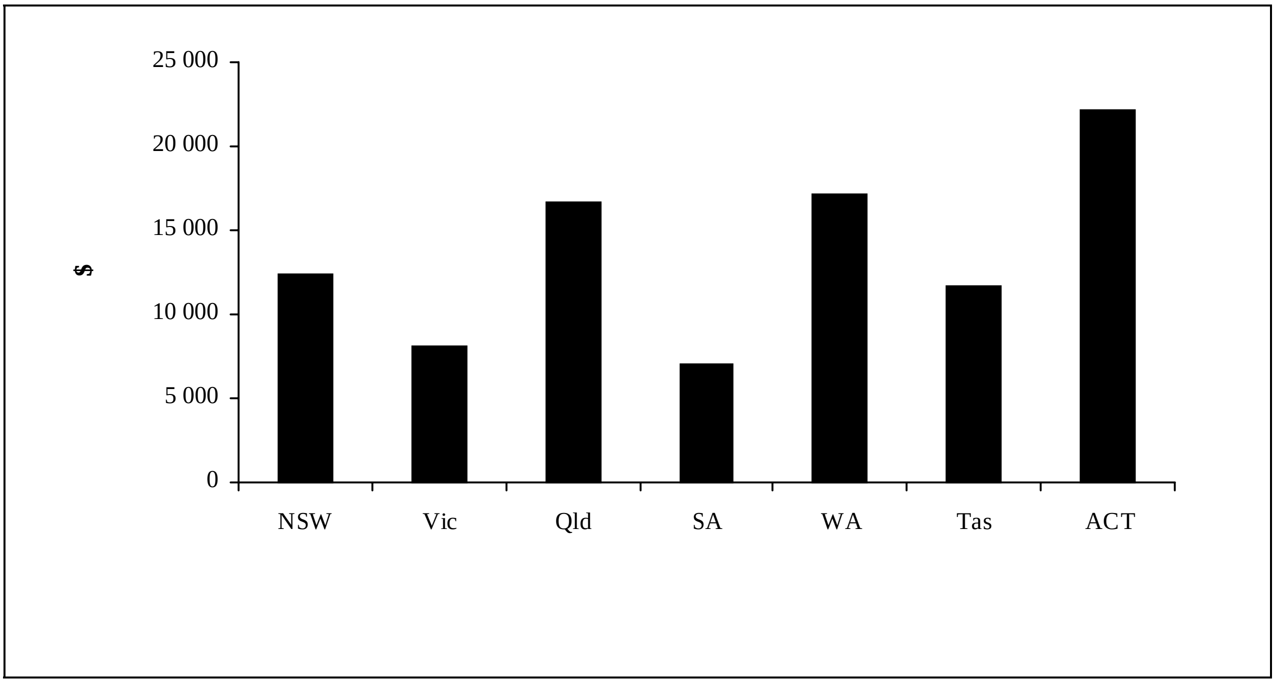
The level of debt which a state holds at a particular point in time and trends in the level of debt are significant factors in the assessment of the overall financial position of the State. These indicators provide a guide to the financial position of the State and the Government's financial performance.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

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

Net Financial Position

The net financial position of Tasmania is represented by the difference between the level of the State's assets and its liabilities. The net assets of the Total State Government sector, as at 30 June 2000, totalled $6 251 million. This represents a net worth per head of population of $13 289. As shown in Chart 1.2, this level of net worth per head of population is substantially greater than Victoria and South Australia, on a par with New South Wales but below that of Queensland, Western Australia and the Australian Capital Territory.

Chart 1.2: Interstate Comparison of Total State Government Sector Net Worth per Head of Population as at 30 June 2000



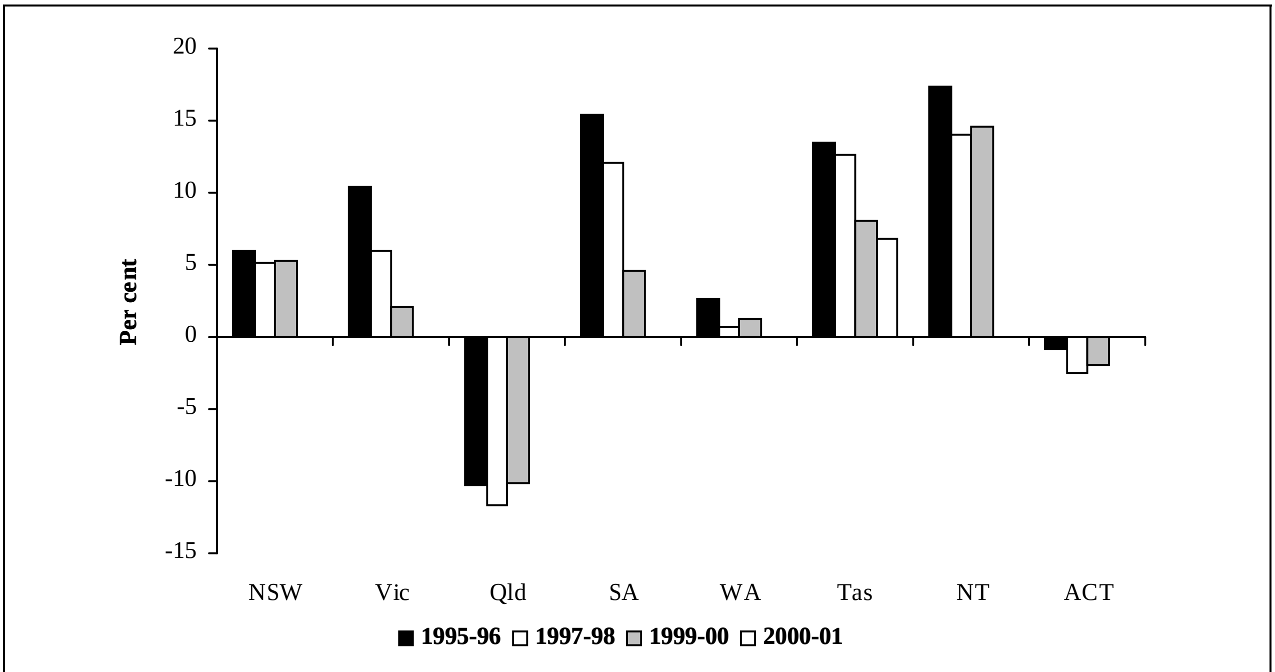
Net Debt

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

As at 30 June 2000, Total State Government Sector Net Debt totalled (in nominal terms) $2 262 million. This represents a decline, in nominal terms, of 15 per cent from the 30 June 1999 figure of $2 662 million. In real terms, a decrease in Total State Government Sector Net Debt of 34.4 per cent or $1 277 million has been achieved since the peak net debt level of $3 713 million as 30 June 1994.

Chart 1.3 shows that Tasmania's General Government Sector Net Debt as a proportion of GSP has been comparable with South Australia and the Northern Territory, but significantly higher than New South Wales, Victoria, Queensland, Western Australia and the Australian Capital Territory (ACT). The chart shows a significant decrease in Net Debt as a proportion of GSP for South Australia in 1999-00 as a result of the long-term lease of its electricity assets. There has also been a steady decrease in Net Debt levels as a proportion of GSP for all other States and Territories, with the exception of the ACT and Queensland, over the five years to 1999-00.

Chart 1.3: General Government Sector Net Debt as a percentage of GSP – State and Territory Comparison[1]



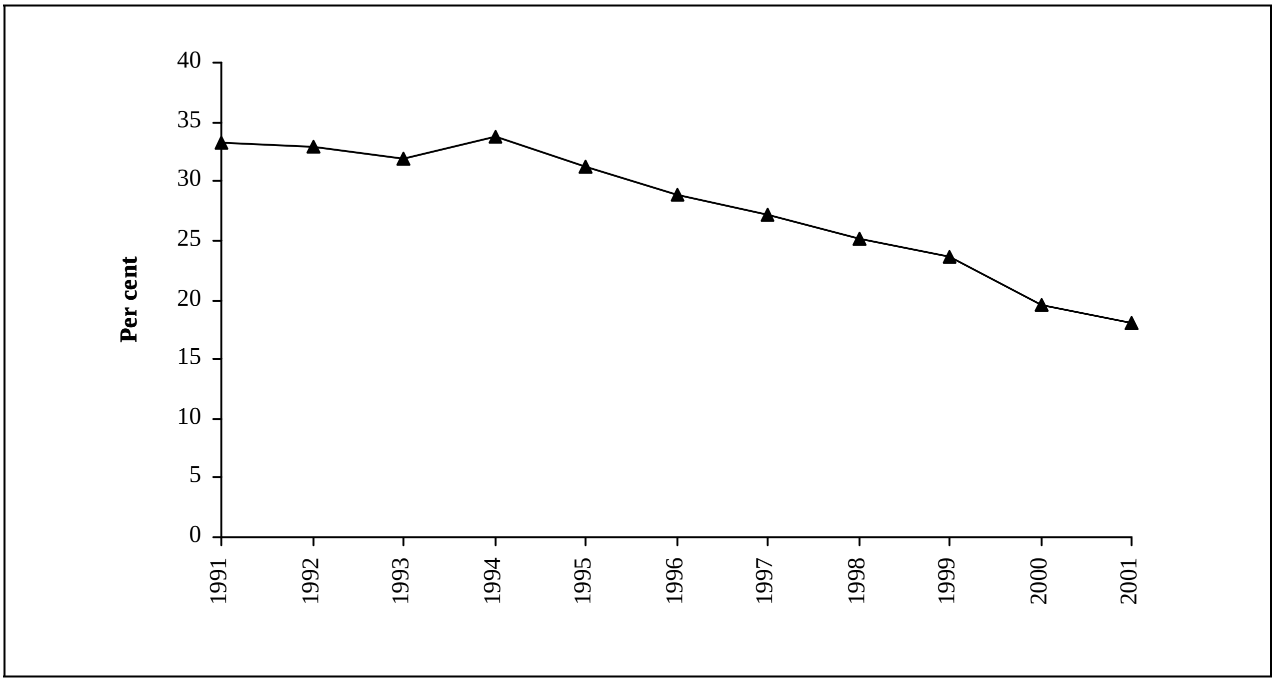
Sources: Government Financial Estimates, Australia 1999-2000, ABS Cat No 5501.0; *Australian National Accounts: State Accounts, 1999-00*, ABS Cat No 5220.0.

Note:

1. The 2000-01 figure for Tasmania is an estimate only. Estimates for other states are unable to be calculated until debt information is published by the states in their 2001-02 Budget Papers.

Chart 1.4 emphasises the significant improvement in the level of Tasmania's Total State Sector Net Debt, as a percentage of GSP, which has occurred over the past decade.

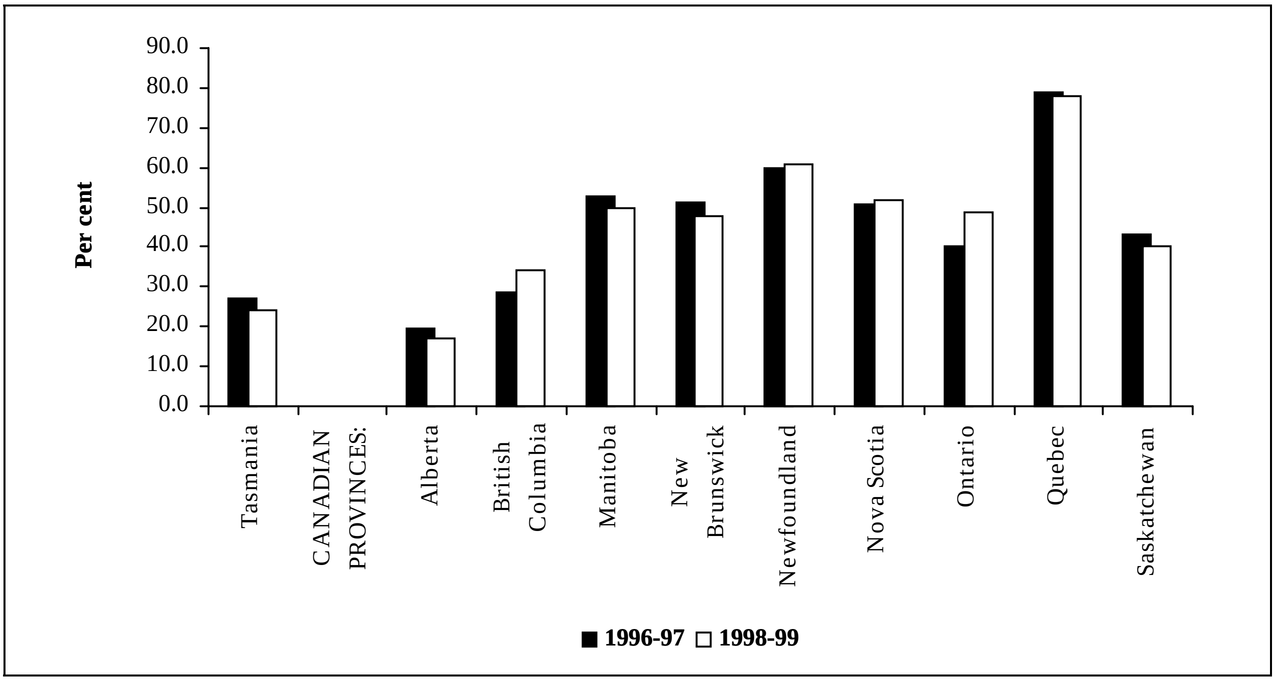
Chart 1.4: Tasmania Total State Sector Net Debt as a percentage of GSP, 1991 to 2001[1]



Note:
1. The 2001 figure is an estimate only.

Chart 1.5 shows that when Tasmania is compared with a range of individual Canadian Provinces (which have similar social and political situations to ours) the State's level of Total State Government Sector Net Debt as a percentage of Gross State Product is lower than for all but one of these Provinces.

Chart 1.5: Total State Government Sector Net Debt as a percentage of GSP



Sources: Standard and Poors; Department of Treasury and Finance.

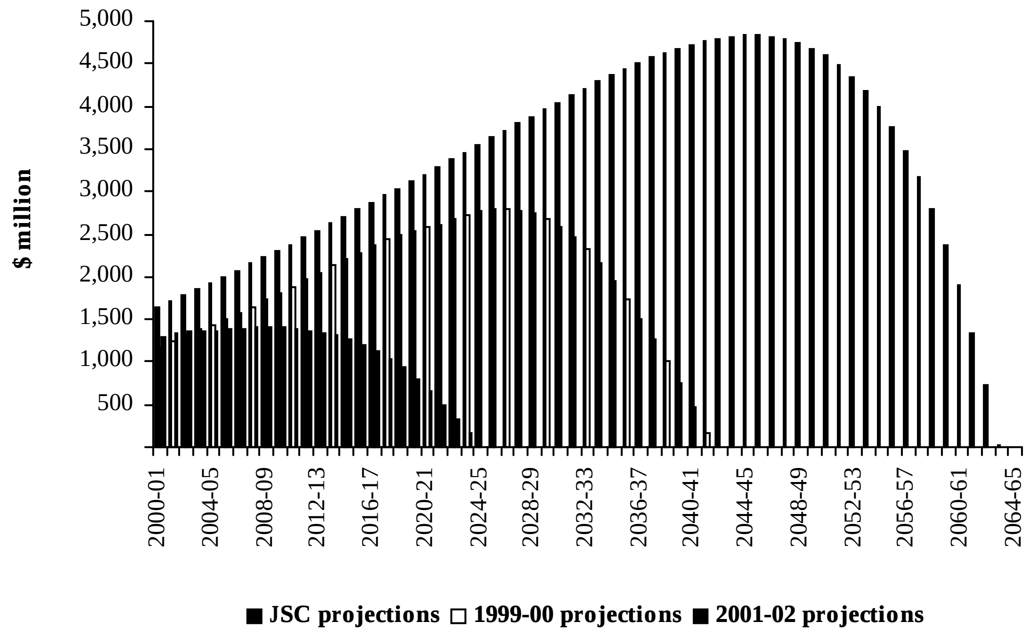
Superannuation

The Government's unfunded superannuation is a significant component of Tasmania's overall liability position. Prior to 1994, the Government's liability for the vast majority of State Service employees was met on an emerging cost basis. In 1994, while the superannuation liability was still met on an emerging cost basis, a Superannuation Provision Account (SPA) was established in the Special Deposits and Trust Fund. Agencies are required to pay into this account at a rate determined by the Treasurer. The employer share of pensions and lump sum benefits payable to ex State Service employees of on-Budget agencies and their families, is reimbursed to the Retirement Benefits Fund Board from this account. The balance of the Superannuation Provision Account as at 30 April 2001 was $331.4 million.

Under the provisions of the *Public Sector Superannuation Reform Act 1999,* the Government introduced a range of important superannuation reforms. The RBF defined benefit scheme was closed to new public sector employees from 15 May 1999 and a new accumulation scheme was established for around half of current employees at that time and all new public sector employees. The Government's Fiscal Strategy commitment that the employer superannuation contributions of all new State Service employees would be fully funded from 1 July 1999 was also implemented via these reforms.

Chart 1.6 demonstrates that the State's unfunded superannuation liabilities will be eliminated much sooner than originally estimated in 1997 by the Joint Select Committee on Superannuation (JSC). The chart shows the original JSC estimate, the estimates shown in the 1999-00 Budget Papers and the most recent estimate, which is unchanged from the estimate presented in the 2000-01 Budget Papers. The substantial improvement is largely due to the increase in funding effort being made by the present Government.

Chart 1.6: Projected Unfunded Liability (Nominal)



Aside from the increased funding effort being made by the Government, the significant improvement in projected SPA balances over time also reflects the fact that the Actuary's estimates of benefit payments over time are lower than were previously expected. This has largely been due to the present Government's policy of no redundancy programs for employees of inner-Budget agencies. Lower outlays from the SPA, together with a higher level of inflows, produces a more rapid growth in the SPA balance over time. This assists in explaining the significant reduction in the length of time before the State's unfunded superannuation liability reduces to zero.

Risk Management Fund

In addition to the action which has been taken by the Government to reduce the outstanding superannuation liability, the Government has also taken important steps to provide a whole-of-government approach to the treatment of risks to which agencies are exposed, including ensuring that adequate financial provision is made for the cost of these risks.

In December 1998, the Tasmanian Risk Management Fund was established to progressively provide for whole-of-government risk exposures from 1 January 1999. All inner-Budget agencies are required to participate in the Fund. Agencies pay contributions into the Tasmanian Risk Management Fund Account in the Special Deposits and Trust Fund to meet the costs for which the Fund is responsible, as well as administrative expenses.

In order to facilitate the transition to providing for risk through the Fund, the Tasmanian Risk Management Fund Steering Committee has adopted a phased approach to the implementation of the Fund which consists of two elements:

- progressively expanding the range of risks for which agencies must purchase whole-of-government cover through the Fund; and
- identifying and quantifying risks to which agencies are exposed, with a view to the Fund self insuring those risks.

In 1999-00, whole-of-government cover was purchased for public/products/professional liability, motor vehicle, marine hull and personal accident/travel. In addition, a number of agencies purchased selective cover for risks not provided for through the whole-of-government covers. In 2000-01, whole-of-government cover was purchased for all risk except property and business interruption and medical malpractice. A number of agencies also purchased selective cover for property and business interruption. In both 1999-00 and 2000-01, the Fund placed the whole of each insured risk with the private sector.

From 1 July 2001, the Fund will merge with the Tasmanian State Service Workers' Compensation Scheme. The Scheme operates on a fully funded basis and the reserves accumulated to meet workers' compensation liabilities will be transferred to the Fund. The expanded Fund will meet the costs associated with all risk, including property and business interruption and medical negligence, through a mixture of insurance and self-insurance.

The Fiscal Strategy

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

The Government introduced the current Fiscal Strategy as part of the 1998-99 Budget. Its primary objective is to ensure responsible financial management while supporting the Government's other priority initiatives such as Tasmania *Together*, the Industry Development Plan and Partnership Agreements. The Fiscal Strategy is structured to run until the end of 2003-04 and contains five broad components which address the range of financial management issues facing the State.

Each of the five components of the Fiscal Strategy are outlined below. Broad principles and tactical targets are presented for each component.

Budget Position

Principle - *To stabilise and strengthen the State's financial position, the State Budget will be managed on a long-term sustainable basis.*

Key Targets - *The annual Consolidated Fund Budget will be maintained in surplus from 1999-00;*

- *The total State Sector, on a Government Financial Estimates basis, will be maintained in surplus each year; and*
- *The General Government surplus will be maintained at a level sufficient to represent 2.5 per cent of total General Government revenue on average between 1999-00 and 2003-04.*

The application of this principle will ensure that the State Budget is structured in such a way that the annual Budget result does not have a negative impact on the State's finances in the long run. In this context, it is important to note that the focus of the Fiscal Strategy is not restricted to the Consolidated Fund Budget result alone, but also considers the annual surplus or deficit of the total State Government sector as a whole, including the performance of the State's Government Business Enterprises (GBEs) and State-owned Companies (SOCs). Furthermore, the Government's commitment to debt retirement, through surpluses, will not become any less important as the General Government budget grows larger over time.

Asset Sales

Principle - *The proceeds from major asset sales will not be used to fund recurrent expenditure.*

Key Targets - *Proceeds from major asset sales will be used to retire State debt; and*

- *Proceeds from minor asset sales will be applied to improving the State's infrastructure.*

In line with the above principle and sound financial management practice, proceeds from the sale of Government assets will be applied to purposes of a capital nature. As such, sale proceeds from major assets will be used to retire State debt, with minor asset sale proceeds being used to fund capital improvements to existing State infrastructure. The retirement of a significant level of State debt was made possible in 1999-00 as a consequence of the sale of the Trust Bank and the Forestry Tasmania Softwood Joint Venture.

Community Dividend

Principle - *The implementation of more efficient administration across the State Service will provide a direct financial benefit to the Tasmanian community through reduced costs of Government.*

Key Target - *The total real recurrent non-salary operating costs of agencies will be reduced annually by the rate of growth in the CPI.*

Through the implementation of improved and more efficient administration across the Tasmanian public sector, a direct financial benefit will accrue to the Tasmanian community through reducing the costs of Government. Savings will be achieved through a public service which is more streamlined, efficient and accountable, rather than through redundancy programs.

The 2001-02 Budget and the Government's previous Budgets have all been framed in line with this target, with the non-salary operating costs of agencies being maintained in nominal terms. Benefits from financial management strategies such as this are being passed back to the community through tax cuts announced in the 2001-02 Budget.

Taxation

Principle - *The taxation burden on Tasmanians and Tasmanian businesses will not be increased.*

Key Targets - *There will be no new taxes or increase in the rate of any existing State taxes; and*

- *Tax relief will be targeted to industry sectors and firms with potential for import replacement or export growth and which permanently expand their employment.*

With the Government's priority focus on promoting economic and employment growth, it is important that the taxation burden on Tasmanian businesses and the community is not increased. The provision of targeted taxation relief remains an important industry assistance tool available to the Government.

As outlined in this Budget Paper, the Government's commitment to this element of the Fiscal Strategy is reflected in the reduction in payroll tax rate and the removal of the Electricity Entities Levy announced in the Budget.

Debt

Principle - *The burden of debt on the Tasmanian community will be reduced.*

Key Targets - *Total State Government net debt as a proportion of GSP will be reduced to below 20 per cent by 2003-04;*

- *General Government net debt as a proportion of GSP will be reduced to below 10 per cent by 2003-04;*
- *The Government will not increase its net debt;*
- *The cost of servicing debt will be reduced with the net interest cost ratio reduced to below five per cent by the year 2003-04; and*
- *The accruing superannuation liabilities of new public sector employees will be fully funded from 1 July 1999.*

While Tasmania's debt is manageable, it has historically been high by national standards.

Reduction in debt is an appropriate strategy to free Budget resources and to reduce pressure on the Budget from significant increases in interest rates. Reductions in net interest costs, from reductions in net debt levels, provide increasing flexibility to continue to provide core government services, such as health and education, at a level expected by the Tasmanian community.

Progress On Fiscal Targets

The following table shows the five key tactical targets of the Fiscal Strategy together with actual and estimated progress towards these targets.

Table 1.1: Fiscal Strategy Targets[1]

Tactical target	1997-98 Actual	1998-99 Actual	1999-00 Actual	2000-01 Estimate	2001-02 Estimate	Targets
Consolidated Fund Budget to be maintained in surplus from 1999-00 ($ million)	**(37.1)**	**(15.2)**	**1.3**	**2.6**	**4.2**	**> 0**
General Government surplus as a proportion of General Government revenue on average from 1999-00 to 2003-04 (%)	**1.0**	**1.1**	**7.2**	**5.3**	**3.8**	**2.5**
Total State Government net debt as a percentage of GSP by 2003-04 (%)	**25.2**	**23.7**	**19.5**	**17.0**	**15.5**	**< 20.0**
General Government net debt as a proportion of GSP by 2003-04 (%)	**12.6**	**11.3**	**8.1**	**6.7**	**5.8**	**< 10.0**
Net interest cost ratio by 2003-04 (%)	**7.5**	**6.9**	**5.2**	**5.2**	**4.2**	**< 5.0**

Sources: Department of Treasury and Finance and the Australian Bureau of Statistics (ABS).
Note:
1. There have been minor changes to some actual figures previously reported in Chapter 1 of Budget Paper No 1 *Budget Overview 2000-01*. These changes are primarily the result of changes in ABS GSP figures.

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

- addressing the major risks that have impacted on the management and development of the State Budget over previous years arising from past inadequate funding of health and community services and the growth in the State's unfunded superannuation liability;
- providing significant additional recurrent funding to agencies for social services;
- establishing an Infrastructure Fund to facilitate the improvement of Tasmania's social and economic infrastructure;
- implementing a range of initiatives to improve the Tasmanian economy; and

- reducing the payroll tax rate and removing the Electricity Entities Levy.

Further information on the Government's achievements in relation to the Fiscal Strategy can be found in various chapters of this Budget Paper

Impact of National Tax Changes on 2001-02 Budget

Significant changes in Commonwealth-State financial relations were implemented on 1 July 2000. Under the new arrangements, a number of changes were made to the level and type of payments received by Tasmania from the Commonwealth. Key amongst these changes was that, from 1 July 2000, Commonwealth Financial Assistance Grants (FAGs) and revenue replacement (safety net) payments to the states and territories (the states) were replaced by goods and services tax (GST) revenue and transitional payments.

In return for receiving all revenue raised from the GST, the states agreed that:

- FAGs and the payment of revenue associated with the safety net arrangements for alcohol, petroleum and tobacco products by the Commonwealth to the states would cease from 1 July 2000;
- they would adjust their gambling tax revenues to the extent of the impact of the GST on gambling operators from 1 July 2000 and abolish, by specified dates, certain taxes and duties such as financial institutions duty, debits tax (subject to review) and bed taxes; and
- they would accept responsibility for a number of expenditure items. Each state now funds and administers a First Home Owners Scheme (FHOS). FHOS involves the provision of $7 000 to eligible applicants who are buying or building their first home as their principal place of residence. The states also agreed to compensate the Commonwealth for the cost of administering the GST, which is carried out by the Australian Taxation Office (ATO) and the Australian Customs Service (ACS).

As part of the new arrangements, the Commonwealth guaranteed that, in each of the transitional years following the introduction of national tax reform, the budgetary position of each individual state would be no worse off than it would have been had the reforms not been implemented.

To meet this guarantee that no state would be worse off under the new arrangements, the Commonwealth agreed to make transitional assistance payments (called Budget Balancing Assistance) to each state as necessary. These payments take the form of grants and are untied.

The amount of transitional assistance required in any financial year is determined by calculating the guaranteed minimum amount (GMA). The GMA is the sum of revenue forgone by a state; additional expenditure responsibilities incurred as a result of the reforms agreed to under the *Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations* (IGA); and savings in expenditure and increased receipts as a result of tax reform. The difference between the GMA and the state's share of GST revenue is the amount of Budget Balancing Assistance which is to be paid to that state.

It is estimated that the GMA for Tasmania for 2001-02 will be $1 160.7 million. This is an increase of $97.4 million on the estimated GMA for 2000-01 of $1 063.3 million. Major reasons for the variation in the GMA are:

- state revenue forgone as a result of the tax reform process will be higher in 2001-02. Financial Institutions Duty (FID) and stamp duty on the transfer of quoted marketable securities will be abolished on 1 July 2001. These two items add an additional $21.1 million and $2.5 million to the GMA respectively;

- revenue replacement payments and gambling taxes forgone are also higher for 2001-02 than for 2000-01, contributing to the increase in the GMA by $19.2 million;
- changes accounting for $67.5 million of the increase in the GMA arising from:
  - an increase in Tasmania's Grants Commission relativity factor;
  - an increase due to national indexation and population adjustment; and
  - a decrease due to a decline in the State's population share; and
- the costs Tasmania will incur in 2001-02 in relation to interest costs due to changed cash flow arrangements, the introduction of the FHOS and the payment of the GST administration costs to the ATO are estimated to reduce by $11.7 million compared to 2000-01.

For 2001-02 it is estimated that Tasmania's share of the GST revenue pool will be less than the GMA. The level of Commonwealth funding to Tasmania in 2001-02 will therefore be determined by the GMA and not the GST revenue.

Forward estimates of the impact of the IGA reforms on each state indicate that it will be a number of years before most of the states no longer require Budget Balancing Assistance from the Commonwealth. Budget Balancing Assistance is provided under the guarantee provisions of the IGA to ensure that states are no worse off than they would have been had the reforms not taken place. On the latest estimates, it will be 2007-08 before the need for the Commonwealth to pay Budget Balancing Assistance to Tasmania will be eliminated.

It should also be noted that, during the guarantee period, any change in the level of GST revenue collected will not result in increased funding to the states, as any additional GST revenue will be offset by a reduction in Commonwealth transitional assistance payments required to be made to the states. For example, in 2000-01 the Commonwealth increased its estimate of the GST revenue to be collected by $2.25 billion or 9.35 per cent. This significant increase did not change the overall funding to any state, but simply enabled the Commonwealth to reduce transitional assistance payments to the states by the equivalent amount. Any windfall gain through the GST will continue to benefit the Commonwealth, and not the states, while the states remain in the guarantee period.

Further information on current Commonwealth-State Financial Arrangements, including national tax reform and the GST, is provided in Chapter 7 of this Budget Paper.

The impact of the GST on Tasmanian Government agencies was detailed in Chapter 3 of Budget Paper No 1 *Budget Overview 2000-01*. While there are no expected changes to the impact of the GST on agencies in 2001-02, the following points are noted:

- GST is primarily a cashflow management issue for Government agencies, with the actual expense likely to be minor. Accordingly, there have been no changes to agency global allocations to reflect either GST revenue collected by agencies or GST paid by agencies on their purchases;
- agency global allocations for 2000-01 and the then forward estimate years were adjusted to reflect the savings that were expected to accrue from the national tax changes (eg the removal of Wholesale Sales Tax and changes to a number of Commonwealth and State indirect taxes such as fuel excise, FID and the like); and

- as the elements of the national tax changes will result in lower overall costs to agencies, their allocations have been reduced accordingly. These changes were required to be made by the Government, given that the Commonwealth Government has 'clawed back' these savings as part of the GMA funding calculation.

Information on the agency Budget Paper presentation of GST receipts and payments is provided in Chapter 1 of Budget Paper No 2 *Operations of Government Departments 2001-02.*

SUMMARY OF MAJOR BUDGET INITIATIVES

The following sections highlight the major initiatives which the Government will implement in the 2001-02 Budget.

Taxation Relief

To maintain Tasmania's competitiveness with other States and to provide a lasting fiscal stimulus to the business sector that will support further economic expansion, tax relief is being provided at a cost of $31.8 million in 2001-02. Payroll tax relief is being provided through a reduction in the rate of tax from 6.53 per cent to 6.3 per cent and an increase in the general exemption threshold from $606 000 to $1 million. As a result of these changes, it is expected that over 200 employers that currently pay payroll tax will no longer have a liability based on their existing level of wages.

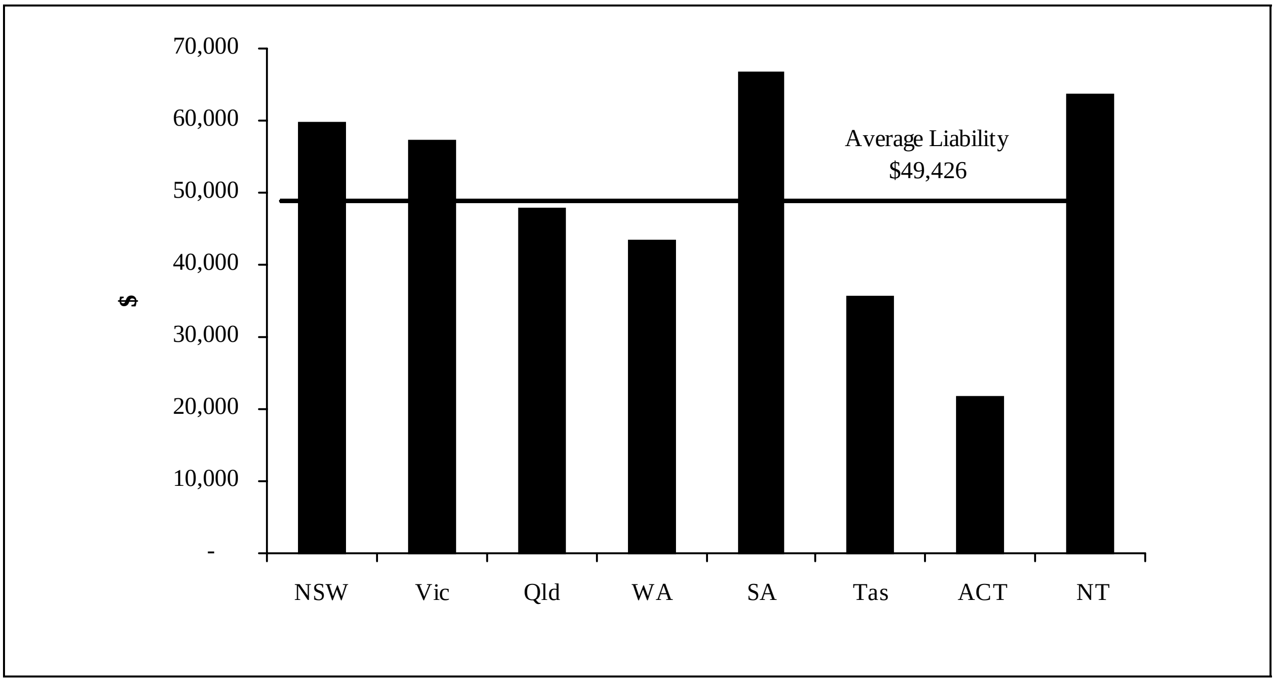
The changes will effectively result in savings of over $25 000 per annum for a medium sized Tasmanian business with a payroll of $1 million.

In line with the Government's previous commitment that employers would not be disadvantaged due to increases in the Commonwealth superannuation guarantee charge, the payroll tax rate will be further reduced to 6.24 per cent and the general exemption threshold increased to $1.01 million from 1 July 2002.

These changes will result in the effective tax rate in Tasmania being lower than in all other jurisdictions except Western Australia and the Australian Capital Territory for payrolls up to $4 million. This level of payroll equates to approximately 130 employees which, in Tasmania, represents over 90 per cent of all employers liable for payroll tax.

Chart 1.7 shows the expected payroll tax liability in 2001-02 for a firm of 50 employees based on a national average payroll over four quarters of $1.56 million (calculated using ABS data series average weekly earnings, private sector, Australia, total earning-trend, average over four quarters to November 2000). This chart demonstrates that such a firm in Tasmania will face the second-lowest payroll tax liability, after the ACT.

Chart 1.7: Actual Payroll Tax Liability for an Employer with 50 Employees, 2001-02



Source: Department of Treasury and Finance.

Chart 1.8 shows the reduction in payroll tax liability that firms with 50, 100 and 200 employees will receive under the new arrangements.

Chart 1.8: Change in Payroll Tax Liability, 2000-01 to 2001-02

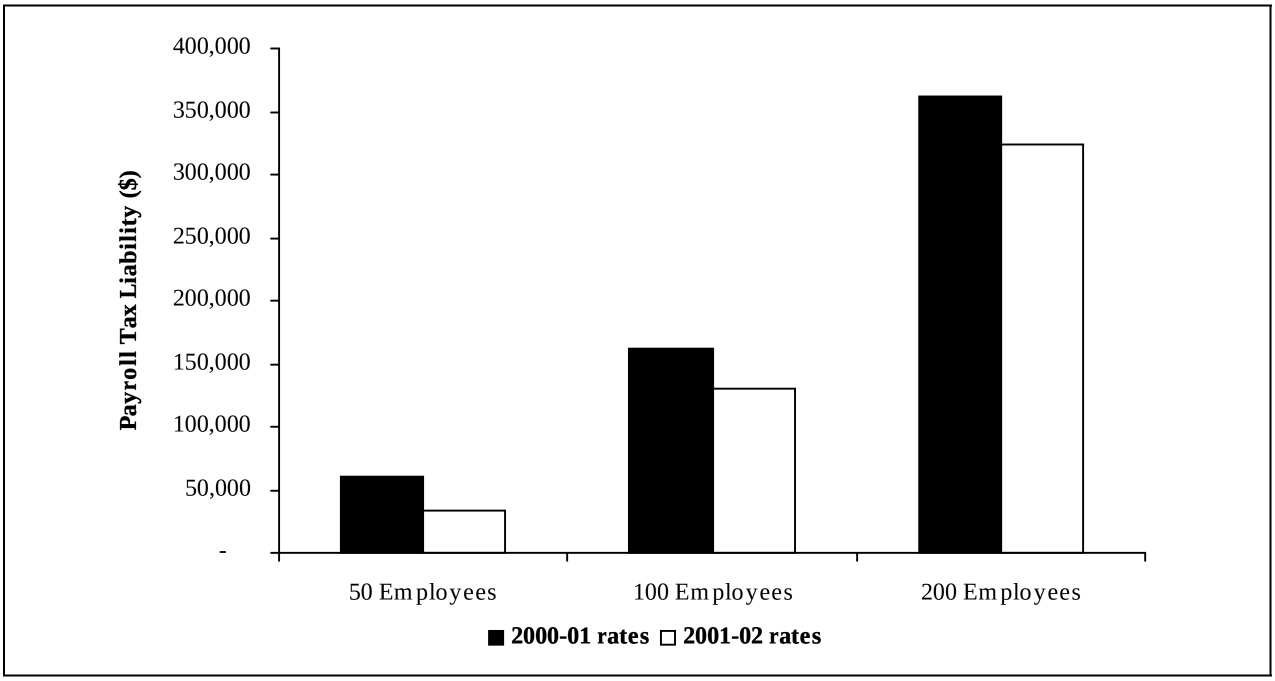
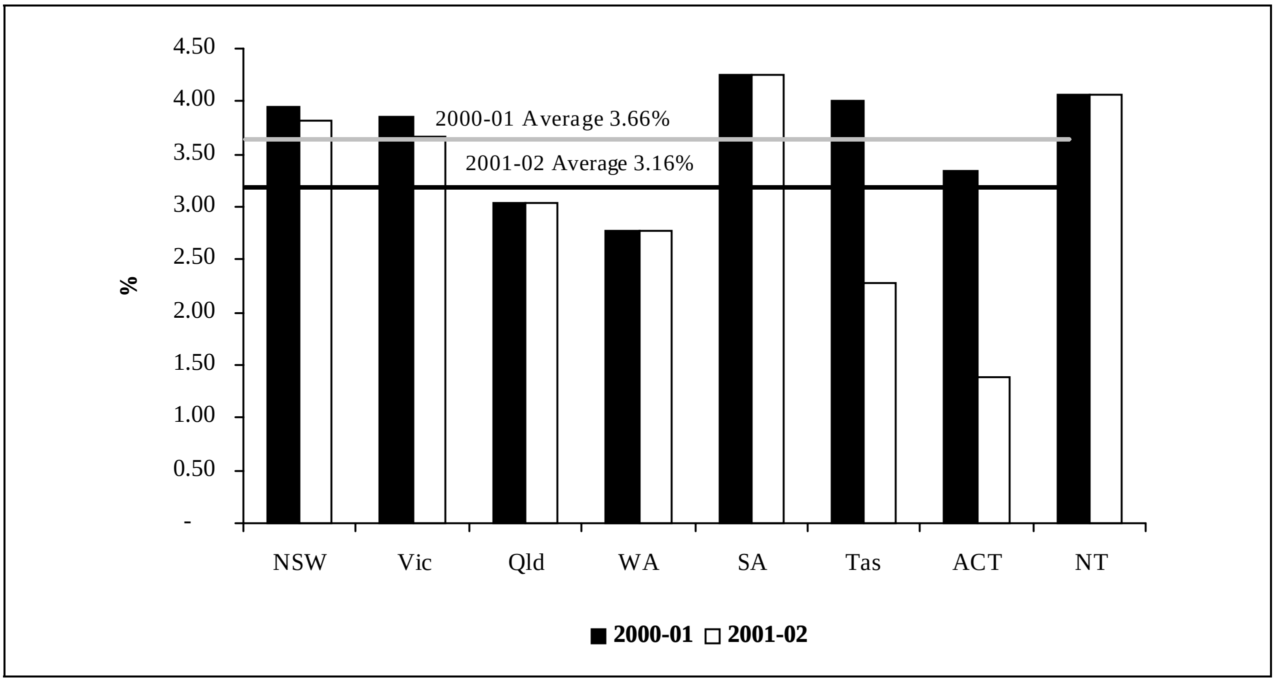


Chart 1.9 demonstrates how the Tasmanian effective payroll tax rate for a firm with 50 employees will improve as a result of the changes announced in this Budget. The chart also demonstrates that Tasmania will be the second most competitive jurisdiction in this wage range as a result of the new tax arrangements.

Chart 1.9: Change in Effective Payroll Tax Rates for an Employer with 50 Employees, 2000-01 to 2001-02



Source: Department of Treasury and Finance.

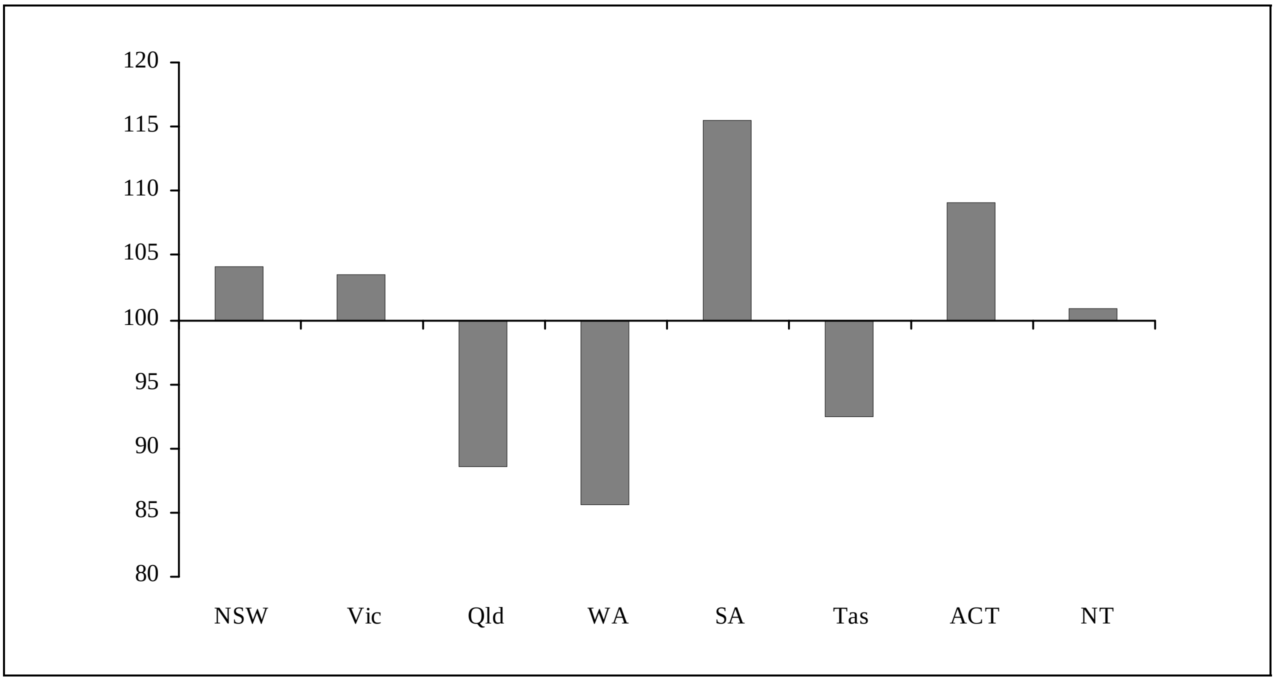
Additional changes to payroll tax will create incentives for successful Tasmanian businesses to reinvest in other industries in the State. This will be achieved through changes to the grouping provisions, which will allow commonly controlled entities to be de-grouped for payroll tax purposes where they operate in different industry sectors.

Businesses operating in the IT sector will also continue to benefit from the 2000-01 initiative to relax the eligibility criteria for significant participation in the IT industry from more than 80 per cent to more than 50 per cent.

Other tax relief is provided through the abolition of the five per cent Electricity Entities Levy. This will result in a direct reduction of five per cent on the electricity bills of more than 190 000 Tasmanian electricity consumers, representing a saving of $60 for a typical Tasmanian household. This will also result in significant savings for businesses, depending on their level of electricity consumption.

Chart 1.10 demonstrates that Tasmania's tax severity as assessed by the Commonwealth Grants Commission for the 1999-00 year (the latest available estimate) was already below the national average and well below the level of New South Wales, Victoria, South Australia, the Australian Capital Territory and the Northern Territory.

Chart 1.10: Taxation Severity, 1999-00[1]



Source: *Report on General Revenue Grant Relativities 2000 Update,* Commonwealth Grants Commission.
Note:
1. The index figure of 100 represents the average taxation severity of all states. Index figures below 100 represent below average tax severity and figures above 100 represent above average tax severity.

The Competition Index

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

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

Detailed information on the indices can be found in *The Competition Index – A State by State Comparison 2001*. The following sections summarise some of the index results.

- Tasmania is the most competitive state in terms of labour costs and has the lowest average labour costs (including on-costs such as workers' compensation premiums and payroll tax).
- Changes to Tasmania's payroll tax regime announced in the 2001-02 Budget have improved the State's competitiveness in this regard so that Tasmania has the second lowest payroll tax index number. In the 2000 index, Tasmania had the second highest payroll tax index number of all States.

- Tasmanian land and accommodation costs are now the lowest nationally. In the 2000 index, Tasmania had the second lowest land and accommodation costs behind South Australia. Tasmania's relatively low land and accommodation costs reflects a number of factors including relatively low purchase and rental costs for industrial and commercial land and the lowest municipal rates.
- Electricity prices in Tasmania, for most customers, are higher than those in New South Wales and Queensland. However, prices in Tasmania are marginally lower than those in South Australia and Victoria and are lower than those in Western Australia. Victoria's electricity prices, in particular, have increased significantly since the calculation of the 2000 index.
- Fuel prices in Tasmania are generally higher than in the other states, but the difference has decreased to a significant extent since the entry of Liberty Oil.
- The absence of natural gas means that Tasmanian businesses must rely on the significantly more expensive liquid petroleum gas (LPG). The introduction of natural gas via the Duke Natural Gas Project will significantly improve Tasmania's energy cost competitiveness.
- Industry-based cost indexes have been prepared for five industries. These indexes indicate the relative cost competitiveness of each of the states for selected industries. Of the five industries examined, Tasmania's cost competitiveness has improved in one (accommodation, cafés and restaurants declined in two (manufacturing, and finance and insurance) and has remained unchanged in two (mining, and property and business services).

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

Capital Spending

A key Government initiative in the 2001-02 Budget is the establishment of a $60 million Infrastructure Fund. Of the $60 million funding total, $40 million is for key economic infrastructure and $20 million is for social infrastructure, predominantly schools and hospitals. The Infrastructure Fund will be funded from one-off surplus funds of $40 million in 2000-01 and $20 million in 2001-02. It is emphasised that the Government will not need to borrow to fund the Infrastructure Fund and Consolidated Fund Budget surpluses will still be returned in 2000-01 and 2001-02.

The major objectives of the Infrastructure Fund are to:

- increase the productive capacity and productivity of the Tasmanian economy, particularly through strategic investment in irrigation, resource development and transport projects. This investment will result in increased agricultural and manufacturing production and reduce the cost of moving goods to market;
- provide job opportunities, particularly in rural and regional areas of Tasmania. The expenditure of $60 million will provide economic activity and jobs during the construction phase of infrastructure projects, which will help insulate the State from the impact of the international and national economic slowdown;
- address past neglect in public social infrastructure spending which has led to a run down in public assets such as school buildings and amenities and equipment in hospitals; and

- restore levels of public investment in essential economic infrastructure, an area largely neglected in the 1990s.

It is estimated that the undertaking of the projects to be facilitated by the Infrastructure Fund will create an additional 900 jobs over 2001-02 and 2002-03.

In addition to the new Infrastructure Fund, the Government's overall State Capital Program comprises the Capital Investment Program (CIP), the housing and roads programs and the capital expenditure programs of Government Business Enterprises (GBEs), State-owned Companies (SOCs) and State Authorities.

The level of funding for the CIP has been increased by adjusting the State-funded component of the program in real terms over the forward estimates period and providing an additional $5 million in 2001-02 as the initial instalment of the estimated $10 million over two years to rebuild Reece High School. An additional $5 million has also been provided in 2002-03 for the second instalment of the Reece High School funding.

Overall, in 2001-02, the Government's spending on the State's infrastructure will total $475 million. This capital spending will support, in total, 7000 jobs in the Tasmanian economy.

One of the most important and largest individual building projects undertaken by a Tasmanian Government in recent times will be the Prison Infrastructure Redevelopment Program. The Government has approved additional CIP funding of $53 million for stages one and two of the Prison Infrastructure Redevelopment Program, which involves redevelopment of the Risdon site from 2001-02 to 2006-07. The staged construction will place the majority of prisoners in new accommodation by 2006-07. At that time, a decision will be taken whether to build additional lower security accommodation for remaining prisoners (including provision for prisoners currently at the Hayes Prison Farm), within the new complex on the Risdon site or, alternatively, in a new facility in the north of the State.

Social Initiatives

Many of the initiatives announced by the Government in the 2001-02 Budget, together with a range of other funding decisions which have been taken in the finalisation of the Budget, continue the Government's strong commitment to providing social services which meet the needs of the Tasmanian community. In addition to these specific social service initiatives and decisions, major Government economic initiatives such as the continued implementation of the Industry Development Plan, the significant injection of funding into the development of economic infrastructure and reductions in state taxation will also, ultimately, have a positive impact on the social services provided in Tasmania. This will be through the creation of employment, the retention of people in Tasmania and the improvement of access to services.

Detailed below are major new social services recurrent funding initiatives included in the 2001-02 Budget. Further information on the wide range of agency initiatives which will be implemented can be found in individual agency chapters in Budget Paper No 2 *Operations of Government Departments 2001-02.*

Health Initiatives

The 2001-02 Budget allocation for the Department of Health and Human Services continues the Government's commitment to maintaining a sustainable funding position for the Department with the provision of additional base funding of $5.2 million. Since 1998-99, total additional base funding of $253.2 million has been provided.

The Menzies Centre

Under the Tasmanian Icon Program, the Government has provided $500 000 in 2001-02 and subsequent years to the Menzies Centre to assist the commercialisation of the Centre's world class research capabilities in the fields of human genetics and epidemiology.

Education

The 2001-02 financial year will see the Department of Education consolidate and further progress the initiatives of *Learning Togethe*r in order to build an education, training and information system that reflects the needs of the people who use it and is well positioned to provide quality services in the years to come. Additional funding provided includes support for intensive Early Learning Literacy Intervention programs ($330 000 in 2001-02 and $700 000 in 2002-03 and subsequent years) and the establishment of a Reading Recovery Skills program ($160 000).

In addition to *Learning Together* initiatives the Government has also committed:

- $700 000 in ongoing additional funding to increase the funds available under the School Resource Package;
- $347 000 in ongoing additional funding to increase the amount of funds available under the Student Assistance Scheme; and
- additional funding to meet the cost of the Teacher's wage agreement which established a nexus between the salaries of Tasmanian teachers and those in other states and territories.

Student Transport and other Transport Services

In the 2001-02 Budget, the Government will be providing an additional $2.3 million to meet the increasing cost of the provision of student transport route and contract services. An additional $1.7 million will also be provided to meet the additional cost of the Metro Tasmania Pty Ltd community service obligation. This includes the costs associated with the provision of concessional travel to some members of the community such as students and senior citizens.

The Government has also committed additional funding of $256 000 in 2001-02 to commence the staged reform of the novice driver licensing and testing system.

Corrective Services

Not only is the Government committed to the development of new prison infrastructure in Tasmania but it is also committed to the achievement of significant improvements in the nature of the corrective services which are provided. Additional ongoing funding of $500 000 is provided by the Government in this Budget to implement initiatives which are aimed at supporting cultural change in corrective services and to maximise the Government's future investment in the redevelopment of prison infrastructure.

Additional ongoing funding of $250 000 has also been provided by the Government to meet the cost of any increase in prison inmate numbers resulting from the increasing use of DNA analysis by the police.

Police Services

In addition to the significant funding already provided by the Government to the CrimTrac (DNA Database) Project, the Government has, in the 2001-02 Budget, committed a further $1.025 million. A key objective of the CrimTrac Project is the establishment of a national DNA system to store, retrieve and match DNA profiles across and within states and territories. The provision of this further funding to the CrimTrac Project will result in an increase in case clearance rates, a reduction in investigation time per case, the resolution of previously 'unsolved crime', an increase in the number of guilty pleas in cases and the provision of a deterrent to the committing of crime.

The Government has also provided additional recurrent funding of $525 000 to facilitate the enhancement of the police radio network, thereby increasing effectiveness of police operations.

Social Infrastructure Funding

As outlined above, as part of the 2001-02 Budget, the Government has committed $60 million to the establishment of an Infrastructure Fund. Of the total $60 million, $20 million will be applied to the improvement of existing social infrastructure such as schools and Group Homes and the purchase of new equipment for hospitals and the Tasmanian Ambulance Service.

The provision of significant additional funding for social infrastructure will complement the additional recurrent funding being provided by the Government to achieve its social policy objectives.

Other Recurrent Services Funding Increases

In addition to the increased funding which has been provided by the Government to social initiatives, the Capital Investment Program and the Infrastructure Fund, the Government has also provided significant additional recurrent funding to agencies to meet the cost of a broad range of new initiatives and increased service delivery costs.

The following sections highlight some of these initiatives and costs.

New Wage Agreements

The 2000-01 financial year has seen the expiry and renegotiation of a number of major public sector wage agreements. These include the State Service Wage Agreement (which covers general public sector employees) and agreements covering nurses, medical practitioners and police. In 1999-00, the Government also negotiated a new wage arrangement with teachers which resulted in the establishment of a nexus between the salaries of Tasmanian teachers and those in other jurisdictions.

As a consequence of these new wage agreements, the Government has provided significant additional recurrent funding to agencies in 2000-01, as well as 2001-02 and the Forward Estimates, to meet the associated increased wages costs.

A provision to meet the potential costs associated with outstanding and future wage agreements has also been retained within Finance-General.

Arts Related Funding

In 2001-02, the Government is providing an additional $500 000 to the Tasmanian Museum and Art Gallery (TMAG) for the implementation of TMAG's Strategic Business Plan. The Forward Estimates also provide for the provision of an additional $300 000 in each of the three subsequent Budget years.

Following the great success of the inaugural 10 Days on the Island festival, the Government has also committed funding in 2001-02 and subsequent years to ensure the continuation of this important event.

Bass Strait Islands – Hydro Tasmania Community Service Obligation

To meet the increase in the cost of the provision of power on the Bass Strait Islands (due to rising diesel fuel prices) and to meet increasing demands for power on the islands from new businesses, the Government has provided an additional $1.3 million in 2001-02 and subsequent years to meet the cost of the provision of power by Hydro Tasmania.

Tasmanian Natural Gas Project

Additional funding of $650 000 has been provided to the Department of State Development in 2001-02 to meet the costs associated with the significant Tasmanian Natural Gas Project initiative. The purpose of this initiative is to facilitate the development of natural gas infrastructure in Tasmania. Additional funding of $400 000 has also been provided by the Government to the Department of Infrastructure, Energy and Resources to facilitate the establishment of an associated gas operatives regulatory regime.

Royal Tasmanian Botanical Gardens

The Government has committed an additional $330 000 per annum to the Royal Tasmanian Botanical Gardens to ensure the continued provision of its services at current levels.

National Action Plan for Salinity-Water Quality

An amount of $300 000 has been provided to the Department of Primary Industries, Water and Environment, in 2001-02, to facilitate the implementation of the National Action Plan on Salinity and Water Quality.

Tasmanian Vegetation Mapping Program

The Government has committed an additional $361 000 to the Department of Primary Industries, Water and Environment, in 2001-02, to continue the TASVEG2000 project following the completion of Natural Heritage Trust funding in February 2001. The provision of this funding will enable the database to be maintained and refined, and enable the provision of data and information required to update the Regional Forestry Agreement forest mapping and to identify conservation priorities for non-forest vegetation.

2 TASMANIA'S RECENT ECONOMIC PERFORMANCE

Features

- Since the early 1990s, the Tasmanian economy has trailed the national average in nearly all measures of economic performance but this gap has narrowed more recently.
- Over the past two years, Tasmania's economic performance has been characterised by:
  - improved rates of economic growth and solid growth in final demand;
  - further growth in overseas merchandise exports, to record levels;
  - higher levels of both full time and part time employment;
  - a substantial reduction in unemployment, currently around an 11 year low, due to solid growth in employment and only modest growth in labour force participation; and
  - a reduced rate of population decline as a result of lower levels of interstate out-migration.
- Consistent with the improvement in economic performance over the past two years, business confidence had, until recently, been on a generally rising trend. More recently, confidence has been negatively affected by the slowdown in the national and US economies.
- Although definitive data are not yet available, it is apparent that the introduction of the goods and services tax (GST) has had an adverse impact on the Tasmanian economy.
- The Economic Outlook section highlights a number of positive developments which are expected to underpin another year of solid economic and employment growth in Tasmania in 2001-02.
- These include the State Government's fiscal stimulus package of increased expenditure and tax cuts, the commencement of work on the Tasmania Natural Gas Project, the continued low value of the Australian dollar and the recent reductions in official interest rates.
- It is estimated that the State Government's fiscal stimulus package will increase employment by 2 000 and contribute around 1.0 per cent to economic growth over the next 12 to 18 months.
- The Natural Gas Project and, further out, Basslink, have the potential to significantly boost the Tasmanian economy in the medium to longer term.

INTRODUCTION

This Chapter provides an account of the recent performance of Tasmania's economy and provides projections of key economic variables for 2001-02.

The first section provides a comprehensive analysis of the State's recent economic performance and this is compared with the performance of the Australian economy as a whole. A brief overview of Tasmania's relative performance during the final years of the 1990s is also presented.

The second section of this Chapter provides an overview of the impact of the GST on the Tasmanian economy. The third section provides a detailed analysis of the State's labour market over the past year and the final section presents an overview of Tasmania's economic outlook for 2001-02.

Note

- All data measured in dollars, unless otherwise indicated, are expressed in real (1998-99) prices.

RECENT ECONOMIC PERFORMANCE

Overview

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

Following the 1991-92 national recession, the Tasmanian economy fell behind the national average in nearly all measures of economic performance and this gap widened over the second half of the 1990s. In the period between 1996-97 and 1999-00:

- the national economy grew by 15.2 per cent, whereas the Tasmanian economy expanded by only 6.6 per cent;
- real private sector business investment in the national economy averaged $4 194 per capita per annum, whereas investment in the Tasmanian economy averaged $1 997 per capita per annum; and
- the national population grew by 3.4 per cent while Tasmania's population contracted by 0.7 per cent.

From the above it is clear that the Tasmanian economy has not kept pace with the very strong national economic performance over most of the 1990s, although there has been an improvement more recently across most economic indicators. Chart 2.1 shows the percentage change in Tasmania's Gross State Product (GSP) and the national Gross Domestic Product (GDP).

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

In 1999-00, for example, the ABS reported GSP growth for Tasmania of just 1.1 per cent. This is despite a strong increase in State final demand in the year (5.4 per cent), a rise in overseas exports and strong growth in employment and hours worked (1.8 per cent and 4.7 per cent respectively). In contrast, in its latest State Accounts release, the ABS revised 1998-99 GSP growth for Tasmania from 2.5 per cent to 5.0 per cent, despite negligible growth in final demand (0.3 per cent), a fall in exports, unchanged employment and a fall in hours worked (of 2.3 per cent) in the year. Treasury considers that the 'underlying' growth in output in 1998-99 was lower, and 1999-00 higher, than that currently reported by the ABS.

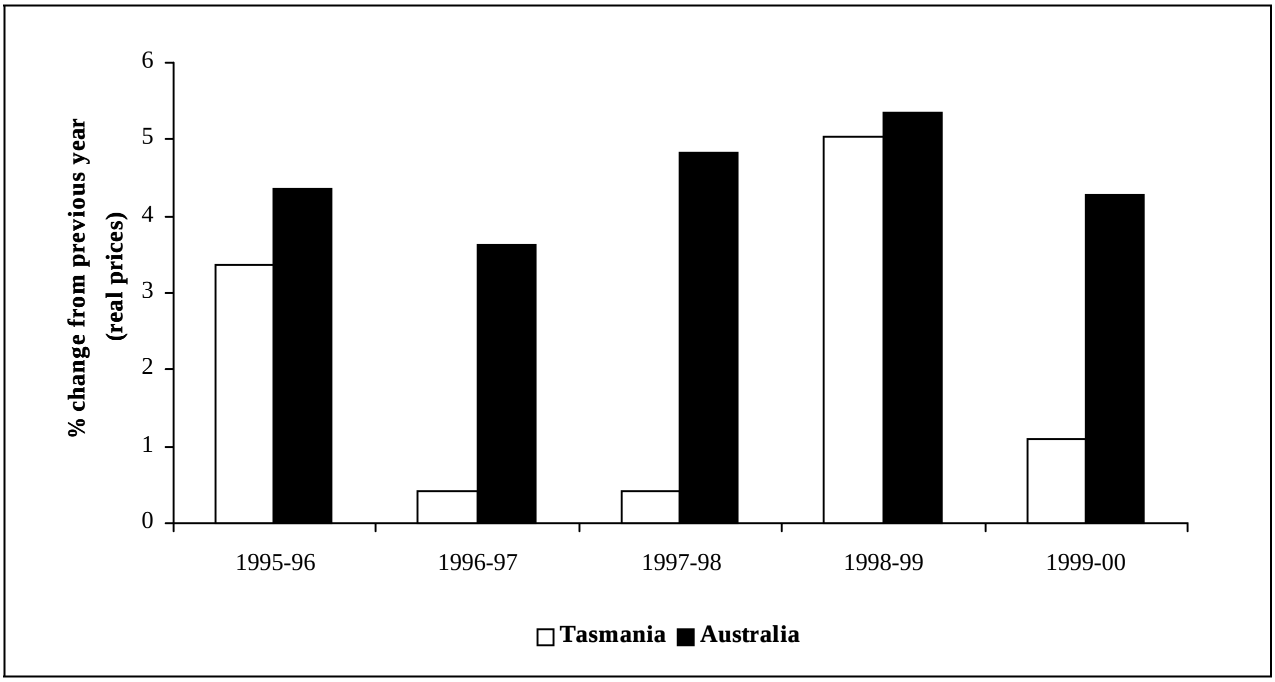
Some of the factors that have contributed to the State's relatively subdued economic performance over much of the 1990s include:

- an industry structure that has lacked sufficient growth sectors;
- job shedding in the private and public sectors;
- the centralisation of financial services and corporate management in Sydney and Melbourne and restructuring in the finance industry more generally;
- the poor economic performance of Japan, the State's largest single export market;

- a period of generally low prices (until fairly recently) for some of the State's key commodity exports, including beef, wool, aluminium and copper;
- low levels of private business investment and business confidence; and
- since late 1996, negative population growth.

Historically, the total amount spent in Tasmania on goods and services has exceeded the total value of goods and services produced in the State (GSP). In the three years to 1999-00, the level of GSP was, on average, 90.3 per cent of the level of State final demand, compared to 98.2 per cent nationally. This indicates that, generally speaking, aggregate production is not matching aggregate spending in Tasmania. Setting aside any inventory changes, this suggests the value of imports from interstate and overseas has been exceeding, by some margin, the value of Tasmania's exports.

Chart 2.1: Economic Performance: Tasmania (GSP) and Australia (GDP), 1995-96 to 1999-00



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

The components of State final demand are consumer spending, private sector investment and total expenditure by the public sector. Over the past three years, the average annual Tasmanian growth rate has been lower than the national average for each of these components, as discussed in further detail later in this section. This is particularly evident in the area of private sector investment. Growth in consumer spending has also trailed the national average over the past few years, due in large part to the impact of population decline in Tasmania.

The other major determinant of Tasmania's economic performance is net trade with other regions, including mainland Australia. In recent years, Tasmania's overseas exports have made a considerable contribution to the State's economic performance, increasing by an annual average rate of 4.4 per cent over the three years to 1999-00 in real terms, which compares favourably with the national annual average growth rate of 4.9 per cent. In the early 1990s, Tasmania had the fourth most open economy of all the states and territories but the State's export performance has improved such that it has ranked third in each of the past two years behind Western Australia and the Northern Territory. Tasmania also trades extensively with mainland Australia, though definitive data are generally not available.

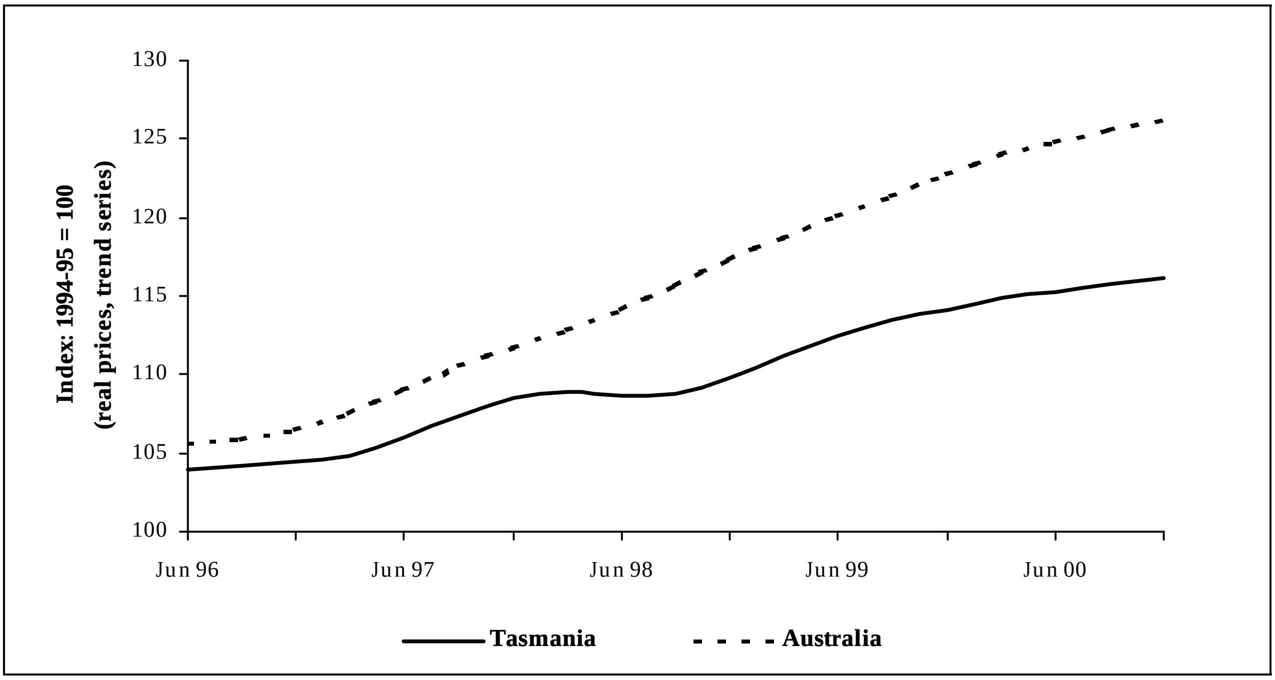
In a small open economy such as Tasmania, exports to other regions can contribute significantly to State economic growth, especially in an environment where there has been downward pressure on State final demand resulting from a declining population.

Consumer Spending

Consumer spending, or household final consumption expenditure (HFCE), represents over 62 per cent of final demand and has been one of the stronger performing components of the Tasmanian economy over recent years.

In real terms, growth in consumer spending in Tasmania has exceeded growth in State final demand in three of the past four years, rising at an annual average rate of 3.0 per cent since 1996-97 compared with an average growth rate of 2.3 per cent in State final demand. Although still below the growth rates recorded nationally (as shown in Chart 2.2), HFCE has been the indicator that has most consistently and closely tracked the national average.

Chart 2.2: Household Final Consumption Expenditure: Tasmania and Australia, 1996-2000



Sources: ABS, *National Income, Expenditure and Product,* Cat. No. 5206.0 and ABS, *Australian National Accounts, Quarterly State Details*, Cat. No. 5206.0.40.001.

In 1999-00, real HFCE increased by 3.6 per cent in Tasmania, the largest rise since at least 1986-87, although this was below the increase of 4.5 per cent for Australia as a whole. However, growth in Tasmanian consumer spending slowed to 2.3 per cent in calendar 2000; national growth slowed to 3.5 per cent over the same period. This reduced growth rate may be as a result of the introduction of the GST by the Commonwealth Government from 1 July 2000 and suggests that consumer spending in Tasmania in 2000-01 is unlikely to match the solid rates of growth experienced over the past few years.

Retail trade in Tasmania has experienced moderate growth, averaging 1.6 per cent annually in the past three years compared with an average growth rate of 4.0 per cent nationally. In 1999-00, Tasmania experienced growth in retail sales of 2.2 per cent, below the national average of 5.0 per cent. As with consumer spending, retail sales growth eased in the second half of calendar 2000 such that retail turnover in Tasmania actually declined relative to the same period one year earlier. However, data for the March quarter 2001 point to a recent strong improvement in retail activity.

Growth in consumer spending has consistently exceeded growth in retail turnover since the mid-1990s. This implies a large increase in non-retail spending such as on health care, recreation and motor vehicle purchases. Data on nominal HFCE show strong gains over the past three years in expenditure on communications (21.6 per cent); hotels, cafés and restaurants (20.2 per cent); miscellaneous goods and services (18.8 per cent); recreation and culture (18.1 per cent); education services (17.6 per cent); and alcoholic beverages and tobacco (16.6 per cent). By contrast, growth was relatively low for food (3.9 per cent); housing, water, electricity and gas (7.6 per cent); and transport (10.5 per cent).

Visitors (tourist and business arrivals) to Tasmania also contribute to consumer spending in aggregate. In 1999-00, visitor expenditure was estimated to account for 7.6 per cent of Tasmanian HFCE. Data from Tourism Tasmania show that visitor numbers have risen at an average annual rate of 3.2 per cent over the three years to 1999-00, though visitor expenditure has fallen by 1.5 per cent per annum for the same period. The decline in total expenditure, despite increased visitor numbers, reflects a reduction in the duration of the average stay. In 1997-98, visitors to Tasmania stayed an average of 10.4 nights, but by 1999-00 the average stay had fallen to 9.2 nights.

Major determinants of changes in consumer spending include growth in earnings and employment, and population trends. The increase in HFCE in 1999-00 was supported by solid employment growth, although this was countered to some extent by a further decline in the State's population (albeit at a slower rate) and only modest growth in earnings. Trends in each of these components are examined below. Other determinants of spending, such as direct taxation rates and interest rates, are not discussed in this Chapter.

Wages

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

Over the past three years, total earnings in Tasmania have risen at an average annual rate of 2.1 per cent in nominal terms, below Australia's 2.4 per cent growth rate. While the change in full time average weekly ordinary time earnings (AWOTE) is the benchmark measure of growth in wage rates, total earnings provides a better guide to movements in average income levels as this includes juniors, part time workers and overtime payments. It is also particularly relevant in the Tasmanian context, given the relatively high proportion of employed persons in part time work.

The level of average total earnings in Tasmania has been the lowest of all the Australian states and territories since 1993-94. The level of Tasmanian total earnings was around 89 per cent of the Australian average in 1999-00 ($554.33 per week versus $619.73), down from an average of 95 per cent prior to the mid-1990s. This decline is due, in part, to the greater importance of part time labour in Tasmania relative to Australia as a whole. Part time positions currently account for almost 31 per cent of all employment in Tasmania (27 per cent nationally).

In terms of AWOTE, however, the State has recorded considerably stronger growth over the past four years. Despite growing by only 1.9 per cent in 1998-99, Tasmanian AWOTE has risen by an average (nominal) rate of 3.4 per cent over the past three years, slightly below the 3.7 per cent growth recorded nationally.

Although the rate of growth in AWOTE in Tasmania has kept pace with that for Australia in recent years, it is worth noting that the level of AWOTE in Tasmania remains below the national average. In 1999-00, Tasmanian AWOTE was just under 94 per cent of the Australian level ($720.93 per week versus $768.15). In 1999-00, Tasmania recorded stronger growth and a higher level of AWOTE than both Queensland and South Australia, which were $713.60 and $714.38 respectively.

The rate of growth in Tasmania's AWOTE and total earnings was marginal in the last two quarters of 2000. This suggests that growth in 2000-01 is likely to be below 1999-00 levels for both measures.

In terms of total labour costs, in 1996-97 (the latest period for which data are available) Tasmanian average labour costs per employee were 88 per cent of the national level and the second lowest of all states and territories, marginally above Queensland. In Tasmania, costs were the lowest for the private sector and second lowest for the public sector. In the previous survey of labour costs (1993-94), Tasmania had the lowest average labour costs. Between 1993-94 and 1996-97, Tasmanian average labour costs per employee increased by 8.4 per cent, below the national increase of 9.8 per cent.

Labour Market

Employment and Hours Worked

Until fairly recently, one of the most obvious areas of the State's economic underperformance had been the weakness in the labour market. Between 1996-97 and 1999-00, employment at the national level increased by 6.4 per cent whereas employment in Tasmania rose by just 0.7 per cent.

Table 2.1: Tasmanian Employment, 1998-99 to 2001-02

	1998-99	1999-00	2000-01	2001-02
Total Employment (year average, '000s)	**195.3**	**198.8**	**201.3**	**203.9**
Total Employment (per cent change)	**....**	**1.8**	**1.2**	**1.3**

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

However, this disguises the fact that there has been an improvement in the State's employment performance since the most recent trough in late 1998. Employment fell in both 1996-97 and 1997-98, and was unchanged in the following year. However, as shown in Chart 2.3, employment recorded a steady improvement through most of 1999 and 2000, before weakening more recently in line with the international and national downturns. In 1999-00, employment rose by 1.8 per cent and on current trends, employment is expected to rise by a further 1.2 per cent in 2000-01, as highlighted in Table 2.1. This is a notable improvement on the performance of the late 1990s.

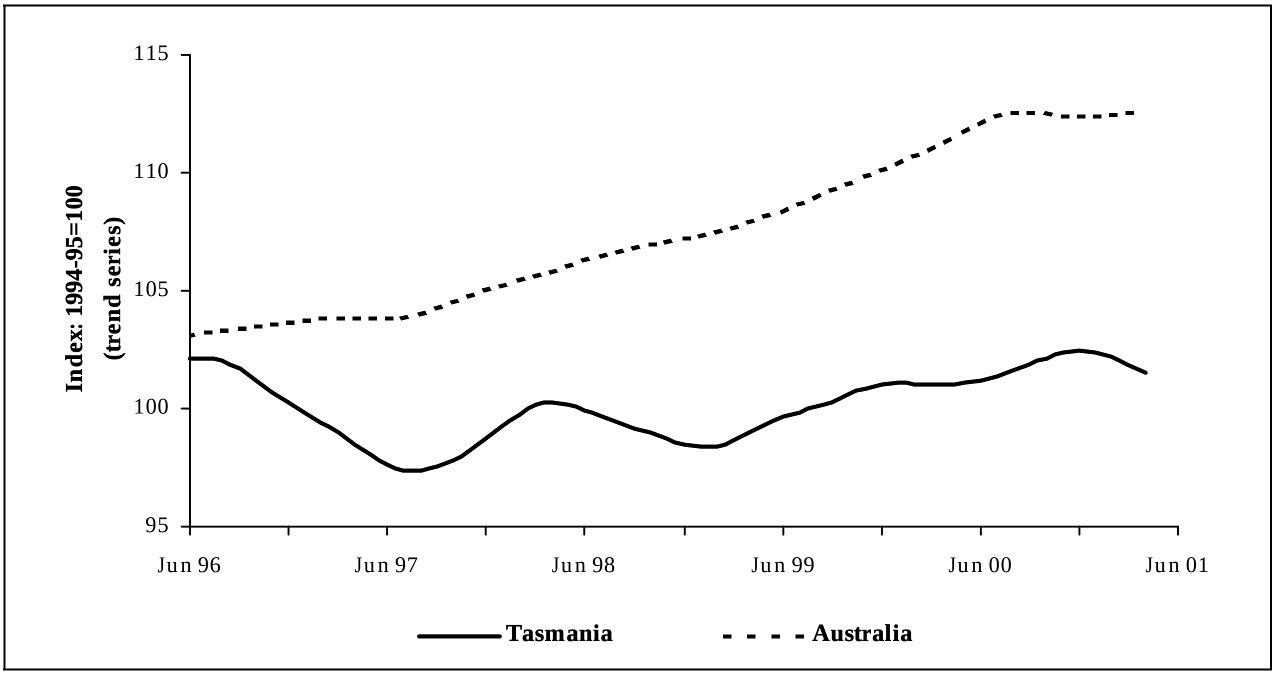
In December 2000, total trend employment in Tasmania stood at 202 200, its highest level since, and comparable to, the State's employment peak of 202 300 persons in January 1996. Since then, trend employment has fallen back to be currently at 200 300 persons (April 2001). In the period since early 1999, aggregate employment growth in Tasmania has totalled 3.2 per cent, equivalent to 6 200 jobs.

The weakness in employment over the late 1990s was due to a decline in full time positions. The level of full time employment in 1998-99 (135 900 persons) was the lowest for the State in at least 20 years, having fallen for three consecutive years. Since then, however, there has been a solid recovery with the trend level of full time employment in April 2001 (139 000 persons) up by around 2.8 per cent (or 3 800 persons) on the level of early 1999.

In contrast to the decline in full time employment over the late 1990s, the level of part time employment in Tasmania has continued to rise. The number of part time positions rose by 2.7 per cent in the three years to 1999-00, although this was below the national rate of increase (10.4 per cent). The trend towards greater use of part time labour has continued, with the number in part time employment in April 2001 (61 300 persons) up by 4.1 per cent (or 2 400 persons) on the level of early 1999. Part time employment currently accounts for around 31 per cent of total trend employment in Tasmania (27 per cent nationally), up from 27 per cent in the mid-1990s.

The improvement in employment recorded since the beginning of 1999 is therefore attributable to growth in both full and part time positions. Further analysis reveals that this has been fairly evenly split between male and female employment, although male employment has not returned to its most recent peak of the mid-1990s. The recent trends in the labour market are discussed in further detail under the section titled 'The Tasmanian Labour Market' later in this Chapter.

Chart 2.3: Employment: Tasmania and Australia, 1996-2001



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

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

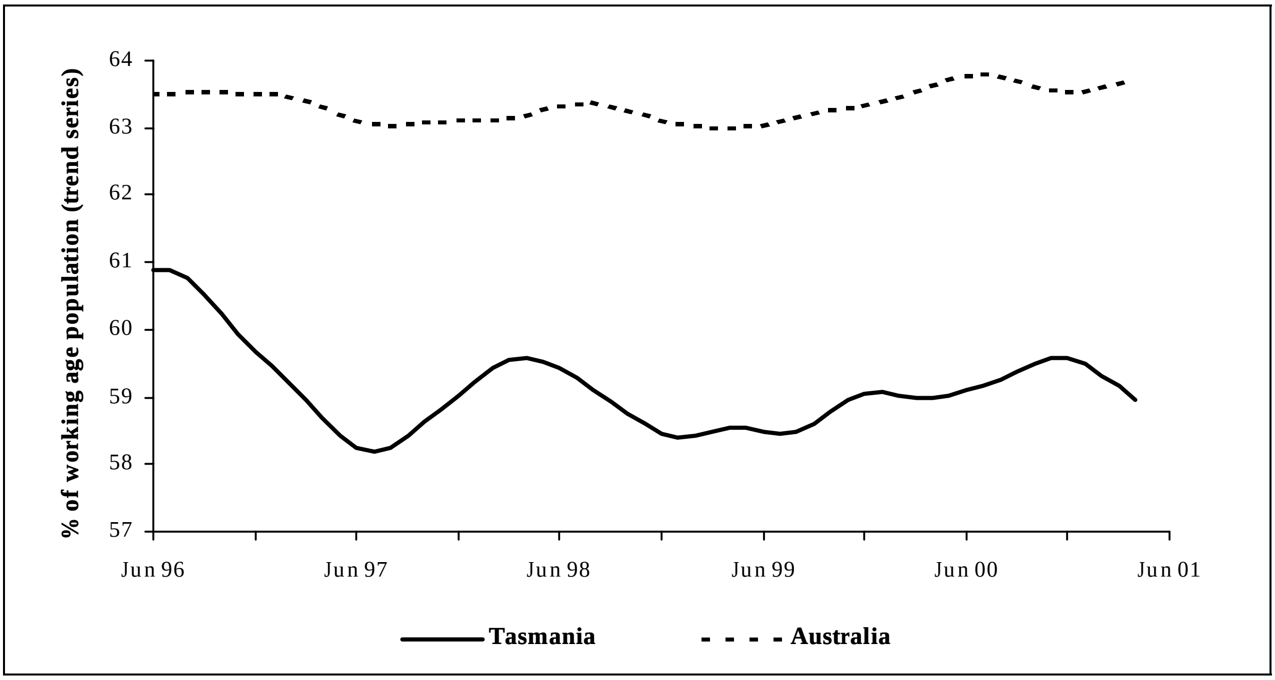
The impact of the relative decline in full time employment over the late 1990s is evident in Tasmanian hours worked data. The aggregate number of hours worked in Tasmania stood at a six-year low in 1998-99, having fallen for four consecutive years. While there was solid growth in part time employment and hence part time hours worked, this was more than offset by the decline in full time hours. Consistent with the improvement in the State's labour market since early 1999, however, the hours worked series has since rebounded quite strongly. Aggregate hours worked rose by 4.7 per cent in 1999-00, above the 3.4 per cent growth recorded nationally, and data for the 2000-01 year to date indicate that the improvement has continued. In the year to March 2001, aggregate hours worked was up 2.5 per cent relative to the 12 month period to March 2000, similar to national growth of 2.6 per cent.

Data on hours worked per employee show that those Tasmanians in part time employment are working more hours than at any time in the past. In 1999-00, average hours worked per week by part time employees was at a near-record level of 15.4 hours; in the mid-1990s the figure was around 14.5 hours. This is indicative of the structural change in the labour market towards the increased use of part time labour. Overall, average hours worked per week by Tasmanian employees averaged 33.0 hours in 1999-00; the national average was 34.7 hours.

Labour Force Participation and Unemployment

The weakness in the labour market during the late 1990s is reflected in the State's low labour force participation rate. Tasmania's participation rate has been below the national average over the course of the 1990s, although the gap has widened since around the middle of the decade. As shown in Chart 2.4, there has been a relatively steady national participation rate since the mid-1990s, but an overall decline in the Tasmanian rate.

Chart 2.4: Participation Rate: Tasmania and Australia, 1996-2001



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

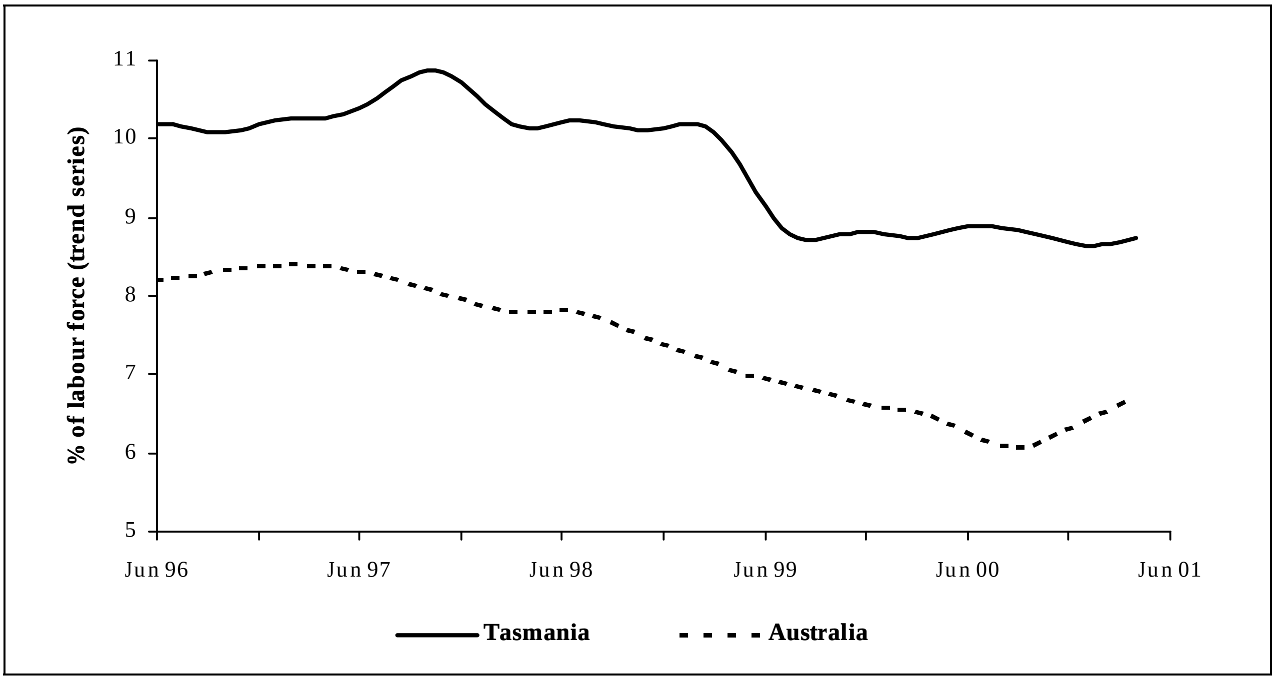
Since the mid-1990s, the gap between the Tasmanian and national participation rates has widened from 3.2 percentage points to around 4.5 percentage points. Tasmania's average participation rate in 1998-99 of

58.7 per cent was the lowest annual rate since the mid-1980s. As with the employment series, the participation rate has improved from the trough of early 1999, although there has been a decline in more recent months. The trend participation rate had reached a four year high of 59.6 per cent in December 2000; the current rate (April 2001) is 59.0 per cent.

Not surprisingly, Tasmania's disappointing employment record since the mid-1990s is reflected in the highest unemployment rate in Australia, although there has been a notable reduction in unemployment since early 1999, as shown in Chart 2.5. Tasmania's unemployment rate averaged 8.8 per cent in 1999-00, down from 10.1 per cent in 1998-99, which was 2.1 percentage points above the Australian average but the lowest annual rate in 10 years. Tasmania's unemployment rate has been relatively stable since mid-1999, while the national rate has recently started to trend higher.

As at April 2001, the State's trend unemployment rate stood at 8.7 per cent, which was the highest rate of all the states and territories with the exception of Queensland (also 8.7 per cent). On current trends, the State's unemployment rate for 2000-01 is expected to average 8.7 per cent, a further improvement on the previous year.

Chart 2.5: Unemployment Rate: Tasmania and Australia, 1996-2001



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

Demographics

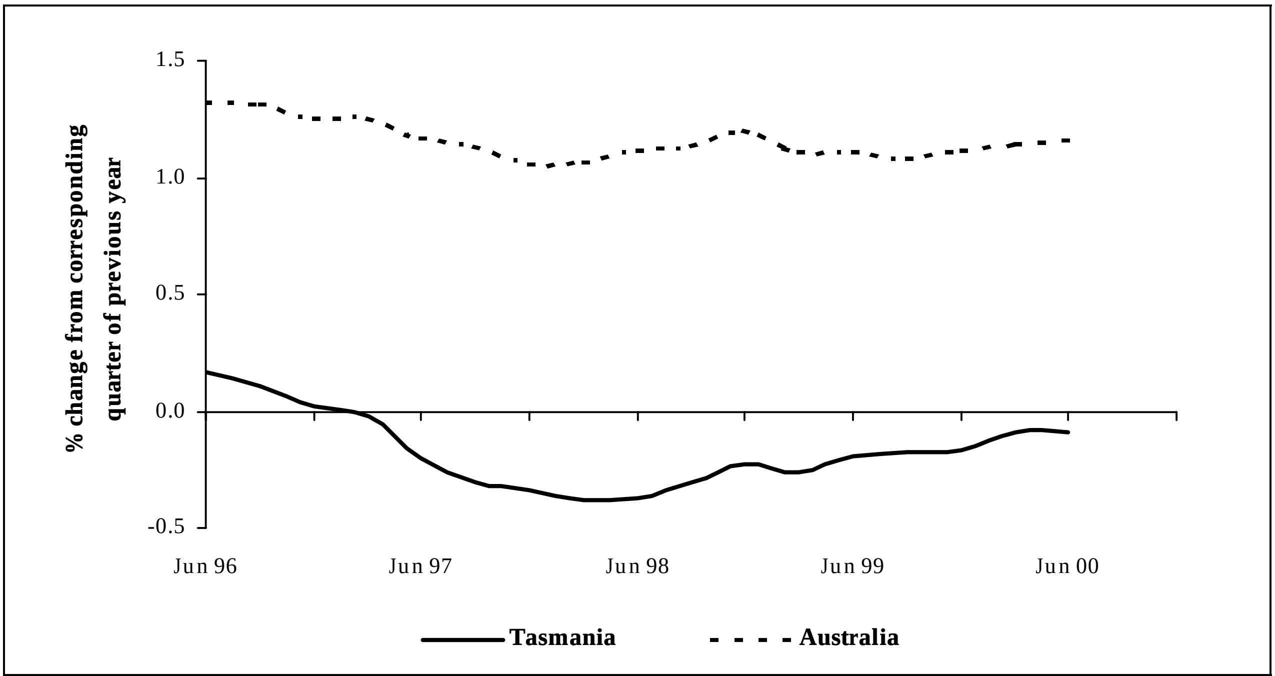
A consequence of Tasmania's subdued economic performance through the latter part of the 1990s has been the downward trend in the State's population, caused by a sharp rise in interstate out-migration.

In the three years to 1999-00, Tasmania's total population declined by an annual average rate of 0.24 per cent, in contrast to the 1.12 per cent growth recorded nationally. This has been the first period of negative population growth for the State in over 50 years. As a result of this decline, Tasmania's share of the Australian population has slipped to 2.47 per cent in 1999-00 from 2.63 per cent five years earlier.

As shown in Chart 2.6, however, there has been a reduction in the rate of population decline. In 1999-00, Tasmania's population fell by an average of 107 persons per quarter, compared with an average decline of 334 persons per quarter over the previous two years. It is probable that this recent improvement reflects the sustained recovery in the State's labour market that has been evident since early 1999.

The continued positive performance of the labour market throughout 1999-00 and into 2000-01, together with the likely lag between changes in the labour market and changes in net migration, suggest that the reduction in the rate of population decline will continue. Indeed, as outlined in the Economic Outlook section later in this Chapter, a return to (marginally) positive population growth is expected in 2001-02.

Chart 2.6: Population Growth: Tasmania and Australia, 1996-2000



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

Tasmania's natural population increase (2 161 persons in 1999-00) has contributed around 0.5 per cent per annum to total population growth in recent years, similar to the national average. During the 1990s there had been a deterioration in the contribution of net inward migration from overseas, but in 1999-00 Tasmania experienced its best net overseas migration result since 1995-96. Generally, however, net overseas migration has only a marginal impact on changes in the State's population.

In recent years, the most significant influence on changes in the State's population has been strong net out-migration interstate. In 1999-00, net interstate out-migration totalled 2 972 persons, or 0.6 per cent of the State's population; in the first half of the 1990s, the average annual level was around 1 150 persons. Nevertheless, the 1999-00 total represents a notable improvement on the peak year of 1997-98, when there was a net loss of 3 966 persons interstate. The improvement has been due to a decline in the number of people leaving the State, to a four-year low of 14 769 persons in 1999-00, and a small increase in the number of interstate arrivals (11 797 persons in 1999-00). This decline in interstate out-migration is the primary reason for the improvement in the rate of population decline in Tasmania.

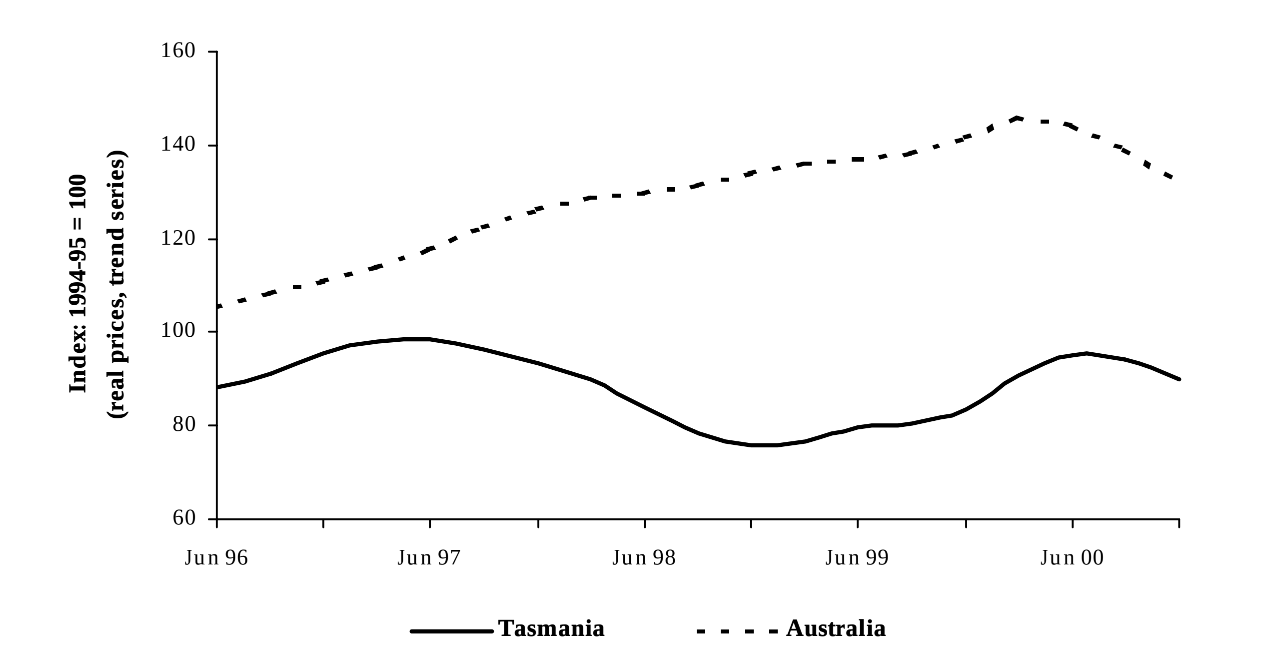
Data reveal that the rise in out-migration in recent years has included a higher proportion of people in the five to 14 year and 35 to 54 year age groups (that is, established families). This suggests that economic factors have been the primary reason for the increase in out-migration. Consistent with the above, however, more recent data show a reduction in the numbers of persons leaving the State in these age groups. This is likely to be a result of the State's improved economic performance.

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

Private Sector Investment

Tasmanian investment is fairly cyclical and historically it has followed a similar pattern to the national investment cycle. However, while private investment continued to experience solid growth at the national level over the 1990s, the level of investment in Tasmania in real terms has not risen above the peak recorded in 1988-89. In 1999-00, the real value of private investment in Tasmania totalled $1 453 million; in 1988-89 it stood at $1 701 million.

Chart 2.7: Private Sector Investment: Tasmania and Australia, 1996-2000



Sources: ABS, *National Income, Expenditure and Product*, Cat. No. 5206.0 and ABS, *Australian National Accounts, Quarterly State Details*, Cat. No. 5206.0.40.001.

Following two consecutive years of decline, Tasmania's private investment (incorporating business and dwellings investment) increased by 13.3 per cent in real terms in 1999-00, the strongest increase in five years. Despite this improvement, total private sector investment comprised only 12.8 per cent of GSP in 1999-00, compared with the national average of 20.5 per cent of GDP.

After falling through 1997-98 and reaching a trough in early 1999, investment levels in Tasmania staged a recovery through 1999 to mid-2000, as highlighted in Chart 2.7. This reflected both an improvement in business confidence and the bringing forward of dwelling construction as consumers sought to have houses built prior to the introduction of the GST. Investment levels have eased slightly in the first quarters of 2000-01, due primarily to the subsequent post-GST decline in dwelling investment, although not to the same extent as the national average.

Notwithstanding the recent rebound in private construction activity, employment in the Tasmanian construction industry has fallen substantially since the mid-1990s. Between 1992-93 and 1995-96, the average annual employment in construction was 13 400 persons, while the equivalent figure for the period 1996-97 to 1999-00 was 11 200, a decline of over 16 per cent. Nationally, there was a rise of 10 per cent between the same periods.

The underperformance of private investment in Tasmania through the 1990s has contributed to Tasmania's relatively poor economic growth over the same period. Not only is investment itself a component of GSP, but it also provides for future growth in productivity and output.

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

Dwelling Investment and Construction

The downward trend in population growth, coupled with an oversupply of housing from the early 1990s, resulted in a significant decline in dwelling investment and construction through the latter half of the decade to the end of 1998-99. During this period, the housing industry was one of the worst performing sectors of the Tasmanian economy. The downturn has occurred despite the fact that housing affordability in Tasmania has been at very high levels.

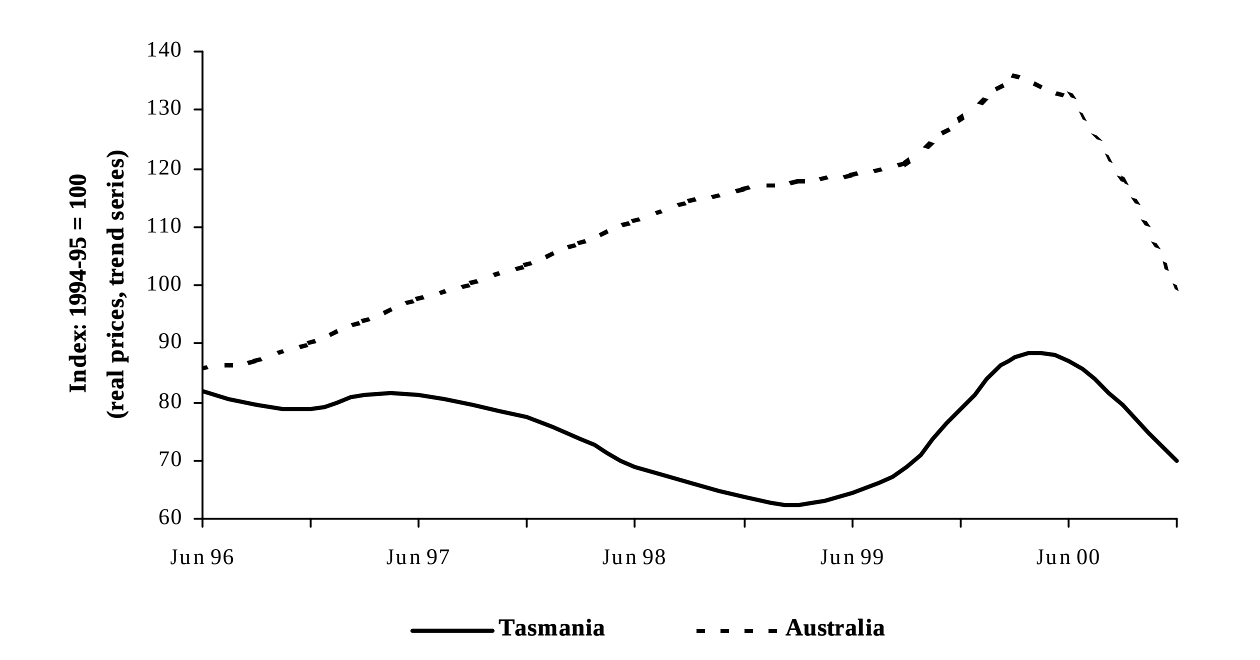
A key reason for the downturn in dwelling investment since the mid-1990s has been the oversupply of dwellings from the early 1990s. Over this period, the level of commencements consistently exceeded the underlying demand for new dwellings. For the five years to 1993-94, the Indicative Planning Council for the Housing Industry estimated average annual underlying demand at 2 400 units. However, over this period there were an average 3 700 dwelling commencements. Between 1995 and 1999, the number of commencements fell back to (or below) levels consistent with underlying demand, with the number of dwelling commencements in 1998-99 only one-third of the level recorded five years earlier.

This oversupply of housing stock was exacerbated by the decline in the State's population; in particular, the high levels of out-migration from Tasmania and the increase in the proportion of established families leaving the State, as discussed above. This is important for the housing sector due to the more active participation of this demographic group in the housing market, especially in terms of demand for new housing.

As shown in Chart 2.8, however, dwelling investment rose strongly through 1999-00 mainly as a result of consumers bringing forward dwelling construction plans ahead of the introduction of the GST by the Commonwealth Government. Inevitably this situation has led to a downturn in dwelling investment in 2000-01, although the decline experienced in Tasmania has not been as severe as that seen nationally.

The Commonwealth's GST reduced the divergence between dwelling investment in Tasmania and Australia, which had widened since the mid-1990s. Monthly trend dwelling approvals in Tasmania rose 56 per cent between February 1999 and February 2000 (the peak in the Tasmanian series), reversing a general downward pattern prevailing since November 1993. Dwelling investment rose by over 31 per cent in 1999-00, a record increase (albeit from a low base) and the first rise since 1993-94. Clearly, the announcement of the GST effectively disrupted the underlying demand pattern by providing an artificial boost to dwelling investment in 1999-00, partly at the expense of construction activity in 2000-01.

Chart 2.8: Dwelling Investment: Tasmania and Australia, 1996-2000



Sources: ABS, *National Income, Expenditure and Product*, Cat. No. 5206.0 and ABS, *Australian National Accounts, Quarterly State Details,* Cat. No. 5206.0.40.001.

While the construction of new dwellings has fallen post-GST, there are signs that the high housing affordability in Tasmania may now be impacting on the housing market. There has been a 21.8 per cent rise in housing finance commitments in the year to March 2001, with the increase primarily the result of commitments for the purchase of established dwellings, rather than for new dwellings. Tasmania was one of only two jurisdictions to record any growth at all in housing finance over this period. Among the factors likely to be producing the relatively high growth in Tasmania are: the affordability of real estate; the impact of the First Home Owners Grant Scheme (FHOGS) on purchasing intentions, with $7 000 accounting for a higher share of an average house price in Tasmania relative to the national average; and improvements in confidence stemming from the recovery in the Tasmanian labour market.

It is anticipated that the improvement in housing commitments should be maintained following reductions in interest rates, together with the continuation of the FHOGS. These factors may also boost demand in the housing construction sector, together with the recent increase in the FHOGS of an additional $7 000 (until 31 December 2001) for those building a new home or substantially renovating an existing dwelling.

Business Investment

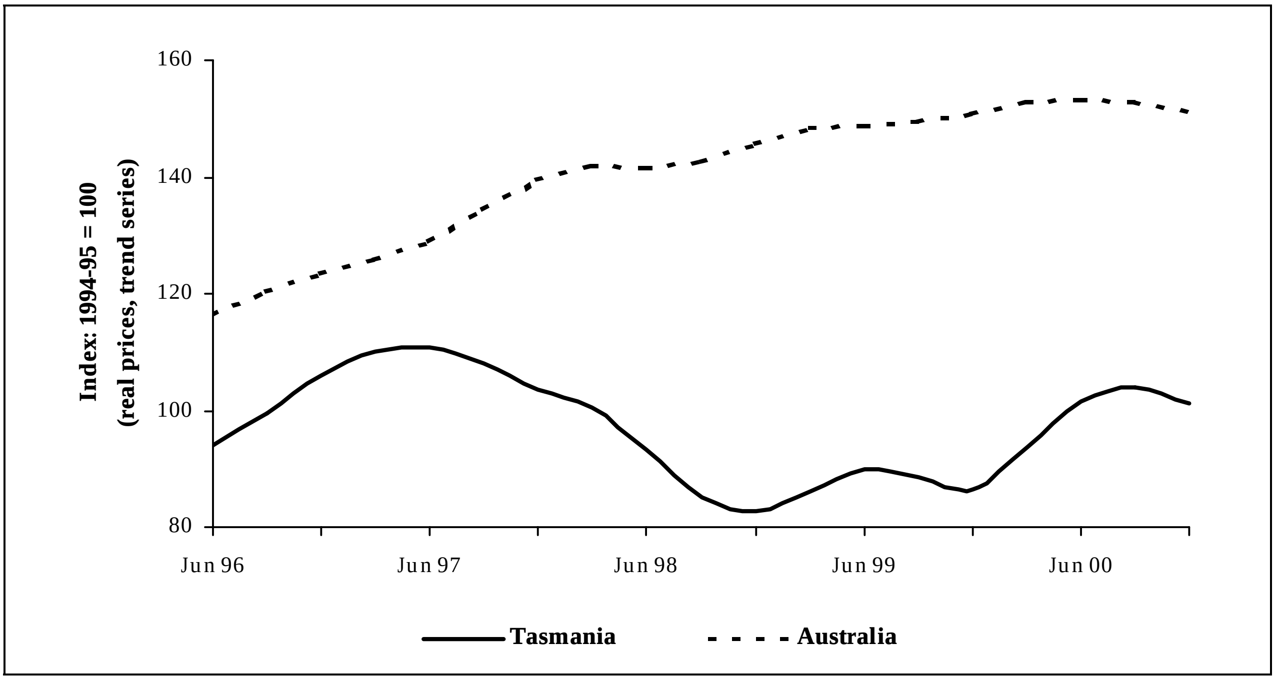
Growth in private business investment in Tasmania has lagged well behind the national average since the mid-1990s.

Chart 2.9 shows the recent trends in private business investment, which is private gross fixed capital formation excluding dwelling investment and ownership transfer costs. As with many other indicators, the gap in performance widened through most of the mid-1990s, but has narrowed somewhat since the low point of the Tasmanian cycle in late 1998. As is the case with dwelling investment, however, the most recent data reveal an easing in business investment after a strong rise in 1999-00.

The improvement in business investment in 1999-00 was attributable to increased expenditure on machinery and equipment and on intangible fixed assets, such as copyrights, patents and mineral concessions. Investment in non-dwelling construction and livestock fell marginally.

Two key variables – interest rates and profitability – are unlikely to have impeded investment in recent years. Nominal interest rates have been at historically very low levels during this period, notwithstanding the cash rate increases over 1999-00 (which are now being reversed by the Reserve Bank of Australia). Private business profitability, as measured by gross operating surplus (GOS), has been relatively high for Tasmania in recent years. Total GOS (of all industries) has comprised around 30 per cent of GSP since the mid-1990s, which is in line with the national average.

Chart 2.9: Private Business Investment: Tasmania and Australia, 1996-2000



Sources: ABS, *National Income, Expenditure and Product*, Cat. No. 5206.0 and ABS, *Australian National Accounts, Quarterly State Details*, Cat. No. 5206.0.40.001.

One reason for the low levels of business investment is that those industries which have expanded in Tasmania in recent years have tended to be labour intensive rather than capital intensive, including transport and equipment manufacturing (for example, Incat), cultural and recreational services, finance and insurance and property and business services (such as call centres). The subdued performance of business investment may also reflect the relative decline of the State's more traditional capital intensive sectors, such as wood and paper products manufacturing. In part, however, the weakness in investment is likely to reflect a perception among Tasmania's larger companies – many of which are owned by national or international interests – that there has been a lack of attractive investment opportunities in Tasmania, or insufficient incentives for expansion, over much of the 1990s. One explanation may be uncertainty surrounding the outlook for key commodity prices, following the longer term decline (in real terms) in most base metals prices.

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

The total value of PNCE fell by 4.0 per cent in 1999-00, indicating that the growth in overall business investment in Tasmania in 1999-00 (6.6 per cent) was attributable to expenditure on second-hand assets or was concentrated in industries not covered by the PNCE survey, such as agriculture.

Surveys of business sentiment in Tasmania show that, due to weaker national and international economic conditions, confidence has deteriorated in recent months and near-term investment intentions are generally lower, although businesses are more optimistic about the outlook for the Tasmanian economy than the national economy. As detailed in the Economic Outlook section later in this Chapter, however, there are a number of very significant developments on the horizon which are expected to support an increase in business investment over the coming year.

The Public Sector in Tasmania

The public sector comprises the Commonwealth, state and local government sectors and includes public trading enterprises (PTEs).

The level of total public spending in Tasmania in real terms has grown marginally through most of the 1990s. However, in the past two years it increased by 4.1 per cent and 6.5 per cent, following a decline of 1.1 per cent in 1997-98. The contribution of public spending to GSP has eased marginally over the past decade, from an average of around 29 per cent in the early 1990s to just under 28.5 per cent in the late 1990s. Nationally, the contribution of the public sector to GDP has fallen from 25 per cent to around 22 per cent over this period.

The largest component of public sector spending is government consumption expenditure, which has recorded modest rates of growth in recent years. Over the 1990s, government consumption expenditure has risen by an average annual rate of 2.2 per cent in Tasmania (3.0 per cent nationally), although in the past two years expenditure has increased considerably faster at an average annual rate of 6.8 per cent.

The modest decline in the importance of the public sector in Tasmania has been due to lower levels of public sector investment, which has offset much of the growth in government consumption expenditure. In 1999-00, public sector investment totalled $487 million, equivalent to 4.3 per cent of GSP; in 1989-90, it was $570 million or 6.0 per cent of GSP.

This smaller contribution from public sector investment reflects both some winding back of capital expenditure by the major PTEs - notably Hydro Tasmania - as well as a modest decline in investment by the General Government Sector. Nationally, there has been a sharp decline in PTE investment over the past decade, due to a number of significant privatisations, including Qantas, the Commonwealth Bank, the airports and numerous electricity assets (Telstra remains classified as part of the public sector as less than 50 per cent of its shares are privately owned). To illustrate this point, capital expenditure by PTEs accounted for only 35 per cent of total public sector investment nationally in 1999-00, down from 58 per cent in 1989-90. The corresponding shares for Tasmanian PTEs were 53 per cent and 52 per cent respectively. The relatively greater importance of privatisations in other jurisdictions partly explains the larger decline in the importance of the public sector nationally over the 1990s, relative to Tasmania.

The long-term trend towards a smaller public sector is reflected in the decline in public sector employment in Tasmania, which has been falling since the late 1980s. The overall reduction of nearly 12 000 jobs over this period was due to fewer jobs in both the state and Commonwealth sectors. In absolute terms, two-thirds of the job losses have occurred at the state level but in percentage terms the decline in Commonwealth Government employment has been twice as large. The decline in State public sector employment in Tasmania reflects a program of redundancies undertaken by previous State Governments through the 1990s.

The privatisation of government enterprises is also relevant here, as it involves the transfer of employment from the public sector to the private sector. For Tasmania, this includes the Tasmanian Government Insurance Office at the State level, and, at the Commonwealth level, employees of Tasrail, Hobart and Launceston airports, the Commonwealth Bank and Qantas. There has also been a major reduction in employment in Tasmania's electricity supply industry, from 5 300 in the then Hydro-Electric Commission (Tasmania's largest PTE) at the peak of the dam building era to only around 1 570 in the three entities at present – that is, Aurora Energy Pty Ltd (the distribution / retail business), Transend Networks Pty Ltd (transmission) and Hydro Tasmania (generation).

Export Activity

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

Over the past three years, overseas exports from Tasmania have averaged 19.3 per cent of the total value of State production, mirroring the national average of 19.3 per cent. In 1999-00, this share was an estimated 18.5 per cent for Tasmania (19.7 per cent for Australia). Although a fall from the decade-high of 20.7 per cent recorded two years earlier, this remains the third highest share of all the states and territories, behind Western Australia and the Northern Territory.

On average, the value of Tasmania's overseas exports has increased over the past three years, despite a fall in 1998-99. Over the three years to 1999-00, exports have grown at an average annual rate of 4.4 per cent in real terms (7.5 per cent in nominal terms), which is similar to the national rate of 4.9 per cent (6.2 per cent in nominal terms).

In the 12 months to March 2001, the (nominal) value of overseas merchandise exports was up 12.3 per cent in year average terms to $2 426 million, to be only slightly below the record level of exports for a 12 month period recorded in December 2000. Over this period, solid growth was recorded in exports to Japan, New Zealand, Hong Kong, South Korea, Taiwan and the ASEAN group.

In 1999-00, Tasmania's major overseas merchandise export destinations were, in order of importance: Japan, the ASEAN group, the European Union, Taiwan, Hong Kong and the United States. Japan remains Tasmania's largest single export market, accounting for 22.1 per cent (or $488 million in nominal terms) of total merchandise exports in 1999-00. In terms of the remaining market share, ASEAN countries accounted for 17.4 per cent in 1999-00, the European Union 14.0 per cent, Taiwan 9.3 per cent, Hong Kong 9.2 per cent, and the United States 9.1 per cent. Over the past decade, the importance of Japan has declined, while export shares to Hong Kong, Korea and Taiwan have increased.

The key commodity class exported from Tasmania is non-ferrous metals (principally zinc and aluminium), which comprised 30.8 per cent of the value of total State merchandise exports in 1999-00. Other significant exports in 1999-00 included other and confidential items (14.4 per cent), woodchips (13.7 per cent), metallic ores (11.0 per cent); transport equipment, primarily catamarans (9.7 per cent), and seafood (6.6 per cent).

As a result of Tasmania's greater reliance on overseas exports, the State's economic outlook depends to a large extent on the growth prospects for its major trading partners as well as trends in the prices of key commodity exports, notably aluminium, zinc, copper, tin, beef and wool. The low value of the Australian dollar has improved prospects for Tasmanian exports. Because a significant portion of exports go to interstate destinations, economic trends in the mainland states are also of key importance to Tasmania. In this respect, any prolonged weakness in the national economy could impact adversely on the State's growth prospects.

IMPACT OF THE GST ON THE TASMANIAN ECONOMY

The Tasmanian Government has never supported the introduction of the Commonwealth's GST and has always had major concerns about the impact of this measure on the Tasmanian economy and Tasmanian households. In particular, Tasmania's industrial structure and its higher proportion of low income earners and welfare recipients mean that Tasmania is relatively disadvantaged by the new tax system.

Tasmanian average incomes are lower than nationally (around 81 per cent of the national average) and the State has a higher proportion of welfare beneficiaries than the national average (37.4 per cent of households as compared to 29.6 per cent for Australia as a whole). Goods and services on which low income earners spend a high proportion of their income have risen significantly in price as a result of the GST (dwelling rent, gas, electricity, fuel and fares), increasing the cost of living to low income earners.

As the most substantial declines in prices have been for motor vehicle purchases, many luxury goods and financial services, which figure more prominently in the expenditure of high income earners rather than low income earners, Tasmanian consumers as a group have not benefited substantially from many of the price reductions that resulted from the change in tax arrangements.

The Business Activity Statement

One of the major areas of concern associated with the introduction of the tax reform package has been the additional administrative burden of the Business Activity Statement (BAS). In addition to the time and financial costs of administering the BAS, small businesses in particular have reportedly faced major cash flow problems associated with the changed reporting and payment requirements under the new tax system. Numerous business surveys have highlighted a significant level of concern about the BAS arrangements.

The Commonwealth Government has recently accepted that it had underestimated the compliance costs of the BAS. In addition, the Australian Taxation Office has repeatedly extended the BAS deadlines, recognising that businesses have experienced considerable difficulty in preparing the BAS.

The National Economic Slowdown

The introduction of the GST has heralded a major slowdown in the Australian economy, a significant reversal from the sustained strong growth recorded over the previous eight years. Many commentators, including the Governor of the Reserve Bank, have stated that the decline in the national economy in late 2000 is due principally to the impact of the GST. The Organisation for Economic Cooperation and Development has also stated its view that the fall in Australia's domestic demand has been as a result of the introduction of the GST.

The Tasmanian economy is affected doubly by the GST-induced national economic slowdown. Firstly, there is the direct impact on the local economy of the same negative factors impacting on the rest of the nation. These include, in particular, the impact on the construction industry and the tourism industry.

Secondly, as a substantial proportion of the State's production is exported to the rest of the country, Tasmanian exporters are facing the impacts of the national slowdown. This has a contractionary effect on the local economy.

The positive drivers in the Tasmanian economy have, however, outweighed the negative impacts of the GST since July 2000, resulting in modest improvement overall in the main economic indicators. However, the recent decline in the employment trends, as discussed elsewhere in this Chapter, is related to the flow-on effects of the GST.

Impacts on Industry

It was noted in the 2000-01 Budget Papers that the net impact on Tasmanian industry as a result of the tax reforms was likely to be negative. Those industries expected to achieve the highest growth from the reforms Australia-wide were under represented in the Tasmanian economy (mining, property and business services, and finance and insurance), while those industries which are relatively important to the State were not expected to achieve significant growth from the reforms (agriculture, forestry and fishing, electricity, gas and water and government services).

The impacts cannot be quantified at this stage due to lack of necessary data for most industry sectors. However, information is available for the building industry, which is likely to have been affected by the GST more than any other sector of the economy.

As was the case at the national level, the number of dwelling approvals for Tasmania rose strongly in the period to early 2000 as prospective new home-owners brought forward their housing investment plans prior to the introduction of the GST. Both the Australian and Tasmanian series fell to record lows after the GST was introduced and while there has been some recovery in the national series in recent months, the State series remains at a record low.

The Commonwealth Government did not anticipate that the building sector would suffer from the GST as much as actually occurred and was recently forced to provide a boost to the sector by doubling the First Home Owner Grant Scheme (FHOGS) provided by the State Government to $14 000 (until 31 December 2001) for those building or purchasing a newly built dwelling or substantially renovating an existing dwelling. While building approvals data suggest the revised FHOGS arrangements may have contributed to a reversal of the national downturn, there has been no improvement evident to date in Tasmania and the State's building sector remains under pressure.

The impact of the subdued building sector on the State's economy as a whole has been considerable, as the level of construction is both an indicator, and significant component of, economic growth. Dwelling and non-dwelling construction comprise nearly six per cent of total Tasmanian GSP.

THE TASMANIAN LABOUR MARKET

As highlighted throughout this Chapter, the Tasmanian economy is continuing to experience a solid recovery. The improvement in conditions appears to be broadly based, with a rebound in most economic indicators over the past one to two years.

A key feature of this recovery has been the growth in employment through the period since early 1999, and the decline in the State's unemployment rate. More recently, there has been some weakening in the employment series, reflecting the impact of the national and international economic downturns, and there has also been a decline in labour force participation.

Recent Trends

As at April 2001, total trend employment in Tasmania stood at 200 300, a rise of 0.5 per cent (or 1 000 persons) on the April 2000 level and 3.2 per cent (6 200 persons) on the number employed in early 1999. This increase in employment has produced a decline in the State's unemployment rate. The current trend rate of 8.7 per cent is close to the 11-year low (8.6 per cent) recorded in February 2001.

In broad terms, the improvement in the labour market over the past year has been characterised by:

- some variation in employment growth between key industry sectors and regions;
- solid growth in male employment and an improvement in the male participation rate;
- a small rise in the number of unemployed males; and
- steady female employment and a fall in female unemployment.

These developments are analysed in further detail below.

Industry and Regional Developments

In terms of industry sector, the rise in employment over the past one to two years has been evident in most of the major sectors of the economy, indicative of the general improvement in business confidence in Tasmania. The volatility of the industry data, however, makes it difficult to draw firm conclusions about the short-term performance of some sectors. Despite this, there appear to be only a couple of industries that have recorded a fall in employment over this period.

Over the past year or so, gains have been recorded in agriculture, forestry and fishing, wholesale trade, communication services, the business services sector (which includes call centres), cultural and recreation services and, more recently, retail trade. Improvement has also taken place in sectors characterised mainly by public sector employment, particularly health and community services. The major industries to record a decline in employment over the past year or so were finance and insurance, and accommodation, cafés and restaurants. The latter may partly reflect the impact of the Commonwealth's GST on some discretionary spending and on the demand for tourism services.

In terms of regional labour market performance within Tasmania, the strongest growth in employment over the past year according to ABS data has been in the Northern region, with employment rising 7.3 per cent in the 12 months to April 2001 relative to the previous 12 month period. The Northern unemployment rate declined to an 11 year low in year average terms (7.6 per cent), despite a rising participation rate. Employment conditions in the Mersey-Lyell region have deteriorated in recent times, despite an improvement in 1999-00, with long-term demographic and economic factors dampening employment opportunities. Specific initiatives contained in the 2001-02 Budget are designed to address the job situation in the North-West of the State. These initiatives are discussed elsewhere in this Budget Paper.

Labour Force Participation

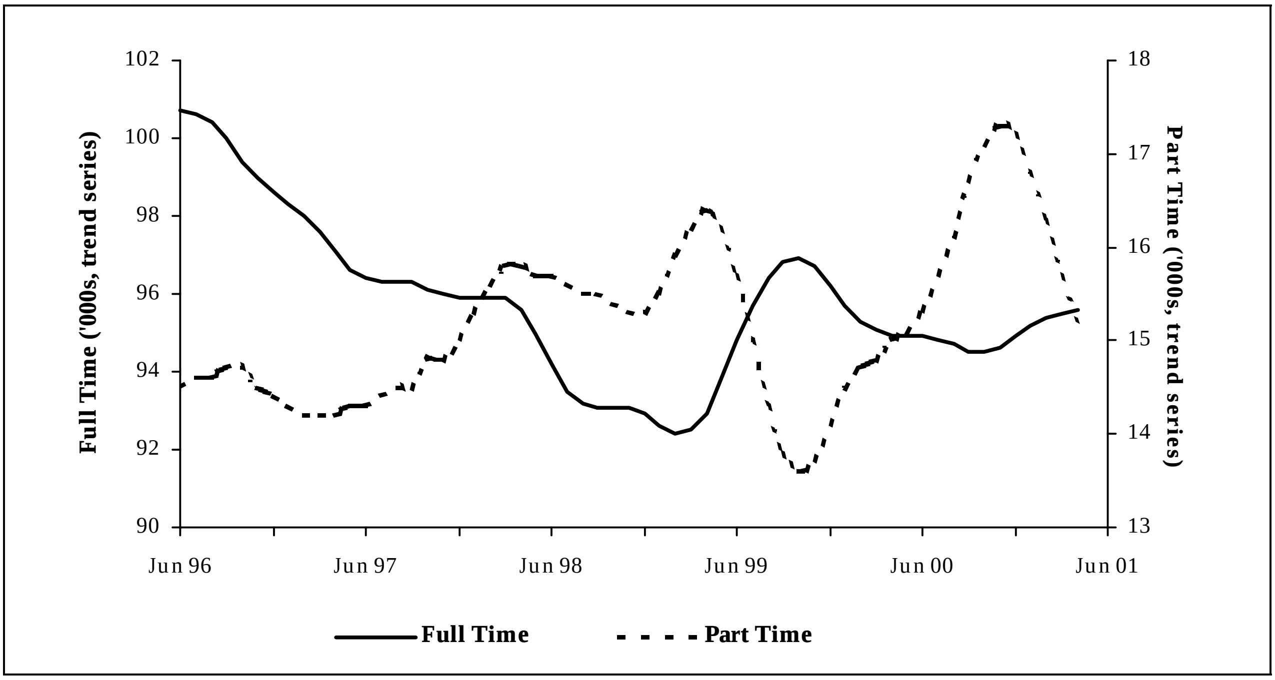
Over the past year, the strongest growth in trend employment in Tasmania has been in male full time positions and female part time employment.

Total male employment in April 2001 was 0.8 per cent (or 900 persons) above the level of April 2000, due principally to gains in full time employment. Over this period, male full time employment rose by 0.7 per cent (or 700 persons), while part time employment grew by 1.3 per cent (or 200 persons). The growth in male full time employment over the past year exceeded the national average. The strong growth in male part time employment over calendar 2000 has been largely reversed over the past six months, as shown in Chart 2.10.

While these recent male employment outcomes are encouraging, they have taken place within the longer-term context of a decline in the Tasmanian employment market for males due to weakness in full time employment.

Total male employment declined for three consecutive years to 1998-99, but rose by 1.3 per cent in 1999-00 and has recorded further gains in the current year, as outlined above. The weakness over the three years to 1998-99 was due to a decline in full time positions. Part time employment has risen over the longer-term, although this remains only a small portion of total male employment (currently 14 per cent) and, as such, it has not compensated for the decline in full time positions. Nationally, total male employment has recorded solid growth since the mid-1990s.

Chart 2.10: Male Employment: Tasmania, 1996-2001



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

These statistics suggest that Tasmania has experienced certain influences on male full time employment which have not been present (or have been of lesser importance) in the national labour market. These may include:

- the downturn in the State's construction industry since the mid-1990s. Since 1994-95, employment in the construction sector has fallen by 20 per cent (or 2 700 persons); and
- the decline in employment in the government administration sector, reflecting cutbacks at both the state (until recently) and Commonwealth levels. In the four years to 1999-00, employment in the government administration sector in Tasmania fell by over 30 per cent (or 4 700 persons). At the time, male full time employment represented around 60 per cent of total sectoral employment.

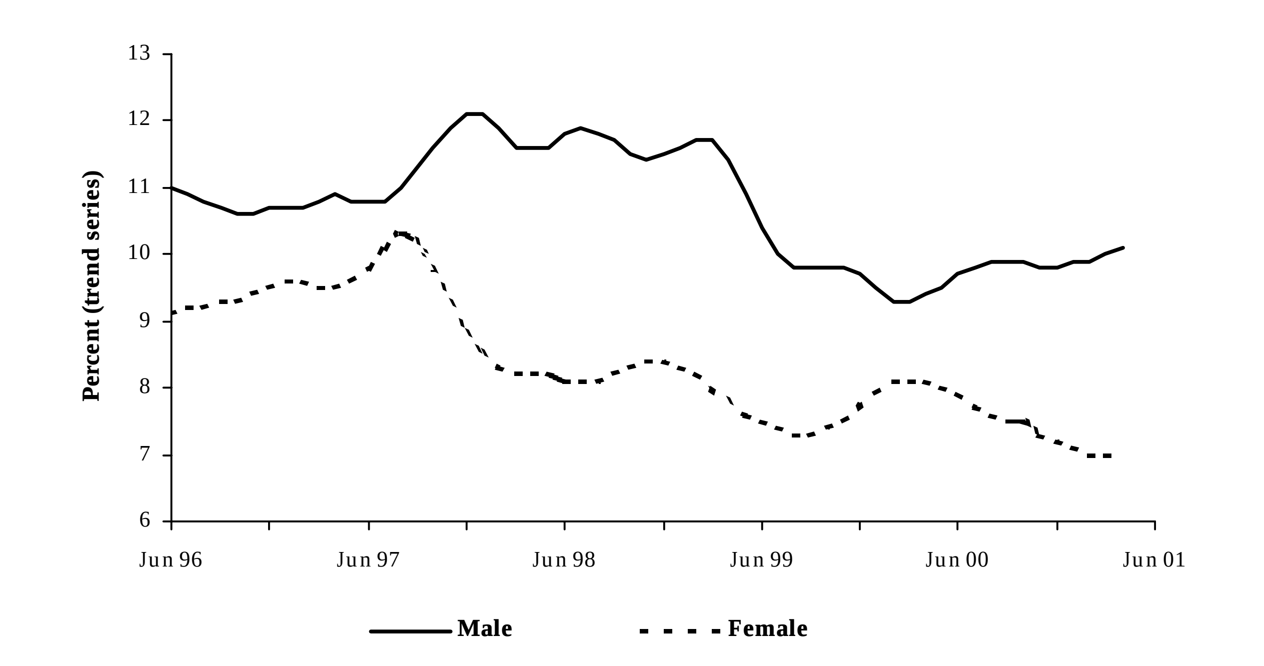
The rebound in male employment since early 1999 is likely to indicate both a general return of business confidence in the State, as well as the cessation of the above influences. The latter has been aided by the State Government's policy of no inner-Budget redundancy programs, which has seen a stabilisation in public sector employment levels over the past two years.

Consistent with this recent improvement in male employment, the male unemployment rate has fallen quite sharply since early 1999, as shown in Chart 2.11, although it has edged higher over the past year. In April 2001, the trend male unemployment rate stood at 10.1 per cent, 3.1 percentage points above the national rate.

Reflecting the longer-term decline in male employment and demographic changes, discussed further below, the male participation rate has fallen over the 1990s. This has continued in the past few years, despite a recovery over the second half of calendar 2000. In April 2001, the trend male participation rate stood at 68.1 per cent. Five years earlier, the trend rate was 71.9 per cent.

The national participation rate for males has also been on a modest downward trend over recent years. The difference is that at the national level, this has occurred at a time of strong employment growth for males, indicating that many job seekers have either obtained employment or may have left the job market voluntarily.

Chart 2.11: Unemployment Rate: Tasmania, 1996-2001



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

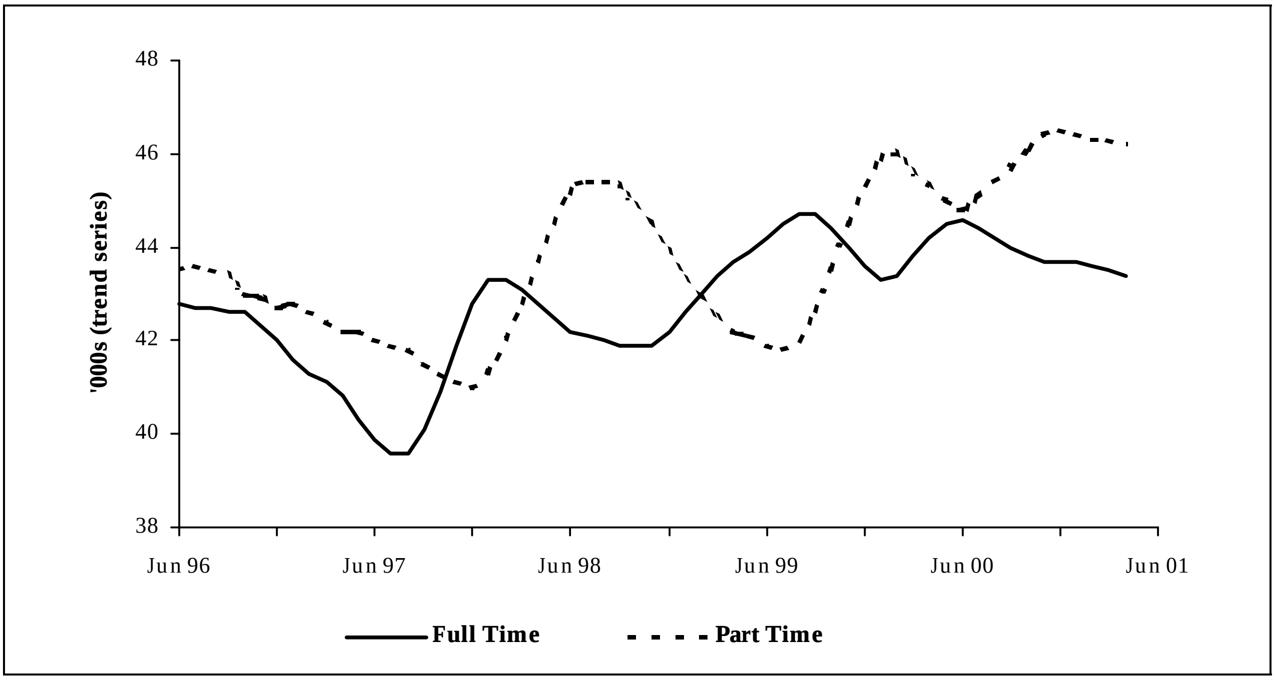
However, one common factor behind the decline in the Tasmanian and national participation rates for males is the ageing of the population. Data show that the male participation rate begins to decline noticeably for those aged 60 and over, which principally reflects either voluntary retirement or a discouraged worker effect due to fewer job opportunities.

Nationally, the large increase in the size of the working age population (defined as age 15 and over) has also put some downward pressure on the national male participation rate. Growth in the size of the national labour force has not kept pace with the growth in the national working age population, due in part to the ageing of the population as mentioned above. In contrast, the size of the working age population in Tasmania has changed little in recent years.

For Tasmania, the stability of the male working age population is likely to reflect the impact of higher levels of interstate out-migration since the mid-1990s. Over that time, there has been a large decline in the State's population in the 20 to 39 year age group, which traditionally represents a large share of the workforce. The increase in out-migration is attributed, in part, to a discouraged worker effect, due to the relative weakness of Tasmania's employment market over the mid to late 1990s. With males having a greater participation in the labour force, the impact of out-migration will be larger on the male participation rate than on the female rate.

In line with the recent, and forecast, improvement in the Tasmanian labour market, however, there is expected to be a decline in out-migration levels over the next couple of years.

Chart 2.12: Female Employment: Tasmania, 1996-2001



Source: ABS, *The Labour Force, Au1stralia, Preliminary Data on Floppy Disk*, Cat. No. 6271.0.

It is apparent that over the past year or so the male labour market has outperformed that of females. This represents somewhat of an exception to the pattern generally observed since the mid-1990s.

Total trend female employment has shown minimal growth over the past year (0.1 per cent), with gains in part time employment balanced by a loss of full time positions. The trend number of females employed part time is currently close to a record level, rising by 900 persons (or 2.0 per cent) over the year to April 2001. In contrast, female full time employment declined by 800 persons (or 1.8 per cent) between April 2000 and April 2001.

Despite this recent weakness, female full time employment has been on an upward trend over the past few years, as shown in Chart 2.12. At an industry level it is likely that this trend in female employment is attributable in part to the increasing importance of jobs in service industries, examples of which are the sharp rise in call centre employment of recent years and health and community services. These structural changes in the labour market have also contributed to a long-term rise in female part time employment.

Consistent with this longer term growth in employment, the female participation rate has risen over the interval from the mid-1990s. More recently, the trend female participation rate has eased along with female employment to be 50.4 per cent in April 2001, below the level of one year earlier. However, the female participation rate at that time (51.2 per cent) was at its highest level since late 1995. In April 2001, the national trend female participation rate was 55.4 per cent.

The slight fall in Tasmanian female participation over the past year reflects the static employment situation and the decline in the number of females unemployed. The decline in the number of females actively looking for work has resulted in a continual fall in the trend female unemployment rate over the past year, as shown in Chart 2.11. The April 2001 rate of 7.0 per cent was well below the year-earlier level (8.1 per cent), and was the lowest rate in more than 20 years. The Tasmanian female unemployment rate is currently only 0.7 percentage points above the national female rate.

Economic Outlook

Table 2.2 outlines Treasury's estimates for key economic variables for Tasmania for the current financial year and Treasury's forecasts for 2001-02. The forecasts show that the recovery of the past couple of years is expected to continue into 2001-02, despite some uncertainty surrounding the external environment.

Table 2.2: Tasmanian Economic Aggregates and Forecasts

	1999-00 Actual	2000-01 Estimate	2001-02 Forecast
Gross State Product (real, % change)[1]	**1.1**	**1.8**	**2.3**
Employment (year average, % change)	**1.8**	**1.2**	**1.3**
Labour force participation rate (year average, %)	**58.9**	**59.3**	**59.8**
Unemployment rate (year average, %)	**8.8**	**8.7**	**8.5**
Consumer price index (year average, % change)[2]	**1.9**	**5.6**	**2.1**
10 year Treasury bond rate (as at year end, %)	**6.16**	**5.85**	**6.25**
Population (year average, % change)	**(0.13)**	**(0.08)**	**0.01**

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

Notes:

1. Treasury's estimates of real GSP growth for 2000-01 and 2001-02 focus on the underlying movements in output and are derived from trend projections based on a variety of indicators. The estimates are not designed to be consistent with the experimental GSP series produced by ABS.
2. The Consumer Price Index estimate for 2000-01 includes the effect of the Commonwealth's GST on inflation.

2000-01 Estimates

On the basis of the financial year performance to date, Treasury expects that the Tasmanian economy will record a further year of moderate economic growth in 2000-01. Nevertheless, growth is expected to be lower than originally forecast (2.7 per cent), due in large part to the sharper than anticipated national economic slowdown from the GST over this period. Other contributing factors were the flow-through impact of higher interest rates from the first half of 2000 and, as discussed earlier in this Chapter, the Commonwealth's introduction of the GST and its direct impact on small to medium businesses.

State final demand rose by 2.7 per cent in the year to December 2000 (the latest available data), with the strongest contributions from consumer spending and business investment. Dwelling investment also rose in calendar 2000, due to a pre-GST surge in the first half of the year. However, as expected dwelling investment fell in the second half of the calendar year (post-GST) suggesting a weaker outcome for the full 2000-01 financial year.

Overseas export levels have grown over the past year, to be around record levels for the State, aided by the depreciation of the Australian dollar against most major currencies.

On current trends, employment is set to record a rise of around 1.2 per cent for 2000-01 in annual average terms, following growth of 1.8 per cent in 1999-00 which was the strongest increase in Tasmanian employment in four years. Consistent with this growth in employment, the participation rate is expected to average around 59.3 per cent for 2000-01, up from 58.9 per cent in the previous year. The growth in employment has been broadly matched by the increase in the labour force, hence the expectation of only minimal improvement in the unemployment rate for the year. Nevertheless, the estimated 8.7 per cent rate for 2000-01 would be the lowest annual unemployment rate since 1989-90.

Overall, Treasury expects that the underlying growth rate in the Tasmanian economy for 2000-01 will be in the vicinity of 1.8 per cent. In 1999-00, the ABS reported that the State's economy expanded by 1.1 per cent.

However, as discussed earlier in this Chapter, Treasury urges caution in the use of the most recent state GSP data from the ABS. State GSP data, especially for a small economy such as Tasmania, tend to be quite volatile and often subject to substantial revision. The GSP data have not always been consistent with partial economic indicators over recent years and hence the ABS continues to classify this series as 'experimental'. As outlined in the footnote to Table 2.2, it is important to note that Treasury's GSP estimates are designed to reflect the underlying movements in output and are not directly comparable to the ABS estimates.

2001-02 Forecasts

GSP and State Final Demand

In terms of the economic backdrop for 2001-02, there are a few uncertainties facing the Tasmanian economy, including the extent and duration of the current GST-induced national downturn and in US economic growth, and continued uncertainty surrounding the outlook for Japan, the State's largest single export market. However, if current consensus forecasts prove correct in terms of national and global growth over the coming year, the Tasmanian economy should hold up relatively well.

In addition, there will be several positives for the Tasmanian economy in 2001-02 which will help offset this weaker external environment: notably, the State Government's fiscal stimulus package announced as part of the 2001-02 Budget, the commencement of work on the Tasmania Natural Gas Project, the continued low value of the Australian dollar and the reduction in official interest rates of recent months to historically very low levels.

On current trends, Treasury expects that Tasmania's economic growth rate will be 2.3 per cent in 2001-02, a further improvement on the anticipated 1.8 per cent for 2000-01. This would represent a solid performance in a period of softer global and national growth, and is likely to compare well with the national performance over this period. At the time of writing, Commonwealth Budget estimates of GDP growth for 2001-02 were unavailable, although the consensus of private sector forecasters was around 3.0 to 3.5 per cent.

With some uncertainty still surrounding the external growth outlook for 2001-02, the State Government's fiscal stimulus package is designed to underpin Tasmania's economic performance and maintain the positive momentum in terms of output and employment growth that has developed over the past couple of years. As detailed in Chapter 1 of this Budget Paper, the major components of this package are the $60 million Infrastructure Fund, a reduction in the payroll tax rate and increase in the payroll tax threshold, abolition of the five per cent Electricity Entities Levy and a sizeable increase in General Government recurrent expenditure. Treasury estimates that the total package will increase employment by 2 000 and contribute around 1.0 per cent to GSP growth over the next 12 to 18 months.

After minimal change in 2000-01, government spending is therefore expected to provide a solid contribution to GSP growth over the coming financial year.

In terms of the private sector, the most significant project on the horizon is the Tasmania Natural Gas Project, the largest industrial development in the State in at least a decade. This $600 million project is expected to commence in 2001-02 and will provide a major stimulus to construction and related industries, and indirectly to the economy more generally, over the next two years. More importantly, however, the arrival of gas in Tasmania will allow for the potential establishment of a new set of industries over the longer-term.

Investment in the other major energy initiative being pursued by the State Government, the Basslink power cable linking Tasmania to the national electricity market via Victoria, is due to commence in late 2001-02 but the principal impact on the economy will be in 2002-03. As such, it is not discussed in further detail in this Chapter.

Commencement of work on the Natural Gas Project will provide a significant boost to private investment in Tasmania, which has been one of the major areas of underperformance in the economy over the past decade. Business investment fell to a five-year low in 1998-99, although it subsequently rose in 1999-00 (by 6.6 per cent) and a further modest improvement is likely in the current year. Nevertheless, business investment as a share of GSP in Tasmania remains well below the national average.

Aside from the Natural Gas Project, the outlook for business investment has been mixed in recent business surveys, with the downturn in the national and global economies impacting negatively on business confidence in Tasmania. Despite this, Treasury expects that business investment should record a further increase in 2001-02, supported by low official interest rates, the State Government's fiscal package, the direct impact of the Natural Gas Project and a more favourable national and global economic outlook by the second half of the financial year.

Growth in the other key component of final demand, consumer spending, is expected to be positive but remain below the national growth rate. Consumer spending rose by 3.6 per cent in 1999-00 and year to date performance for 2000-01 points to a further increase, despite relatively subdued wages growth and the impact of the Commonwealth's GST. Over the coming year, consumer spending will be supported by a further increase in employment, low interest rates and the expected cessation of population decline. These factors, coupled with the First Home Owner Grant, should also support a return to growth in dwelling investment in 2001-02, following the GST-induced contraction of the past year.

After several years of solid growth, the State's overseas export performance may be more subdued in 2001-02 due to some continued uncertainty surrounding the economic outlook for the State's major export markets, including Japan, South Korea, the ASEAN group and the United States. The outlook for commodity prices is also uncertain. Despite a decline in some base metal prices (in $US terms) over the past six months, official projections by the Australian Bureau of Agricultural and Resource Economics (ABARE) point to an increase in the price of most of the State's key commodity exports in 2001-02. For most commodities, the ABARE forecasts imply a significant rebound from current levels. In 2001-02, ABARE expects increases in the $US price of aluminium (10.1 per cent), lead (9.8 per cent), copper (9.5 per cent) and zinc (4.8 per cent). ABARE is also forecasting higher prices for beef (in $US terms) and wool.

Barring a major (and unexpected) rebound in the currency, the continued low value of the Australian dollar is also a positive for the State's exporters. Overall, the State's overseas exports should record a further year of expansion in 2001-02, although perhaps not to the extent experienced in recent years.

Tasmania Natural Gas Project

Tasmania is currently the only state or territory without access to natural gas. This has limited the range of industries that have been able to locate in the State, such as those requiring heat (steam) or natural gas for direct processing.

The Tasmania Natural Gas Project (TNGP) will introduce natural gas to Tasmania via the construction of an undersea pipeline between Longford in Victoria and Bell Bay in northern Tasmania. It also involves the conversion of the Bell Bay Power Station from oil to gas (enabling the sale of gas-generated electricity), and the construction of a gas transmission network linking the north-west, north and south of the State. The latter will provide the basic infrastructure for the reticulation and retailing of natural gas to commercial, industrial and residential customers.

The developer of the TNGP is Duke Energy International. The State Government is currently progressing the selection of the distributor/retailer of natural gas within Tasmania. The selection will be made via a competitive tender, and will be a party other than Duke Energy.

The total estimated value of the TNGP (including reticulation) is around $600 million. As a guide to the relative scale of the project, total private business investment in Tasmania in 1999-00 was around $900 million. It is estimated that the project will create up to 2 000 direct and indirect jobs during the peak construction phase.

Work on the project is scheduled to begin in late 2001, with the first delivery to the Bell Bay Power Station by mid-2002, although the exact timing will be subject to the progression of the necessary environmental and other regulatory approvals.

Coupled with the proposed Basslink energy cable linking Victoria and Tasmania, the TNGP will diversify the State's energy sector, introduce competition and create an environment for sustainable economic development in Tasmania.

Labour Market and Prices

After no change in employment levels in 1998-99 and declines in the previous two years, employment rebounded by 1.8 per cent in 1999-00. Based on current trends, Treasury expects that employment will rise by a further 1.2 per cent in 2000-01 and is forecasting growth of 1.3 per cent for 2001-02.

The anticipated 1.3 per cent rise in 2001-02 would therefore be the third consecutive year of constant, solid employment growth in Tasmania, a sign of a general improvement in business confidence.

There are a number of specific developments that Treasury has taken into account in formulating its employment forecast for 2001-02. These include: the impact of the State Government's fiscal stimulus package, notably the payroll tax changes and Infrastructure Fund; the commencement of work on the Natural Gas Project; further expansion in the State's call centre industry, including the establishment of a 300-seat call centre by the Commonwealth Bank and continued growth at Qantas; further expansion in the State's IT industry, including initiatives under the Intelligent Island program; and a number of tourism developments. The Government's policy of no inner-Budget redundancy programs and the increase in General Government expenditure in 2001-02 will also underpin public sector employment levels.

Against this backdrop of improvement in the labour market, the State's participation rate is expected to increase in 2001-02. The participation rate is forecast to average 59.8 per cent for the year, a solid improvement on the anticipated level for 2000-01 of 59.3 per cent and the 58.9 per cent recorded in 1999-00. Although still below the national average, this would be the highest annual participation rate in six years.

The projected growth in employment will therefore limit the improvement in unemployment by encouraging some job seekers to return to the labour market. As a result, the unemployment rate is expected to average 8.5 per cent in 2001-02, compared to an estimated 8.7 per cent for 2000-01. Although still above the national average, this would be the lowest annual unemployment rate in Tasmania since 1989-90.

Consistent with this sustained improvement in the labour market, it is expected that the State's population will stabilise over the coming year, reversing the decline of previous years. The peak of the population decline occurred in 1997-98 with a fall of 0.35 per cent. There was an improvement in each of the subsequent two years, and Treasury expects this improvement to continue such that marginal growth will be recorded in 2001-02. The improvement in the rate of decline in the State's population over the past two years, and the expected cessation of this decline, is due to a slowing in the rate of net interstate out-migration from Tasmania as economic conditions have improved.

In terms of the outlook for prices, Tasmania's CPI is forecast to increase by 2.1 per cent in 2001-02, following an anticipated rise of around 5.6 per cent in 2000-01. With the Commonwealth's tax reform package generally considered to have added between 2.5 and 3 percentage points to the inflation rate, non-GST price pressures therefore rose by around 2.5 to 3.0 per cent in Tasmania over the past year. The major contributing factors to this increase have been the impact of the Australian dollar depreciation on imported goods and higher petrol prices. However, petrol prices in Tasmania have not risen as much as for Australia as whole in 2000-01 (to date) due to increased competition following Liberty Oil's entry into the Tasmanian market in September 2000. The impact on inflation of petrol prices and the exchange rate is expected to wane over 2001-02, hence the forecast of a fairly modest increase in inflation pressures.

Summary

The forecast economic growth rate of 2.3 per cent for 2001-02, following anticipated growth of 1.8 per cent in the current financial year, indicates that the Tasmanian economy is continuing on the path of solid growth after the downturn of the mid-to-late 1990s. With some uncertainty surrounding the external outlook for 2001-02, the State Government has delivered a fiscal stimulus package designed to underpin the State's economic performance and maintain the positive momentum, in terms of output and employment growth, that has emerged over the past two years.

The package, coupled with the other developments outlined in this Chapter, notably the Tasmania Natural Gas Project, will help support further growth in employment which is expected to lead to a decline in the State's unemployment rate to 8.5 per cent in 2001-02. Although still too high, this would be the lowest unemployment rate in Tasmania since 1989-90.

Both the Tasmania Natural Gas Project and, further out, Basslink, have the potential to significantly boost the Tasmanian economy in the medium to longer term, such that the State's economic performance could again approach that of the national economy. Securing both projects is an important element of the State Government's Industry Development Plan.

3 CONSOLIDATED FUND ESTIMATED BUDGET OUTCOME, 2000-01

Features

- The Consolidated Fund Surplus (CFS) for 2000-01 is estimated to be a surplus of $3.2 million, an increase of approximately $580 000 on the estimated Budget surplus of $2.6 million.
- Total receipts are estimated to be $2 290.8 million, $93.8 million or 4.3 per cent above the Budget estimate of $2 197.0 million.
- Total expenditure is estimated to be $2 289.3 million, $93.2 million or 4.2 per cent above the Budget estimate of $2 196.1 million.

INTRODUCTION

The 2000-01 Consolidated Fund Estimated Budget Outcome has been determined from agency assessments of their indicative additional funding requirements or potential savings, based on the latest available information prior to the publication of the Budget Papers. Revenue estimates are determined from a number of sources including the latest advice from the Commonwealth, Government Business Enterprises, State-owned Companies and agencies.

Detailed information on the final Budget outcome for 2000-01 will be published in:

- the Quarterly Statement of the Consolidated Fund for the June quarter 2001, which will be tabled in Parliament by 31 July 2001;
- the Treasurer's Financial Statements, which will be published by 30 September 2001; and
- Agency Annual Reports, which will be tabled in Parliament by 30 November 2001.

CONSOLIDATED FUND SURPLUS

The Consolidated Fund Surplus (CFS) is the excess of Consolidated Fund receipts over the expenditure of these funds (net of loan repayments). A CFS represents funds which are available for the retirement of debt. A negative CFS is the same as the Net Financing Requirement (NFR). Previously, due to the deficits recorded for the Consolidated Fund, the NFR has been the primary focus of the Budget outcome. Table 3.1 provides details of the estimated CFS outcome for 2000-01 and expected variances from original 2000-01 Budget estimates by major expenditure and receipt category.

Table 3.1: Estimated Consolidated Fund Surplus, 2000-01

	2000-01 Budget	2000-01 Estimated Outcome	Variation
	$'000	$'000	%
Receipts			
Commonwealth Sources	1 435 971	1 468 871	2.3
State Sources	761 054	821 931	8.0
Total Receipts	2 197 025	2 290 802	4.3
Less Expenditure			
Recurrent Expenditure[1]	2 056 072	2 102 778	2.3
Capital Expenditure[2]	140 033	186 524	33.2
Total Expenditure	2 196 105	2 289 302	4.2
Gross Consolidated Fund Surplus/(Deficit)	920	1 500	63.0
Add Loan Repayments	1 660	1 660	....
Consolidated Fund Surplus/(Deficit)	2 580	3 160	22.5

Notes:
1. Recurrent Expenditure includes the amount of contribution payable to the Debt Retirement Reserve Trust Account of $1.7 million (2000-01 Budget) and $1.7 million (2000-01 estimated outcome).
2. Capital Expenditure includes the first instalment of the Government's Infrastructure Fund of $40 million.

The budgeted CFS for 2000-01 was $2.6 million. The estimated CFS outcome for 2000-01 is $3.2 million.

RECEIPTS

Total Consolidated Fund receipts for 2000-01 are estimated to be $2 290.8 million compared with the Budget estimate of $2 197.0 million, an increase of $93.8 million or 4.3 per cent.

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

Table 3.2: Consolidated Fund - Estimated Total Receipts, 2000-01

	2000-01 Budget	2000-01 Estimated Outcome	Variation
	$'000	$'000	%
Recurrent Receipts			
Commonwealth Sources			
General Purpose Payments	**1 074 500**	**1 096 390**	**2.0**
Specific Purpose Payments	**307 486**	**317 213**	**3.2**
Total Commonwealth Sources	**1 381 986**	**1 413 603**	**2.3**
State Sources			
Taxation	**520 631**	**534 820**	**2.7**
Receipts from Government Business Enterprises, State-owned Companies and State Authorities	**112 053**	**134 566**	**20.1**
Departmental Fees and Recoveries	**72 766**	**80 134**	**10.1**
Recoveries of State Debt Charges	**13 224**	**13 124**	**(0.8)**
Sale and Rent of Government Property	**12 060**	**12 060**	**....**
Resource Rents and Royalties	**15 961**	**15 935**	**(0.2)**
Other Recurrent Receipts[1]	**13 543**	**29 564**	**118.3**
Total State Sources	**760 238**	**820 203**	**7.9**
Total Recurrent Receipts	**2 142 224**	**2 233 806**	**4.3**
Capital Receipts			
Commonwealth Sources	**53 985**	**55 268**	**2.4**
State Sources	**816**	**1 728**	**111.8**
Total Capital Receipts	**54 801**	**56 996**	**4.0**
TOTAL RECEIPTS	**2 197 025**	**2 290 802**	**4.3**

Note:
1. The major component contributing to the increase in Other Recurrent Receipts is an expected increase in interest receipts of $7.5 million to be received in 2000-01.

Explanation of Estimated Major Receipt Variations

Recurrent Receipts

Recurrent receipts for 2000-01 are estimated to be $2 233.8 million, $91.6 million or 4.3 per cent above Budget. The major reasons for this expected variation are:

- returns from Government Business Enterprises and State-owned Companies are expected to be approximately $22.5 million above the original Budget estimate. The increase reflects improved profitability due to the impact of retirement of debt on interest costs and the impact of the Ralph Review tax changes. This is primarily the result of returns from:
  - Aurora Energy Pty Ltd, estimated to be $12.8 million above Budget due mainly to increased dividend payments and increased income tax equivalent payments;
  - Forestry Tasmania, estimated to be $4.7 million above Budget due mainly to increased dividend payments; and
  - Hydro Tasmania, estimated to be $2.1 million above Budget due mainly to increased dividend payments;
- the State's goods and services tax (GST) Revenue and Transitional Grant for 2000-01 have been revised upwards by $21.9 million due to an increase in the estimate of Financial Assistance Grant revenue forgone and an increase in the level of compensation for the costs incurred by Tasmania for GST administration and the First Home Owners Scheme;
- the estimate of the State's Health Care Grant for 2000-01 was increased by $1.8 million;
- departmental fees and charges of the Department of Primary Industries, Water and Environment have increased by $7.1 million, primarily as a result of increased abalone royalties;
- estimated receipts from taxation are expected to be $14.2 million above Budget, primarily a result of:
  - Stamp Duties estimated to be $10.5 million above Budget due to increased receipts following company restructures. Part of the increase in Stamp Duty revenue is due to expected increases in revenue from conveyances and a one-off increase in receipts due to a significant increase in the purchase of first homes in 2000-01;
  - Payroll Tax estimated to be $6.0 million above Budget due to increased receipts as a result of increased economic activity;
  - Financial Institutions Duty estimated to be $1.4 million above Budget;
  - Racing and Gaming Taxes estimated to be $3.7 million below Budget due to the Government's decision to abolish the tax and replace it with a dividend payment regime; and
  - Casino Taxation estimated to be $1.0 million above Budget due to an increase in activity in the Clubs and Hotels sector;
- additional Commonwealth funding for Primary and Secondary Education; and Technical and Further Education (of $2.8 million and $939 000 respectively) expected to be received in 2000-01;

- increased interest receipts of $7.5 million expected to be received in 2000-01 due to proceeds from the Trust Bank sale being available for investment purposes, prior to their application towards the repayment of debt; and
- additional Commonwealth funding of $2.4 million for the Disability Services Grant is expected to be received in 2000-01.

Capital Receipts

Capital receipts are estimated to total $57.0 million in 2000-01, compared to the budgeted amount of $54.8 million. The estimated variation in the level of receipts is primarily due to increased Commonwealth Roads funding of $1.2 million in 2000-01. This additional funding is offset by additional expenditure in the Roads Program. Part of the increase in Capital receipts is due to an increase in expected revenue due to the early redemption and repayment of a number of the State's Public Bodies Assistance Loans.

EXPENDITURE

Total Consolidated Fund expenditure in 2000-01 is estimated to be $2 289.3 million, which is $93.2 million or 4.2 per cent above the Budget estimate of $2 196.1 million. Table 3.3 below provides information on expected variances from original Budget estimates on a major category basis.

Table 3.3: Consolidated Fund - Estimated Total Expenditure, 2000-01

	2000-01 Budget	2000-01 Estimated Outcome	Variation
	$'000	$'000	%
Recurrent Services			
Appropriation Act[1]	**1 927 203**	**1 972 305**	**2.3**
Reserved by Law[2]	**108 869**	**130 473**	**19.8**
Treasurer's Reserve[3]	**20 000**	**....**	**(100.0)**
	2 056 072	**2 102 778**	**2.3**
Works and Services			
Capital Investment Program[4]	**140 033**	**146 524**	**4.6**
Infrastructure Fund	**....**	**40 000**	**....**
	140 033	**186 524**	**33.2**
TOTAL	**2 196 105**	**2 289 302**	**4.2**

Notes:

1. The Treasurer's Reserve is reported separately from Budget expenditure but is included as an expenditure saving in the estimated outcome.
2. Reserved by Law expenditure includes the amount of the contribution payable to the Debt Retirement Reserve Trust Account. This amount is $1.7 million (2000-01 Budget and 2000-01 estimated outcome).
3. Expenditure authorised from the Treasurer's Reserve is included in agency expenditure under the Appropriation Act. Net additional revenues and expenditure savings may be used to supplement the amount provided in the Budget for the Treasurer's Reserve.
4. The increase in the CIP results from additional funding provided for Reece High School related works ($1.1 million), installation or upgrade of fire detection systems at schools ($2.1 million) and additional Commonwealth roads funding of $1.2 million.

Table 3.4 below provides information on estimated Consolidated Fund expenditure, for 2000-01, on an agency basis.

Table 3.4: Consolidated Fund - Estimated Total Expenditure by Agency, 2000-01

Agency	2000-01 Budget	2000-01 Estimated Outcome: Recurrent Services	Reserved by Law	Works and Services	Total	Variation
	$'000	$'000	$'000	$'000	$'000	%
Education	585 501	571 783	....	23 630	595 413	1.7
Finance-General[1]	377 279	280 268	116 409	40 000	436 677	15.7
Health and Human Services	651 591	634 272	....	27 821	662 093	1.6
House of Assembly	4 295	1 710	2 627	....	4 337	1.0
Infrastructure, Energy and Resources	168 315	90 978	52	82 728	173 758	3.2
Justice and Industrial Relations	53 486	46 629	8 576	394	55 599	4.0
Legislative Council	2 982	1 448	1 664	....	3 112	4.4
Legislature-General	3 733	3 529	....	225	3 754	0.6
Ministerial and Parliamentary Support	10 498	10 150	435	....	10 585	0.8
Office of the Governor	1 859	1 685	182	8	1 875	0.9
Police and Public Safety	106 525	107 198	....	526	107 724	1.1
Premier and Cabinet	18 048	18 233	....	....	18 233	1.0
Primary Industries, Water and Environment	89 744	91 255	123	1 479	92 857	3.5
State Development	84 188	81 571	148	2 732	84 451	0.3
Tasmanian Audit Office	257	....	257	....	257	....
Treasury and Finance	37 804	31 596	....	6 981	38 577	2.0
TOTAL EXPENDITURE	2 196 105	1 972 305	130 473	186 524	2 289 302	4.2

Note:
1. Reserved by Law expenditure for Finance-General includes the amount of contribution payable to the Debt Retirement Reserve Trust Account. This amount is $1.7 million (2000-01 Budget and 2000-01 estimated outcome).

Explanation of Estimated Major Expenditure Variations

Recurrent Expenditure

Recurrent Services expenditure, including Reserved by Law expenditure, for 2000-01 is estimated to be $2 102.8 million which is $46.7 million (2.3 per cent) above the original Budget estimate of $2 056.1 million. The primary reasons for this expected variation are detailed below on an agency basis.

Education

Expenditure for the Department of Education is expected to be above Budget by $5.4 million, primarily due to additional expenditure of $2.8 million on Primary and Secondary Education; and $854 000 on Technical and Further Education, offset by the receipt of additional Commonwealth revenue.

Finance-General

Total expenditure for Finance-General is expected to be in the order of $396.7 million, $19.4 million or 5.1 per cent above Budget.

Expenditure in Finance-General is expected to be above Budget primarily due to the following:

- an estimated additional cost of $12.5 million due to an increase in the cost of the First Home Owners Scheme in 2000-01;
- additional expenditure of $10 million to the Superannuation Provision Account;
- an estimated additional cost of $15.4 million required to reinstate the fuel and alcohol subsidy schemes. In 2000-01, this cost will be partly offset by a balance of funds in the Safety Net Revenue Administration Account; and
- an additional cost of $1.2 million for payroll tax assistance grants.

Expenditure in Finance-General has been partly offset by:

- savings in debt servicing costs of $5.0 million in 2000-01 due to higher than anticipated internal cash reserves being available to reduce borrowings; and
- savings in the Provision for Wage Increases after providing additional funds to agencies for wage increases such as the teacher's wage nexus and the nurses wage agreement.

Health and Human Services

The estimated above Budget expenditure of $10.5 million for the Department of Health and Human Services is mainly due to the following:

- an increase in wage indexation for 2000-01 of $4.4 million;
- additional expenditure of $4.3 million on a number of Specific Purpose Payments. This expenditure is offset by additional revenue to be received from the Commonwealth; and
- additional expenditure of $1.3 million due to the return of proceeds to the Department from the sale of assets provided through the Crown Lands Administration Fund.

Infrastructure, Energy and Resources

Expenditure for the Department of Infrastructure, Energy and Resources is expected to be $3.7 million above Budget mainly due to the following:

- the additional cost of providing student transport assistance. The additional expenditure of $2.4 million is the result of a range of factors, including an increase in fuel costs which impacts on the School Bus Index (SBI), automatically increasing contract prices; and
- additional expenditure of $977 000 to maintain the existing level of service provided under the Metro Community Service Agreement. Part of the additional cost represents additional costs associated with increased fuel costs and variations in expected revenue.

Police and Public Safety

The estimated above Budget expenditure for the Department of Police and Public Safety is mainly due to the following:

- additional expenditure of $520 000 due to the return of proceeds to the Department from the sale of assets provided through the Crown Lands Administration Fund; and
- additional expenditure of $496 000 related to the extension to the inquiry into the death of Joseph Gilewicz.

Primary Industries, Water and Environment

The estimated above Budget expenditure for the Department of Primary Industries, Water and Environment is primarily due to the following factors:

- additional expenditure of $1.3 million has been allocated to meet fire fighting expenditure incurred by the Parks and Wildlife Service in 2000-01; and
- an increase in wage indexation for 2000-01 of $608 000.

Works and Services Expenditure

Expenditure on Works and Services for 2000-01 is estimated to be $186.5 million, $46.5 million (33.2 per cent) above the original Budget estimate of $140.0 million. The primary reasons for this variation are:

- the first instalment of the Government's Infrastructure Fund of $40 million;
- additional expenditure of $1.1 million related to expenses associated with relocating students enrolled at Reece High School and to expand the capacity of the existing Devonport High School;
- additional expenditure of $2.1 million to implement a six stage program aimed at minimising the risk of fire damage through the installation or upgrade of fire detection systems at schools; and
- additional expenditure of $1.2 million for the Roads Program, to be offset by additional revenue to be received from the Commonwealth.

4 CONSOLIDATED FUND BUDGET ESTIMATES, 2001-02

Features

- In 2001-02, it is estimated that the Consolidated Fund Surplus (CFS) will be $4.2 million. This compares to the budgeted CFS of $2.6 million for 2000-01.
- Total receipts are estimated to be $2 325.4 million in 2001-02, an increase of $128.4 million or 5.8 per cent on 2000-01 budgeted receipts of $2 197.0 million.
- Expenditure in 2001-02 is expected to be $2 322.0 million, an increase of $125.9 million or 5.7 per cent over 2000-01 budgeted expenditure of $2 196.1 million.

CONSOLIDATED FUND SURPLUS

In 2001-02, it is estimated that the Consolidated Fund Surplus will be $4.2 million.

Table 4.1: Consolidated Fund Surplus, 2001-02

	2000-01 Budget	2001-02 Budget
	$'000	$'000
Receipts		
Commonwealth Sources		
Recurrent Receipts	1 381 986	1 505 410
Capital Receipts	53 985	50 869
Total Commonwealth Sources	1 435 971	1 556 279
State Sources		
Recurrent Receipts	760 238	768 286
Capital Receipts	816	831
Total State Sources	761 054	769 117
Total Receipts	2 197 025	2 325 396
Less Expenditure		
Recurrent Services		
Expenditure on Outputs		
Appropriation Act	1 937 203	2 005 057
Reserved by Law	118 869	150 840
Total Recurrent Services	2 056 072	2 155 897
Works and Services		
Capital Investment Program	140 033	146 059
Infrastructure Fund	....	20 000
Total Works and Services	140 033	166 059
Total Expenditure	2 196 105	2 321 956
Gross Consolidated Fund Surplus/(Deficit)	920	3 440
Add Loan Repayments[1]	1 660	710
Consolidated Fund Surplus/(Deficit)	2 580	4 150

Note:

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

Loan Repayments

The State is to repay $710 000 in 2001-02 to the Debt Retirement Reserve Trust Account in respect of borrowings in accordance with arrangements established under the *Financial Agreement Act 1994.*

RECEIPTS

Consolidated Fund receipts are estimated to be $2 325.4 million in 2001-02, an increase of $128.4 million or 5.8 per cent on the 2000-01 Budget estimate of $2 197.0 million.

Table 4.2 outlines the variations between the 2001-02 and the 2000-01 Budget estimates by major category.

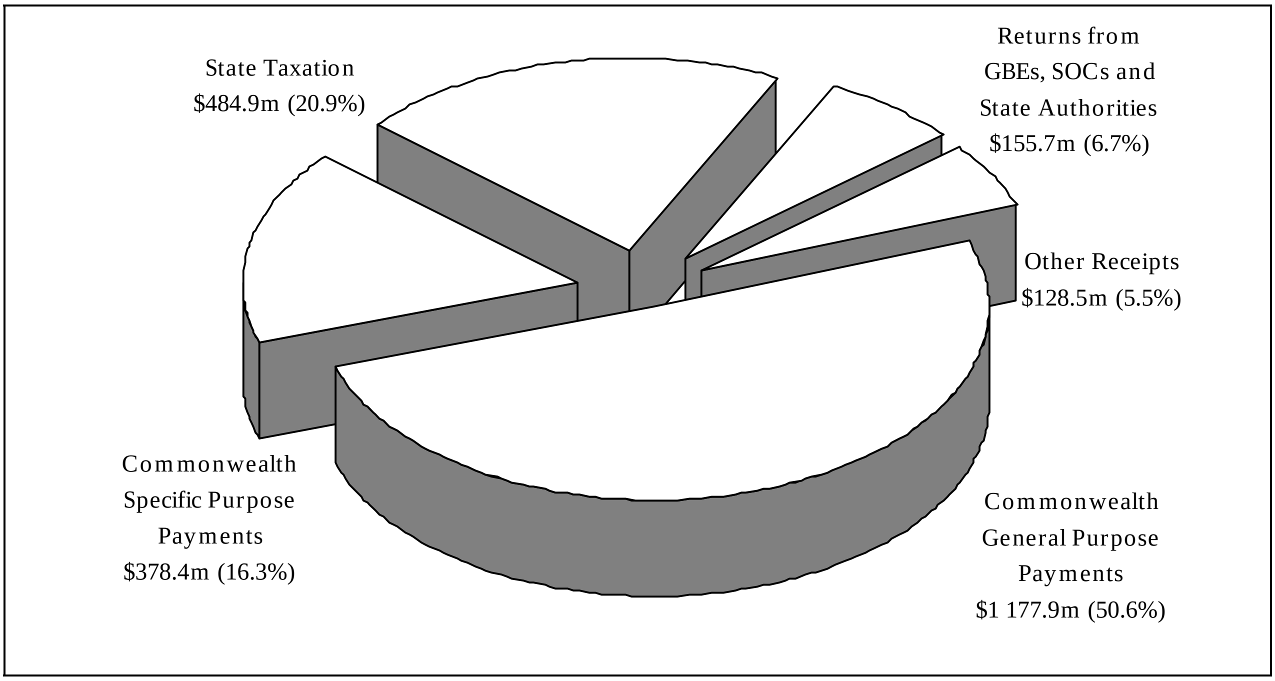
Table 4.2: Consolidated Fund - Total Receipts, 2001-02

	2000-01 Budget	2001-02 Budget	Variation
	$'000	$'000	%
Recurrent Receipts			
Commonwealth Sources	**1 381 986**	**1 505 410**	**8.9**
State Sources	**760 238**	**768 286**	**1.1**
	2 142 224	**2 273 696**	**6.1**
Capital Receipts			
Commonwealth Sources	**53 985**	**50 869**	**(5.8)**
State Sources	**816**	**831**	**1.8**
	54 801	**51 700**	**(5.7)**
Total Receipts	**2 197 025**	**2 325 396**	**5.8**

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

Chart 4.1 shows the estimated total sources of funds for the Consolidated Fund in 2001-02 and a percentage breakdown of the categories of the total sources of funds.

Chart 4.1: Consolidated Fund – Total Sources of Funds, 2001-02



Recurrent Receipts

Total recurrent receipts in 2001-02 are estimated to be $2 273.7million. This is an increase of 6.1 per cent on 2000-01 budgeted receipts of $2 142.2 million.

The single most important source of recurrent revenue for the State is the Commonwealth Government which, through a range of general and specific purpose grants, will provide the State with approximately 66.2 per cent of its recurrent revenue in 2001-02. The remainder of the State's recurrent revenue will be derived by the State from its own sources, the major elements being State taxation (21.3 per cent), returns from Government Business Enterprises, State-owned Companies and State Authorities (6.8 per cent) and departmental fees and other recoveries (5.6 per cent).

Chart 4.2 shows the estimated recurrent receipts for 2001-02 and a percentage breakdown of the categories of recurrent receipts.

Chart 4.2: Recurrent Receipts, 2001-02

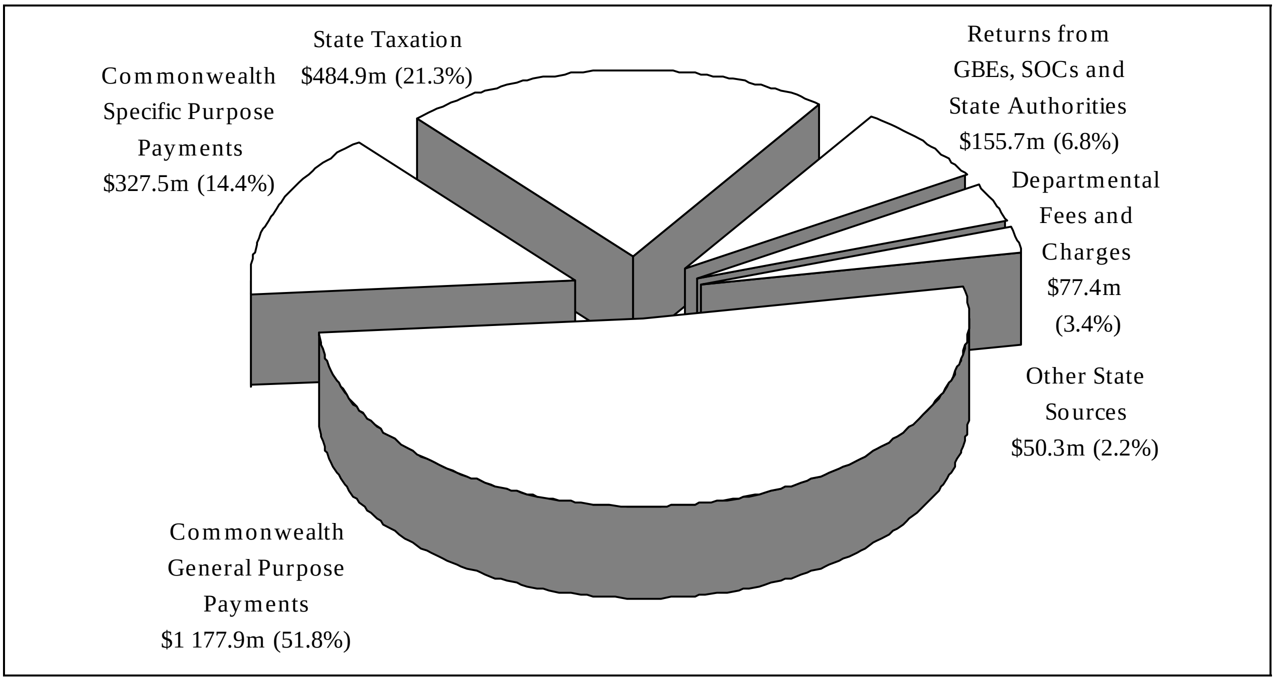
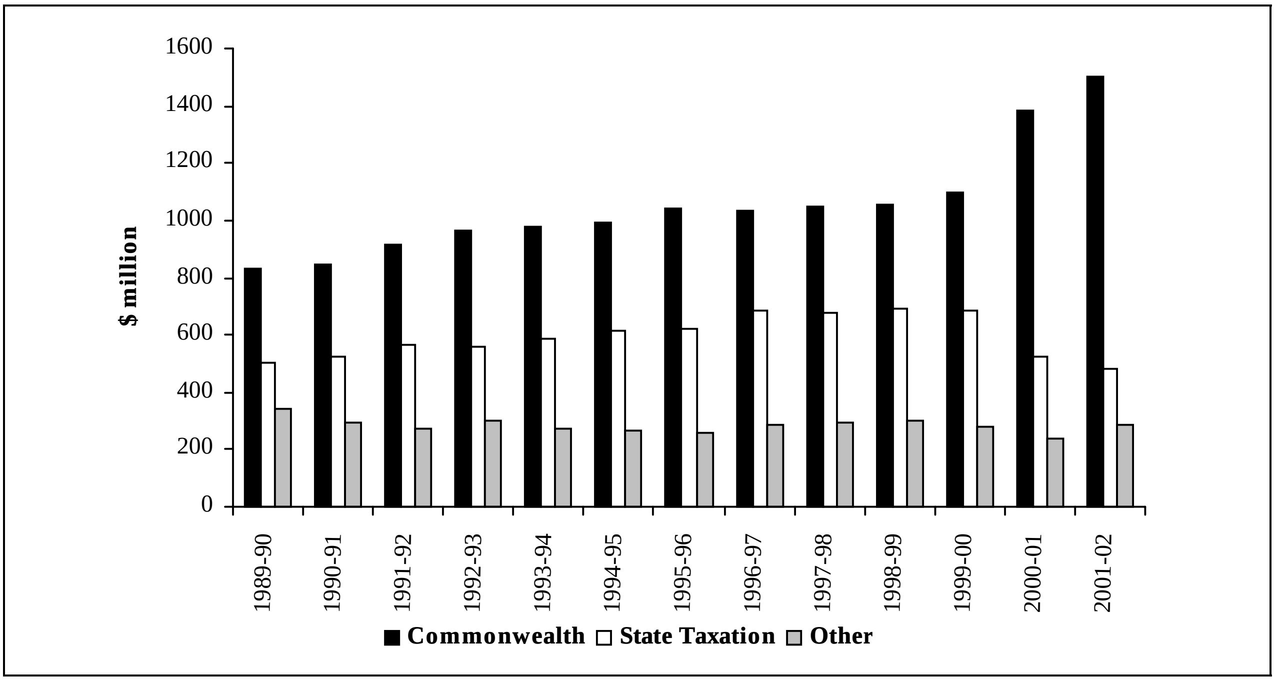


Chart 4.3: Recurrent Receipts (in 2000-01 dollars)[1]



Note:

1. The variation in receipts from Commonwealth and State sources in 2000-01 is due to the initial impact of the implementation of national tax changes (including the GST) from 1 July 2000. The increase in Commonwealth sources in 2001-02 is largely due to an increase in Tasmania's relative need for Commonwealth financial assistance as assessed by the Commonwealth Grants Commission and the impact of the abolition of Financial Institutions Duty and some stamp duties under the *Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations*.

Commonwealth Sources

Revenue from Commonwealth sources for recurrent purposes is estimated to total $1 505.4 million, an increase of $123.4 million or 8.9 per cent over the 2000-01 Budget estimate of $1 382 million. This revenue consists of the GST Revenue, National Competition Payments, Budget Balancing Assistance (BBA), and specific purpose payments which are tied to specific activities.

GST Revenue

GST Revenue is estimated to be $1 107.6 million in 2001-02, an increase of $129.9 million over the 2000-01 Budget estimate of $977.7 million. This increase is a primarily a result of 2000-01 representing only a part year effect of the GST revenue collections. As 2000-01 was the first year of the introduction of the GST, the States only received 11/12ths of the annual GST receipts, with transitional assistance provided to the States by the Commonwealth to cover this shortfall due to the timing of GST Revenue payments.

Transitional Loans and Grants

Under the *Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations* (IGA), the Commonwealth has guaranteed that the budgetary position of each individual state or territory will be no worse off as a result of national tax changes introduced in 2000-01. To meet this guarantee, the Commonwealth has agreed to make BBA payments to each state or territory as necessary. In 2000-01, it is estimated that Tasmania will receive a BBA of $21.8 million. In 2001-02, the BBA to Tasmania is estimated to be $53.1 million.

National Competition Payments

The *Agreement to Implement the National Competition Policy and Related Reforms* provides for the states and territories to receive general revenue grants which reflect a share of the expected revenue gains to the Commonwealth arising from the implementation of National Competition Policy (NCP) by the states and territories. It is estimated that in 2001-02 Tasmania will receive $17.2 million for this purpose, an increase of $6 million on the 2000-01 Budget estimate of $11.2 million. The increase is due to Tasmania receiving a positive report in relation to the first and second tranche assessments and a substantial increase in the National Competition Policy pool of funds available to all states and territories.

Health Care Grant

The Health Care Grant (HCG) is estimated to be $145.6 million in 2001-02, $9.9 million or 7.3 per cent greater than the budgeted amount of $135.7 million for 2000-01.

Other Specific Purpose Payments

Specific purpose payments from the Commonwealth that are paid to the Consolidated Fund will total $181.9 million (excluding the Health Care Grant) in 2001-02, an increase of $10.1 million or 5.9 per cent on budgeted receipts for 2000-01 of $171.8 million.

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

State Taxation

Total State taxation revenue for 2001-02 is estimated to be $484.9 million, a decrease of $35.7 million or 6.9 per cent on the 2000-01 Budget estimate of $520.6 million.

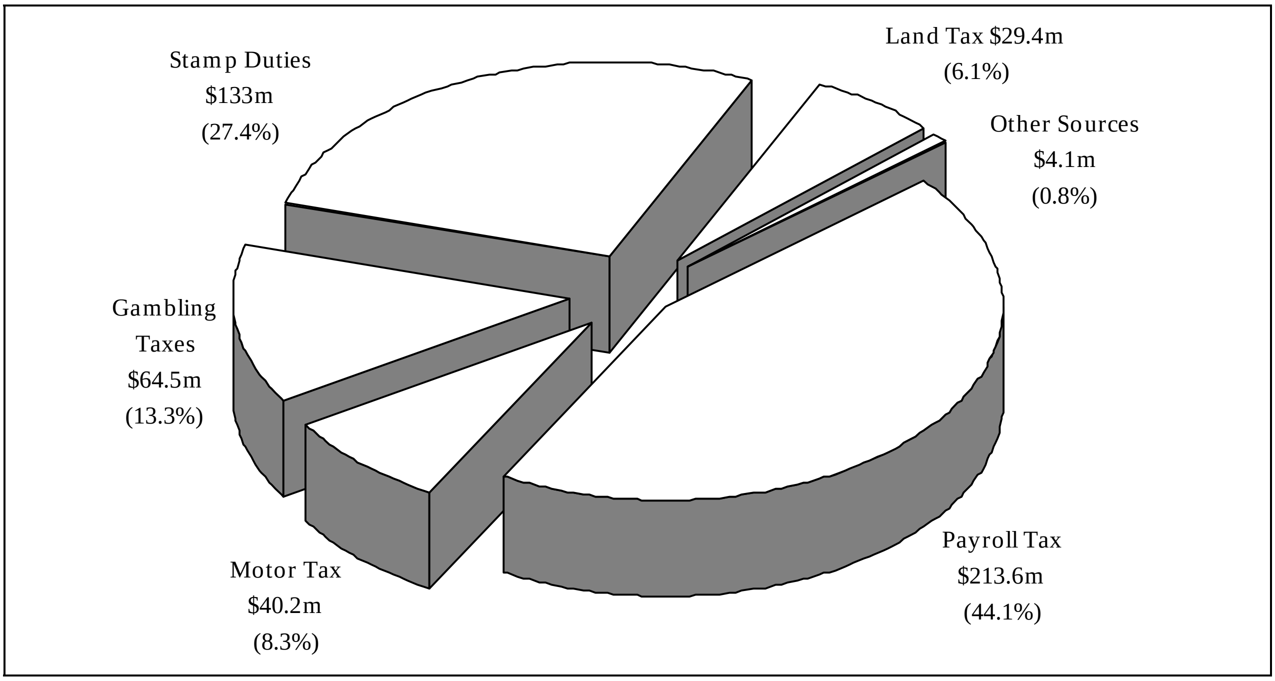
The decrease is primarily due to the following factors:

- Electricity Entities Levy receipts in 2001-02 are estimated to be $1.9 million compared to the 2000-01 Budget estimate of $15.7 million. This reduction is a result of the Government's taxation relief package introduced with the 2001-02 Budget;
- Payroll Tax receipts in 2001-02 are estimated to be $213.6 million, a decrease of $4.2 million or 1.9 per cent of the 2000-01 Budget estimate of $217.8 million. The expected decrease in receipts is primarily the result of the Government's tax relief package introduced with the 2001-02 Budget, partially offset by expected growth in employment and wage levels;
- Financial Institutions Duty (FID) receipts in 2001-02 are estimated to be $2.1 million compared to the 2000-01 Budget estimate of $25.5 million. This reduction is a result of the abolition of FID under the IGA and the national tax changes introduced in 2000-01;
- Stamp Duties receipts in 2001-02 are estimated to be $133.0 million, an increase of $5.1 million or 4.0 per cent over the 2000-01 Budget estimate of $127.9 million;
- Land Tax receipts are estimated to be $29.4 million in 2001-02, an increase of $2.1 million or 7.7 per cent over the 2000-01 Budget estimate of $27.3 million; and
- Gambling Receipts are estimated to be $64.5 million in 2001-02, an increase of $3.0 million or 4.9 per cent over the 2000-01 Budget estimate of $61.5 million. This is a result of an increase in Casino tax and Licence fees of $7.4 million, which has been partially offset by a decrease of $4.2 million in Racing and Gaming taxes. The decrease in Racing and Gaming taxes is a result of TOTE Tasmania Pty Ltd becoming a State-owned Company (SOC) on 5 March 2001 under the provisions of the *TOTE Tasmania Act 2000*. Since 1 August 2000, a new financial arrangement between the TOTE, the Government and the racing industry has been in place, where the requirement for the TOTE to pay a turnover-based commission to the State Government and the Tasmanian racing industry has been replaced with the requirement to pay a licence fee and product fee respectively.

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

Chart 4.4 shows the estimated State taxation receipts for 2001-02 and a breakdown of the categories of State taxation.

Chart 4.4: State Taxation Revenue, 2001-02



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

Returns from Government businesses in 2001-02 are expected to be $155.7 million, an increase of $43.6 million or 38.9 per cent on the Budget estimate of $112.1 million for 2000-01. The main reason for this increase is improved estimated profit outcomes from the major entities in 2000-01 and increased profitability for Aurora Energy Pty Ltd and Hydro Tasmania in 2001-02 due to implementation of the Ralph Committee Tax reforms and debt restructuring activity undertaken in 2000-01.

In 2001-02, it is estimated that Hydro Tasmania will pay $47.1 million in dividends (including a special dividend of $40 million), $38.0 million in tax equivalent payments and $3.4 million in guarantee fees. Transend Networks Pty Ltd is expected to pay a dividend of $10.8 million and an estimated $11.2 million in tax equivalent payments. Aurora Energy Pty Ltd is expected to pay $8.9 million in dividends, $19.3 million in tax equivalent payments and $1.2 million in guarantee fees.

In 2001-02, the Tasmanian Public Finance Corporation is expected to pay a dividend of $4.1 million and an estimated $3.2 million in tax equivalent payments.

During 2001-02, Forestry Tasmania will contribute $4.0 million to the Consolidated Fund, comprising $2.5 million by way of an ordinary dividend, $1.2 million by way of tax equivalent payments and guarantee fees of $240 000.

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

Departmental Fees and Other Recoveries

Revenue from fees and other charges levied for services provided by agencies in 2001-02 is estimated to be $77.4 million, an increase of 6.3 per cent over budgeted receipts of $72.8 million for 2000-01. The increase in revenue from these sources is largely attributable to an increase of $3.1 million in the receipts of the Department of Primary Industries, Water and Environment and an increase of $2.7 million in the receipts of the Department of Police and Public Safety in 2001-02 over the budgeted receipts for 2000-01. These increases are due to an anticipated increase in abalone royalty receipts and firearm licence renewals in 2001-02, respectively.

Recoveries of State Debt Charges

Interest and Sinking Fund Recoveries are estimated to be $7.0 million in 2001-02, a decline of $6.2 million, or 46.9 per cent, from Budget estimates of $13.2 million for 2000-01. This decline reflects a decrease in the outstanding balances of some loans to statutory authorities, and is offset by reduced Financial Agreement debt repayments to the Commonwealth.

Resource Rents and Royalties

Revenue received from resource rents and royalties is estimated to be $16.0 million in 2001-02, unchanged from the budgeted receipts in 2000-01.

Capital Receipts

In 2001-02, capital receipts are estimated to be $51.7 million, a decrease of $3.1 million or 5.7 per cent over the budgeted receipts of $54.8 million for 2000-01.

Table 4.3: Summary of Capital Receipts, 2001-02

	2000-01 Budget	2001-02 Budget	Variation
	$'000	$'000	%
Commonwealth Sources			
Specific Purpose Payments	**53 985**	**50 869**	**(5.8)**
Total Commonwealth Sources	**53 985**	**50 869**	**(5.8)**
State Sources			
Loan Repayments	**816**	**831**	**1.8**
Total State Sources	**816**	**831**	**1.8**
Total Capital Receipts	**54 801**	**51 700**	**(5.7)**

Commonwealth Specific Purpose Capital Payments

These payments are for specific projects nominated by the Commonwealth and are expected to total $50.9 million in 2001-02, representing a decrease of 5.7 per cent over the 2000-01 budgeted receipts of $54.0 million. This decrease is attributable in the main to the decrease in housing funding of $2.4 million.

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

State Sources

The receipts from this source represent the repayment of advances financed from previous years' allocations to various community organisations. Receipts have increased from $816 000 in 2000-01 to $831 000 in 2001-02, an increase of 1.8 per cent.

Details of capital receipts are provided in Table 4.4.

Financing Transactions

The budgeted 2001-02 Gross Consolidated Fund Surplus of $3.4 million includes a contribution payable to the Debt Retirement Reserve Trust Account. Adding back this contribution of $710 000 results in a Consolidated Fund Surplus of $4.2 million for 2001-02.

Table 4.4: Consolidated Fund Receipts, 2000-01 and 2001-02

	2000-01 Budget	2001-02 Budget
	$'000	$'000
Commonwealth Sources		
Recurrent Receipts		
General Purpose Payments		
GST Revenue	977 700	1 107 600
Transitional Grant[1]	20 500	53 100
Competition Payments	11 200	17 200
Transitional Loans	65 100	....
Total General Purpose Payments	1 074 500	1 177 900
Specific Purpose Payments		
Health and Human Services		
Blood Transfusion Service	1 495	1 600
Commonwealth-State Housing Agreement	15 601	17 741
Disability Services Grant	13 047	15 478
Health Care Grant	135 700	145 600
High Cost Drugs	4 850	4 850
Home and Community Care Program	13 913	14 630
National Child Care Strategy	195	203
Public Health Outcomes Funding Agreement	3 931	3 931
Supported Accommodation Assistance Program	5 566	6 574
Education		
Primary and Secondary Education	38 591	41 091
Technical and Further Education	18 950	19 650
Primary Industries, Water and Environment		
World Heritage Area	5 200	5 300
Police and Public Safety		
Natural Disasters Organisations	197	202
Finance-General		
Assistance for Concessions	5 150	5 360
Grant to the State for Local Government	45 100	45 300
Total Specific Purpose Payments	307 486	327 510

Note:
1. Under the *Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations* (IGA), the Commonwealth has guaranteed that the states are to be no worse off as a result of the introduction of national tax changes. To meet this guarantee, the Commonwealth has agreed to make Budget Balancing Assistance payments to each state and territory as necessary.

Table 4.4: Consolidated Fund Receipts, 2000-01 and 2001-02 (continued)

	2000-01 Budget	2001-02 Budget
	$'000	$'000
Capital Receipts		
Specific Purpose Payments		
Health and Human Services		
Housing	12 766	10 389
Education		
Primary and Secondary Education	6 184	6 270
Technical and Further Education	4 680	3 855
Infrastructure, Energy and Resources		
National Highway System	30 355	30 355
Total Specific Purpose Payments	53 985	50 869
Total Specific Purpose Payments	361 471	378 379
Total Commonwealth	1 435 971	1 556 279
State Sources		
Taxation		
Land Tax	27 271	29 396
Motor Taxation	42 834	40 239
Payroll Tax[1]	217 753	213 622
Financial Transaction Taxes		
Financial Institutions Duty	25 527	2 126
Stamp Duties[2]	127 904	133 019
Franchise Fees and Levies		
Electricity Entities Levy[1]	15 711	1 942
Safety Net Revenue[3]	2 109	....

Notes:
1. The expected decreases in payroll tax and the Electricity Entities Levy receipts reflect the taxation relief package introduced with the 2001-02 Budget.
2. The increase in stamp duties receipts reflects increased activity in the Tasmanian property market.
3. On 1 July 2000, section 90 Safety Net Arrangements to the State were abolished with the introduction of the national tax changes. The 2000-01 Budget estimate reflected revenue to be collected in 2000-01 relating to the 1999-00 financial year.

Table 4.4: Consolidated Fund Receipts, 2000-01 and 2001-02 (continued)

	2000-01 Budget	2001-02 Budget
	$'000	$'000
Gambling Taxes		
Casino Tax and Licence Fees[1]	36 754	44 159
Lottery Tax	20 182	19 992
Racing and Gaming Taxes	4 556	363
Other		
Sundry Licences	30	30
Total Taxation	520 631	484 888
Receipts from Government Business Enterprises, State-owned Companies and State Authorities		
Dividends		
Aurora Energy Pty Ltd[2]	3 278	8 926
Egg Marketing Board	3	....
Forestry Tasmania	2 576	2 538
Hobart Ports Corporation Pty Ltd	500	505
Hydro Tasmania[2]	3 585	7 081
Motor Accidents Insurance Board	1 216	....
Port of Devonport Corporation Pty Ltd	519	736
Port of Launceston Pty Ltd	280	315
Printing Authority of Tasmania	....	60
Southern Regional Cemetery Trust	30	70
Stanley Cool Stores Board	99	54
Tasmanian Grain Elevators Board	29	32
Tasmanian Public Finance Corporation	3 328	4 072
The Public Trustee	....	100
TOTE Tasmania Pty Ltd	....	440
Transend Networks Pty Ltd[2]	9 635	10 794
Sub-total	25 078	35 723
Special Dividends		
Hydro Tasmania	40 000	40 000
Southern Regional Cemetery Trust	250	....
Sub-total	40 250	40 000

Notes:
1. The increase in the receipts from Casino Tax and Licence Fees reflects increased revenue as a result of the increase in the allowable number of gaming machines in gaming venues.
2. The increase in the estimated dividends from the electricity businesses is a result of increased profit outcomes in 2000-01 and implementation of Ralph Committee tax reforms.

Table 4.4: Consolidated Fund Receipts, 2000-01 and 2001-02 (continued)

	2000-01 Budget	2001-02 Budget
	$'000	$'000
Tax Equivalents		
Aurora Energy Pty Ltd[1]	8 276	19 314
Burnie Port Corporation Pty Ltd	10	....
Egg Marketing Board	3	....
Forestry Tasmania	1 281	1 229
Hobart Ports Corporation Pty Ltd	....	438
Hydro Tasmania[1]	20 546	37 950
Metro Tasmania Pty Ltd	20	....
Port of Devonport Corporation Pty Ltd	244	497
Southern Regional Cemetery Trust	33	61
Stanley Cool Stores Board	107	40
Tasmanian Grain Elevators Board	32	71
Tasmanian Public Finance Corporation[2]	1 363	3 189
TOTE Tasmania Pty Ltd	....	702
Transend Networks Pty Ltd[1]	10 190	11 221
Sub-total	42 105	74 712
Guarantee Fees		
Aurora Energy Pty Ltd	1 000	1 247
Burnie Port Corporation Pty Ltd	103	43
Forestry Tasmania	150	240
Hobart Ports Corporation Pty Ltd	56	50
Hydro Tasmania	3 000	3 400
Metro Tasmania Pty Ltd	20	13
Port of Devonport Corporation Pty Ltd	11	32
Port of Launceston Pty Ltd	80	56
Rivers and Water Supply Commission	80	80
TOTE Tasmania Pty Ltd	19	12
Transend Networks Pty Ltd	101	100
Sub-total	4 620	5 273
Total Recoveries from GBEs, SOCs and State Authorities	112 053	155 708

Notes:

1. The increase in the estimated tax equivalents from the electricity businesses is a result of increased profit outcomes in 2000-01 and implementation of Ralph Committee tax reforms.
2. The increase in the estimated tax equivalent payments of the Tasmanian Public Finance Corporation is a result of prior year tax losses having been exhausted, thus increasing the income tax equivalent payable on the 2000-01 profit of the Corporation.

Table 4.4: Consolidated Fund Receipts, 2000-01 and 2001-02 (continued)

	2000-01 Budget	2001-02 Budget
	$'000	$'000
Departmental Fees and Recoveries		
Education	8 129	8 324
Health and Human Services	242	16
Infrastructure, Energy and Resources	26 244	25 460
Justice and Industrial Relations	7 548	7 730
Police and Public Safety	276	2 982
Premier and Cabinet	2	2
Primary Industries, Water and Environment	26 025	29 080
State Development	3 990	3 495
Treasury and Finance	310	319
Total Departmental Fees and Recoveries	72 766	77 408
Recoveries of State Debt Charges		
Interest	12 715	6 672
Sinking Fund Recoveries	509	346
Total Recoveries of State Debt Charges	13 224	7 018
Sale and Rent of Government Property		
Crown Lands Administration Fund	11 560	11 603
Rent of Education Properties	200	....
Rent of Police Quarters	300	47
Total Sale and Rent of Government Property	12 060	11 650
Resource Rents and Royalties		
Mineral Royalties	13 038	13 038
Rent and Fees from Mineral Lands	770	770
Storage of Explosives and Inflammable Liquids	226	226
Water Royalties	1 927	1 911
Total Resource Rents and Royalties	15 961	15 945

Table 4.4: Consolidated Fund Receipts, 2000-01 and 2001-02 (continued)

	2000-01 Budget	2001-02 Budget
	$'000	$'000
Other Recurrent Receipts		
Fines - Infringement Notices	5 500	5 500
Fines and Fees	3 000	3 000
Interest on Investments - Rivers and Water Supply Commission	19	19
Interest on Investments - Treasury and Finance	1 000	3 500
Miscellaneous	999	625
Prices Oversight and Electricity Regulation: Recoveries	650	650
Recoveries from Departmental Business Units	125	125
Stamp Duties - Instalment Payments	2 250	2 250
Total Other Recurrent Receipts	13 543	15 669
Capital Repayments		
Closer Settlement Act 1957 - Capital Advances	5	....
Midway Point Improvement Act 1975	35	35
Public Bodies Assistance Act 1971	610	630
State Loans and Loan Guarantees Act 1976	56	56
Tourism and Recreational Development Act 1977	10	10
Private Forests Loans	100	100
Total Capital Repayments	816	831
Total State	761 054	769 117
Total Receipts	2 197 025	2 325 396

EXPENDITURE

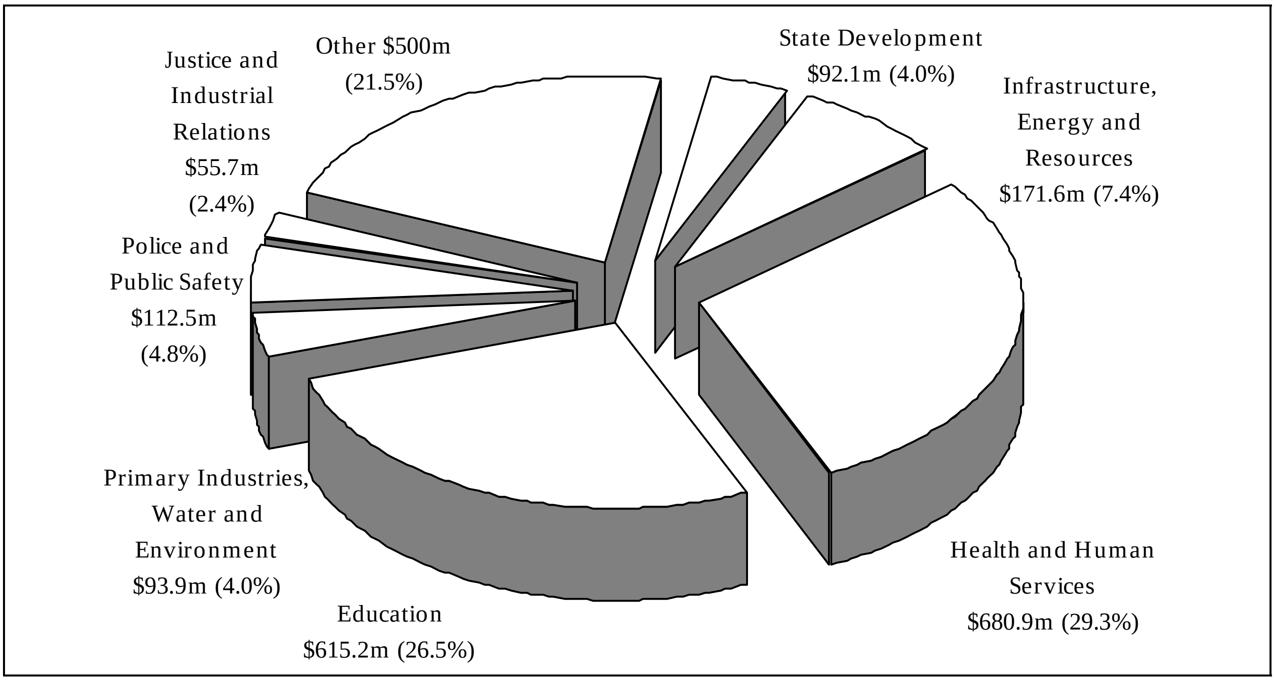
Expenditure in 2001-02 is expected to be $2 322.0 million, an increase of $125.9 million or 5.7 per cent over 2000-01 budgeted expenditure of $2 196.1 million.

Table 4.5: Consolidated Fund - Summary of Estimated Expenditure, 2001-02

	2000-01 Budget	2001-02 Budget	Variation
	$'000	$'000	%
Recurrent Services			
Appropriation Act	**1 937 203**	**2 005 057**	**3.5**
Reserved by Law	**118 869**	**150 840**	**26.9**
	2 056 072	**2 155 897**	**4.9**
Works and Services			
Appropriation Act	**140 033**	**166 059**	**18.6**
Total Expenditure	**2 196 105**	**2 321 956**	**5.7**

Chart 4.5 shows estimated total Consolidated Fund expenditure for 2001-02 and the percentage of the total expenditure for each major agency.

Chart 4.5: Consolidated Fund Expenditure, 2001-02



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

Further detail of expenditure is provided in Table 4.6. A listing of all Reserved by Law items of expenditure is provided in Table 4.7. Descriptions of the activities of departments funded through the Consolidated Fund are provided in Budget Paper No 2 *Operations of Government Departments 2001-02.*

Recurrent Services

Total expenditure on Recurrent Services is estimated at $2 155.9 million in 2001-02. This is $99.8 million or 4.9 per cent higher than 2000-01 budgeted expenditure of $2 056.1 million.

The provision included in the Finance-General Division for unbudgeted wage increases which may occur during 2001-02 is $12 million. In addition, Finance-General expenditure includes a payment to the Commonwealth of $12.4 million for the administration costs of the goods and services tax.

An allocation of $20 million has been made to the Treasurer's Reserve to provide for other unanticipated expenditures that may arise during 2001-02, the same level as in 2000-01. This reflects provision for unanticipated outlays which may impact on the 2001-02 Budget, and which cannot be included in specific expenditure items, and to provide a cushion in the event that revenue shortfalls occur.

Works and Services

Estimated expenditure on Works and Services for 2001-02 is $166.1 million. This represents an increase of $26.1 million, or 18.6 per cent, against 2000-01 budgeted expenditure of $140.0 million.

The increase in Works and Services expenditure is largely due to the provision of additional funding of $5 million for the first stage of the reconstruction of Reece High School and a $20 million contribution to the Infrastructure Fund.

The emphasis of the $146.1 million Capital Investment Program in 2001-02 is on maintaining the State's asset stock. This approach will result in a significant amount of work being undertaken through smaller projects.

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

Table 4.6: Total Consolidated Fund Expenditure, 2001-02

Agency	2000-01 Budget	2001-02 Budget Recurrent Services	Reserved by Law	Works and Services	Total	Variation
	$'000	$'000	$'000	$'000	$'000	%
Education	**585 501**	**590 691**	**....**	**24 546**	**615 237**	**5.1**
Finance-General	**377 279**	**258 722**	**136 490**	**20 000**	**415 212**	**10.1**
Health and Human Services	**651 591**	**658 677**	**....**	**22 230**	**680 907**	**4.5**
House of Assembly	**4 295**	**1 732**	**2 805**	**....**	**4 537**	**5.6**
Infrastructure, Energy and Resources	**168 315**	**91 174**	**52**	**80 350**	**171 576**	**1.9**
Justice and Industrial Relations	**53 486**	**45 835**	**8 548**	**1 322**	**55 705**	**4.1**
Legislative Council	**2 982**	**1 582**	**1 742**	**....**	**3 324**	**11.5**
Legislature-General	**3 733**	**3 514**	**....**	**....**	**3 514**	**(5.9)**
Ministerial and Parliamentary Support	**10 498**	**10 345**	**450**	**....**	**10 795**	**2.8**
Office of the Governor	**1 859**	**1 728**	**190**	**8**	**1 926**	**3.6**
Police and Public Safety	**106 525**	**111 497**	**....**	**1 026**	**112 523**	**5.6**
Premier and Cabinet	**18 048**	**20 125**	**....**	**200**	**20 325**	**12.6**
Primary Industries, Water and Environment	**89 744**	**90 891**	**123**	**2 890**	**93 904**	**4.6**
State Development	**84 188**	**85 949**	**148**	**6 011**	**92 108**	**9.4**
Tasmanian Audit Office	**257**	**....**	**292**	**....**	**292**	**13.6**
Treasury and Finance	**37 804**	**32 595**	**....**	**7 476**	**40 071**	**6.0**
TOTAL EXPENDITURE	**2 196 105**	**2 005 057**	**150 840**	**166 059**	**2 321 956**	**5.7**

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

Table 4.7: Estimated Expenditure on Reserved by Law Items

	2000-01 Budget	2001-02 Budget
	$'000	$'000
Finance-General		
Superannuation Benefits Payable under the *Solicitor-General Act 1983*	555	778
Payment to the Parliamentary Superannuation Fund and Parliamentary Retirement Benefits Fund *(Parliamentary Superannuation Act 1973* and *Parliamentary Retiring Benefits Act 1985)*	1 556	1 780
Superannuation Benefits Payable under the *Judges' Contributory Pensions Act 1968*	1 922	2 334
Interest Payable in Australia on Commonwealth Stock and Bonds raised on behalf of Tasmania *(Financial Agreement Act 1927)*	15 510	6 770
Refund to the Commonwealth of charges incurred in respect of Commonwealth Stock and Bonds raised or refinanced on behalf of Tasmania *(Financial Agreement Act 1927)*	35	35
Contribution payable to the Debt Retirement Reserve Trust Account *(Financial Agreement Act 1994)*	1 660	710
Payments to Municipalities under the *Local Government (Rates and Charges Remissions) Act 1991*	13 030	14 075
Appropriation to the Treasurer's Reserve *(Public Account Act 1986,* Section 11 (2))	10 000	10 000
Payments under the *Stamp Duties Act 1931* (Section 18c)	2 100	3 000
Payments under the *Beauty Point Landslip Act 1970*	20	20
Financial Assistance under the *Rosetta Landslip Act 1991*	100	50
Contribution to the Superannuation Provision Account *(Retirements Benefits Act 1993,* section 13)	55 616	93 058
Payments to the Tasmanian Community Fund	3 021	3 848
Superannuation Benefits payable under the *Governor of Tasmania Act 1982*	27	32
Total	105 152	136 490
House of Assembly		
Parliamentary Salaries and Allowances *(Parliamentary Salaries, Superannuation and Allowances Act 1973)*	2 457	2 665
Travelling Allowances *(Parliamentary Salaries, Superannuation and Allowances Act 1973)*	109	109
Members' Committee Fees and Allowances *(Parliamentary Salaries, Superannuation and Allowances Act 1973)*	31	31
Total	2 597	2 805

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

	2000-01 Budget	2001-02 Budget
	$'000	$'000
Infrastructure, Energy and Resources		
Contribution towards Construction of Streets in Towns by Municipal Councils *(Local Government Act 1993)*	52	52
Justice and Industrial Relations		
Salary, Solicitor-General *(Solicitor-General Act 1983)*	226	245
Salary, Director of Public Prosecutions *(Director of Public Prosecutions Act 1993)*	244	263
Salaries of Magistrates *(Magistrates Court Act 1987)*	2 068	2 234
Salaries of Judges *(Supreme Court Act 1987)*	1 399	1 586
Salary and Travelling Allowance, Master of the Supreme Court *(Supreme Court Act 1959)*	204	221
Expenses of Parliamentary Elections and Referendums *(Electoral Act 1985* and *Referendum Procedures Act 1994)*	611	472
Criminal Injuries Compensation Act 1976 Section 11(4): Payments	3 512	3 512
Expenses under the *Legislative Council Electoral Boundaries Act 1995*	10	10
Expenses of Aboriginal Land Council of Tasmania Elections	10	5
Total	8 284	8 548
Legislative Council		
Parliamentary Salaries and Allowances *(Parliamentary Salaries, Superannuation and Allowances Act 1973)*	1 495	1 591
Travelling Allowances *(Parliamentary Salaries, Superannuation and Allowances Act 1973)*	111	111
Members' Committee Fees and Allowances *(Parliamentary Salaries, Superannuation and Allowances Act 1973)*	40	40
Total	1 646	1 742
Ministerial and Parliamentary Support		
Allowances of Ministers *(Parliamentary Salaries, Superannuation and Allowances Act 1973)*	430	450
Office of the Governor		
Salary, His Excellency the Governor *(Governor of Tasmania Act 1982)*	173	183
Salary, The Administrator *(Governor of Tasmania Act 1982,* Section5(1))	7	7
Total	180	190
Primary Industries, Water and Environment		
Contribution to Cressy-Longford Reserve Fund (*Cressy-Longford Irrigation Act 1969,* Section 3)	123	123

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

	2000-01 Budget	2001-02 Budget
	$'000	**$'000**
State Development		
Contributions under the *Tasmanian Symphony Orchestra (Financial Assistance) Amendment Act 1993*	**148**	**148**
Tasmanian Audit Office		
Salary and Travelling Allowance, Auditor-General *(Financial Management and Audit Act 1990)*	**257**	**292**
TOTAL ESTIMATED EXPENDITURE ON RESERVED BY LAW ITEMS	**118 869**	**150 840**

CONCESSIONS

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

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

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

Table 4.8 lists, by agency, the value of State Government concessions to be provided in 2001-02. Details of specific departmental concessions are provided in Budget Paper No 2 *Operations of Government Departments 2001-02*.

Table 4.8: State Government Concessions, 2001-02

Agency	2000-01 Budget	2001-02 Budget
	$'000	$'000
Education	**5 070**	**5 337**
Finance-General	**26 728**	**29 200**
Health and Human Services	**42 221**	**42 566**
Infrastructure, Energy and Resources	**42 947**	**46 253**
Primary Industries, Water and Environment	**90**	**91**
Treasury and Finance	**5 536**	**6 836**
TOTAL CONCESSIONS	**122 5922**	**130 283**

5 STATE CAPITAL PROGRAM

Features

- The planned level of the 2001-02 State Capital Program is $475.5 million.
- A $60 million one-off Infrastructure Fund is being established to develop and maintain economic and social infrastructure.
- $53.3 million will be provided over six years for the redevelopment of correctional facilities at Risdon prison.
- The Capital Investment Program of agencies for 2001-02 is $180.7 million, including a $37.8 million Housing Program and a $83.6 million Roads Program.
- The level of funding for the Capital Investment Program has been increased to maintain in real terms the value of the State-funded component of the program over the forward estimates period.
- The 2001-02 Capital Investment Program, while including a number of longer term projects, continues the emphasis on the maintenance of the State's capital stock through smaller, labour intensive projects.
- The three year rolling Capital Investment Program provides greater certainty for agencies and the building industry.
- $6.6 million has been provided in 2001-02 to fund Essential Maintenance projects for public assets and projects in Government office accommodation through the Essential Maintenance and Property Services Office Works allocations.
- Government Business Enterprises, State-owned Companies and State Authorities have an estimated capital program of $236.8 million in 2001-02.

STATE CAPITAL PROGRAM

The State Capital Program comprises the capital programs of Government Business Enterprises (GBEs), State-owned Companies (SOCs) and State Authorities, the Capital Investment Program (CIP) and the Infrastructure Fund (IF). The CIP includes major capital works of agencies, the Roads Program, expenditure for public housing and major maintenance projects.

The IF is a major Government initiative that will provide one-off funding of $60 million for Tasmanian economic and social infrastructure projects. Of this, $40 million is for key economic infrastructure and $20 million is for social infrastructure, predominantly roads, schools and hospitals. Funding provided under the IF is in addition to the current CIP, which is being maintained at previous levels in real terms.

The Government has approved additional CIP funding of $53.3 million for stages one and two of the Prison Infrastructure Redevelopment Program, which involves redevelopment of the Risdon site from 2001-02 to 2006-07. The staged construction will place the majority of prisoners in new accommodation by 2006-07. At that time, a decision will be taken whether to build additional lower security accommodation for remaining prisoners (including provision for prisoners currently at the Hayes Prison Farm), within the new complex on the Risdon site, or alternatively, in a new facility in the north of the State.

The emphasis of the CIP in 2001-02 will continue to be on maintaining the State's asset stock including schools, hospitals and infrastructure projects. This approach will result in a significant amount of work being undertaken through small, labour intensive projects.

The 1999-00 Budget was the first year of publication of a rolling three year CIP. The three year rolling CIP provides greater certainty and a sound planning framework for agencies and the construction industry. Table 5.4 shows the funding commitments to specific projects over the next three years. Sufficient capacity is reserved in the CIP to fund emerging projects within the forward estimate years.

The level of funding for the CIP has been increased by adjusting the State-funded component of the program in real terms over the forward estimates period and providing an additional $5 million in both the 2001-02 and 2002-03 CIP to meet the estimated $10 million required over two years to rebuild Reece High School.

Major projects in the CIP for agencies that were completed or progressed during 2000-01 include ongoing conservation works at the Port Arthur Historic Site, the reconstruction of the Abt Railway and the redevelopment of existing facilities at the Ashley Youth Detention Centre. Major capital expenditure is planned for 2001-02 to rebuild Reece High School, complete the reconstruction of the Abt Railway and commence work on prison infrastructure redevelopment.

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

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

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

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

Table 5.1: State Capital Program - Summary

	2000-01 Budget	2001-02 Budget
	$'000	$'000
Sources of Funds		
Capital Investment Program		
State Funding - Brought Forward[1]	8 973	13 588
- Consolidated Fund[2]	86 048	94 991
- Other	15 159	21 030
Commonwealth Funding[2]	54 185	51 068
	164 365	180 677
Infrastructure Fund	....	60 000
GBEs, SOCs and State Authorities		
Total sources of funds[3,4]	247 308	234 779
	247 308	234 779
Total Funds	411 673	475 456
Application of Funds		
Capital Investment Program		
Capital Investment Program (Departments)[3,4]	53 153	57 293
Roads[5]	80 259	83 576
Housing	30 153	37 808
Total Capital Investment Program	163 565	178 677
Infrastructure Fund	....	60 000
GBEs, SOCs and State Authorities[3,4]	248 108	236 779
Total Expenditure	411 673	475 456

Notes:

1. It is estimated that total funds of $13.6 million will be carried forward to 2001-02 within agencies' operating accounts in accordance with section 8A(2) of the *Public Account Act 1986*. These funds relate to the following projects:

	$'000
Department of Education	
Lenah Valley Primary School	675
New Town Primary School	210
Forth Primary School	127
West Launceston Primary School	250
TAFE Clarence Campus	400
Deapartment of Health and Human Services	
Intensive Mental Health Care Unit	720
Ashley Youth Detention Centre	576
Building Services Maintenance	30
Dental Services – Statewide	300
Launceston General Hospital	594
Ambulance Fleet Upgrade	1 641
Housing Program	4 500
Department of Infrastructure, Energy and Resources	
Wiltshire Rail Depot	500
Commonwealth Road funding	2 876
Legislature-General	
Contract-retention monies	23
Consultants fees	16
Department of Police and Public Safety	
Breathalyser Replacement program	150
TOTAL	13 588

2. In 2001-02, the total Consolidated Fund Works and Services allocation is $146.1 million, including $51.1 million in Commonwealth funding.
3. The total allocation for the Capital Investment Program (Departments) is sourced from a number of areas. These are:

	$'000
Consolidated Fund Appropriation	51 301
add Approved Carried Forwards	6 212
add other funding	1 780
	59 293
less Consolidated Fund applied to Port Arthur Historic Site Management Authority Capital Program	(2 000)
TOTAL	57 293

4. It should be noted that the capital expenditure expected to be incurred by the Port Arthur Historic Site Management Authority during 2001-02 is to be funded from the Consolidated Fund and appropriated to the Department of State Development.
5. The 2001-02 total allocation for the Capital Investment Program (Roads) is sourced from a number of areas. These are:

	$'000
Consolidated Fund Appropriation	80 350
Commonwealth receipts not paid into the Consolidated Fund	2 876
Non-government contributions	350
TOTAL	83 576

GOVERNMENT DEPARTMENTS

Sources of Funds

For the 2001-02 financial year, capital programs for departments will be funded from a combination of:

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

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

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

	2000-01 Budget			2001-02 Budget		
Department	**Common-wealth**	**State**	**Total**	**Common-wealth**	**State**	**Total**
	$'000	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Education	**10 864**	**10 834**	**21 698**	**10 125**	**17 863**	**27 988**
Health and Human Services	**12 766**	**35 603**	**48 369**	**10 388**	**39 103**	**49 491**
Infrastructure, Energy and Resources[1]	**30 555**	**50 825**	**81 380**	**33 431**	**50 645**	**84 076**
Justice and Industrial Relations	**....**	**394**	**394**	**....**	**1 322**	**1 322**
Legislature-General	**....**	**225**	**225**	**....**	**39**	**39**
Office of the Governor	**....**	**8**	**8**	**....**	**8**	**8**
Police and Public Safety	**....**	**526**	**526**	**....**	**1 176**	**1 176**
Premier and Cabinet	**....**	**....**	**....**	**....**	**200**	**200**
Primary Industries, Water and Environment	**....**	**2 052**	**2 052**	**....**	**2 890**	**2 890**
State Development	**....**	**2 732**	**2 732**	**....**	**6 011**	**6 011**
Treasury and Finance	**....**	**6 981**	**6 981**	**....**	**7 476**	**7 476**
TOTAL	**54 185**	**110 180**	**164 365**	**53 944**	**126 733**	**180 677**

Note:

1. The Commonwealth component in 2001-02 includes a carry forward of Commonwealth Roads funding of $2.876 million.

Application of Funds

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

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

The PIP includes a review of:

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

The inherent benefits of the PIP are:

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

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

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

The total estimated expenditure for the CIP by departments in 2001-02, as summarised in Table 5.2, is $180.7 million.

Table 5.3 provides a comparison of the estimated expenditure for 2000-01 and estimated expenditure for 2001-02 by department. This Table does not include details in relation to capital investment in roads and housing or the IF, which are detailed later in this chapter.

Table 5.3: Capital Investment Program (Departments) – Summary

Department	2000-01 Budget	2001-02 Budget
	$'000	$'000
Education	**21 698**	**27 988**
Health and Human Services	**18 216**	**11 683**
Infrastructure, Energy and Resources	**1 121**	**500**
Justice and Industrial Relations	**394**	**1 322**
Legislature-General	**225**	**39**
Office of the Governor	**8**	**8**
Police and Public Safety	**526**	**1 176**
Premier and Cabinet	**....**	**200**
Primary Industries, Water and Environment	**2 052**	**2 890**
State Development	**2 732**	**6 011**
Treasury and Finance	**6 981**	**7 476**
TOTAL	**53 953**	**59 293**

Details of departmental projects that are included in the CIP are contained in Table 5.4, which lists individual projects for each department and includes information on individual projects with respect to the estimated total cost and estimated expenditure for 2001-02, 2002-03 and 2003-04.

Table 5.4 reflects details of the estimated cost of projects at the time of the 2001-02 Budget. Costs will vary as projects proceed to tender and some re-scheduling of individual projects is likely to occur during the year. This may allow some expenditure to occur against projects which are programmed to go to tender late in the financial year and for which funds are not currently provided in 2001-02.

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

	Estimated Total Cost	2001-02 Estimate	2002-03 Estimate	2003-04 Estimate
	$'000	**$'000**	**$'000**	**$'000**
DEPARTMENT OF EDUCATION				
Bridport Primary School	**765**	**120**	**645**	**....**
Completion Date: January 2003 Funding is provided for a four classroom block to replace the existing terrapin classrooms, new kindergarten and relocation of staff facilities from the existing teacher residence.				
Brighton Primary School	**950**	**440**	**510**	**....**
Completion Date: February 2003 Provides for improvements to the general facilities at the school including the replacement of temporary structures.				
Building Services Maintenance – Education	**ongoing**	**1 624**	**1 624**	**1 624**
Ongoing funding is provided to agencies to meet maintenance requirements including occupational health and safety issues and heritage requirements.				
Building Services Maintenance - TAFE	**ongoing**	**492**	**492**	**492**
Ongoing funding is provided to meet maintenance requirements including occupational health and safety issues and heritage requirements.				
Campbell Street Primary School	**434**	**434**	**....**	**....**
Completion Date: April 2002 This project provides for the redevelopment of classrooms at the Campbell Street Primary School complex.				

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

	Estimated Total Cost	2001-02 Estimate	2002-03 Estimate	2003-04 Estimate
	$'000	**$'000**	**$'000**	**$'000**
DEPARTMENT OF EDUCATION (continued)				
Claremont College Gymnasium	**950**	**950**	**....**	**....**
Completion Date: March 2002				
This project provides for the refurbishment of the Claremont College Gymnasium facility.				
Claremont High School Refurbishment	**1 984**	**1 784**	**200**	**....**
Completion Date: April 2003				
Funding is provided to reconfigure and redevelop specialist and general learning areas.				
East Ulverstone Primary School	**700**	**700**	**....**	**....**
Completion Date: June 2002				
Funding is provided to redevelop existing classrooms including wet activity and withdrawal areas, extend the general purpose room and upgrade power and heating.				
Elizabeth College	**1 701**	**1 250**	**451**	**....**
Completion Date: February 2003				
Funding is provided for the construction of a staff/student amenity area and a home economics teaching facility.				
Evandale Primary School	**692**	**58**	**634**	**....**
Completion Date: December 2002				
This funding is for the provision of classrooms, including a general purpose room and library.				
Forth Primary School	**900**	**127**	**....**	**....**
Completion Date: June 2001				
Funding is provided to redevelop the existing facility to provide adequate library, toilet and office facilities.				
Howrah Primary School	**715**	**380**	**335**	**....**
Completion Date: February 2003				
Provides for the redevelopment of existing classrooms and the enclosing of part of the existing quadrangle.				

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

	Estimated Total Cost	2001-02 Estimate	2002-03 Estimate	2003-04 Estimate
	$'000	**$'000**	**$'000**	**$'000**
DEPARTMENT OF EDUCATION (continued)				
King Island District High School	**460**	**460**	**....**	**....**
Completion Date: March 2002				
Funding is provided to reconfigure and redevelop home economics and art accommodation, including roof repairs.				
Launceston Library	**270**	**270**	**....**	**....**
Completion Date: June 2002				
Funding is provided for the replacement of carpet in the Launceston lending and reference libraries.				
Lenah Valley Primary School	**950**	**675**	**....**	**....**
Completion Date: August 2001				
Funding is provided for the redevelopment of the general learning areas at the school complex.				
Montagu Bay Primary School	**600**	**600**	**....**	**....**
Completion Date: May 2002				
Funding is provided for the upgrading of existing facilities, together with the provision of additional classroom accommodation.				
Montello Primary School	**330**	**330**	**....**	**....**
Completion Date: March 2002				
Funding is provided for the refurbishment of classroom facilities.				
Mountain Heights School	**504**	**504**	**....**	**....**
Completion Date: February 2002				
Provides for the redevelopment of the MDT block.				
Multi Sites - Risk Reduction	**1 296**	**648**	**648**	**....**
Completion Date: May 2003				
Funding is provided for the purposes of risk reduction, compliance and risk analysis.				

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

	Estimated Total Cost	2001-02 Estimate	2002-03 Estimate	2003-04 Estimate
	$'000	$'000	$'000	$'000
DEPARTMENT OF EDUCATION (continued)				
Multi-Sites - Branch Library Strategy Completion Date: January 2003 Funding is provided for the improvement of Branch libraries including the amalgamation of school and community libraries.	**174**	**89**	**85**	**....**
Natone Primary School Completion Date: June 2002 Funding is provided for the redevelopment of administration / staffroom and storage areas and completion of windows replacement.	**450**	**450**	**....**	**....**
New Town Primary School Completion Date: August 2001 Provides for the upgrading of the general learning areas and new general purpose room at the New Town Primary School complex.	**970**	**210**	**....**	**....**
Norwood Primary School Completion Date: June 2002 Funding is provided for the relocation of the kindergarten and library and the construction of a general purpose hall.	**468**	**468**	**....**	**....**
Queechy High School Completion Date: August 2001 Provides for the upgrade of specialist teaching facilities including home economics, business studies, art and music as well as the undertaking of urgent repairs to building structures.	**3 649**	**200**	**....**	**....**
Reece High School Completion Date: January 2003 Funding is provided to rebuild Reece High School.	**10 000**	**5 000**	**5 000**	**....**

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

	Estimated Total Cost	2001-02 Estimate	2002-03 Estimate	2003-04 Estimate
	$'000	**$'000**	**$'000**	**$'000**
DEPARTMENT OF EDUCATION (continued)				
Riverside High School	**320**	**320**	**....**	**....**
Completion Date: February 2002				
Funding is provided for the rehabilitation of the technology facility at the school.				
Riverside Primary School	**1 670**	**890**	**780**	**....**
Completion Date: April 2003				
Provides for the redevelopment, replacement and removal of existing sub standard classroom accommodation.				
Sheffield District High School	**1 078**	**772**	**306**	**....**
Completion Date: February 2003				
Funding is provided for the refurbishment of the infant, home economics and MDT areas.				
Smithton High School	**634**	**634**	**....**	**....**
Completion Date: June 2002				
Provides for the relocation of the MDT, music, art learning areas including the refurbishment of staff room facilities and the development of a new computer laboratory.				
State Library	**270**	**270**	**....**	**....**
Completion Date: June 2002				
Funding is provided for the replacement of carpet in the Hobart lending and reference libraries.				
TAFE - Hobart Campus	**15 000**	**3 005**	**5 225**	**....**
Completion Date: December 2003				
Funding is provided for the progression of the 30 year old Tasman complex to contemporary standards.				
TAFE - Infrastructure Support	**ongoing**	**850**	**850**	**850**
Funding is provided for general infrastructure support for delivery of vocational education and training.				

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

	Estimated Total Cost	2001-02 Estimate	2002-03 Estimate	2003-04 Estimate
	$'000	$'000	$'000	$'000
DEPARTMENT OF EDUCATION (continued)				
TAFE Clarence Campus	**7 500**	**1 400**	**2 130**	**1 600**
Funding is provided to refurbish an existing training facility for horticultural training.				
Ulverstone High School	**900**	**900**	**....**	**....**
Completion Date: June 2002				
Funding is provided to refurbish science teaching facilities, art facilities and replace the existing gymnasium floor.				
West Launceston Primary School	**970**	**250**	**....**	**....**
Completion Date: August 2001				
Funding is provided for the redevelopment of the general learning areas, general purpose hall extensions and a new classroom.				
Woodbridge District High School	**434**	**434**	**....**	**....**
Completion Date: December 2001				
Funding is provided for the redevelopment of the primary classrooms in the lower primary area.				
Clarence High School	**1 350**	**....**	**1 350**	**....**
Completion Date: April 2003				
Funding is provided for the refurbishment of the existing science and teaching accommodation, including an upgrade of the music and speech and drama facilities.				
Hagley Primary School	**2 000**	**....**	**1 400**	**600**
Completion Date: June 2004				
Funding is provided to redevelop general learning areas, develop a new library, special activities area and an additional toilet block.				
Kingston Library	**650**	**....**	**54**	**596**
Completion Date: March 2004				
Provided for extensions to the existing building.				

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

	Estimated Total Cost	2001-02 Estimate	2002-03 Estimate	2003-04 Estimate
	$'000	**$'000**	**$'000**	**$'000**
DEPARTMENT OF EDUCATION (continued)				
Rosetta High School	**880**	**....**	**880**	**....**
Completion Date: April 2003				
Funding is provided for the redevelopment of existing materials design and technology, art and home economics learning areas, gymnasium / general-purpose hall and student amenities.				
Rosny College	**560**	**....**	**250**	**310**
Completion Date: April 2004				
Funding is provided for the refurbishment of the MDT teaching areas to meet current standards and statutory requirements.				
South Arm Primary School	**360**	**....**	**360**	**....**
Completion Date: May 2003				
Provides for the upgrading of existing facilities, together with the provision of additional classroom accommodation.				
Taroona High School	**2 200**	**....**	**300**	**1 900**
Completion Date: July 2004				
Funding is provided for the redevelopment of the middle school block.				
Cambridge Primary School	**720**	**....**	**....**	**720**
Completion Date: January 2004				
Development of general learning areas and associated access and services.				
Kings Meadows High School	**800**	**....**	**....**	**800**
Completion Date: June 2004				
Funding is provided to develop new materials, design and technology areas and redevelop art and administrative accommodation.				

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

	Estimated Total Cost	2001-02 Estimate	2002-03 Estimate	2003-04 Estimate
	$'000	**$'000**	**$'000**	**$'000**
DEPARTMENT OF EDUCATION (continued)				
Oatlands District High School	**800**	**....**	**....**	**800**
Completion Date: July 2004				
Funding is provided for the redevelopment of the library, technology centre and classrooms.				
Prospect High School	**750**	**....**	**....**	**750**
Completion Date: April 2004				
Funding is provided for the redevelopment of the Speech and Drama / Student area.				
Tasman District High School	**650**	**....**	**....**	**650**
Completion Date: June 2004				
Funding is provided for new general learning areas, student facilities, and to remove temporary buildings.				
TOTAL		**27 988**	**24 509**	**11 692**
DEPARTMENT OF HEALTH AND HUMAN SERVICES				
Ambulance Fleet Upgrade	**7 500**	**4 641**	**....**	**....**
Completion Date: March 2002				
The Ambulance Fleet will be upgraded with modern vehicles.				
Ashley Youth Detention Centre Redevelopment	**7 395**	**576**	**....**	**....**
Completion Date: June 2001				
This project involves redeveloping existing facilities to provide services in accordance with the principles outlined in the *Youth Justice Act 1997*. Funding is also provided for costs associated with fire damage at the site and the provision of security fencing.				
Building Services Maintenance	**ongoing**	**108**	**78**	**78**
Ongoing funding is provided to agencies to meet maintenance requirements including occupational health and safety issues and heritage requirements.				

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

	Estimated Total Cost	2001-02 Estimate	2002-03 Estimate	2003-04 Estimate
	$'000	$'000	$'000	$'000
DEPARTMENT OF HEALTH AND HUMAN SERVICES (continued)				
Campbelltown District Hospital Redevelopment	**2 950**	**550**	**2 100**	**300**
Completion Date: September 2002 This project is for the upgrading of the existing Campbell Town District Hospital facility. A redevloped facility will greatly improve the overall efficiency of service delivery.				
Deloraine Hospital Redevelopment	**2 450**	**850**	**1 600**	**....**
This project provides for the eventual replacement of outdated site facilities.				
Dental Services - Statewide	**1 209**	**300**	**....**	**....**
Completion Date: December 2000 This project involves the upgrading of existing facilities and collocating with other health services in sites such as community health centres. An upgraded mobile service will be provided to designated remote areas. A clinic will also be provided in Burnie.				
Huon Valley Community and Health	**1 500**	**200**	**1 000**	**300**
Completion Date: December 2003 This project involves the construction of a new Community and Health Centre in Huonville.				
Intensive Mental Health Care Unit, RHH	**1 600**	**720**	**....**	**....**
This project provides for the redevelopment of the Intensive Mental Health Care Unit, RHH.				

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

	Estimated Total Cost	2001-02 Estimate	2002-03 Estimate	2003-04 Estimate
	$'000	**$'000**	**$'000**	**$'000**
DEPARTMENT OF HEALTH AND HUMAN SERVICES (continued)				
Launceston General Hospital - Day Surgery and Outpatient Areas Redevelopment	**594**	**594**	**....**	**....**
This project is for the refurbishment of underutilized ward space on the ground floor of the Launceston General Hospital to accommodate Gynaecology and Obstetric non-admitted services and other clinics and for the establishment of a transition lounge and patient and visitor waiting areas adjacent to the Endoscopy and Day Surgery Unit.				
New Norfolk District Hospital Redevelopment	**1 850**	**900**	**700**	**250**
Completion date: September 2004 This project involves the construction of a dedicated Health and Community Centre on the site of the existing New Norfolk District Hospital and the construction of a residential facility.				
North-West Ambulances	**500**	**500**	**....**	**....**
This project involves the acquisition and replacement of a number of ambulance/rescue vehicles. This funding is over and above the current replacement program.				
NW Medical Equipment Replacement	**210**	**210**	**....**	**....**
This project provides for the replacement of medical equipment in North-West hospitals.				
NWRH Accident and Emergency Entrance	**100**	**100**	**....**	**....**
This project provides for the completion of a suitable all weather entrance to the facility.				
NWRH Day Surgery Extensions	**500**	**500**	**....**	**....**
This project provides funding for improvements to the NWRH's day surgery facility, allowing for increased day surgery capacity.				

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

	Estimated Total Cost	2001-02 Estimate	2002-03 Estimate	2003-04 Estimate
	$'000	**$'000**	**$'000**	**$'000**
DEPARTMENT OF HEALTH AND HUMAN SERVICES (continued)				
RHH Redevelopment Stage 3	**8 339**	**484**	**2 692**	**5 079**
Completion Date: November 2003 This project provides for an upgrade to the structure of the Department of Emergency Medicine (DEM) and the internal layout of the Department of Medical Imaging (DMI).				
Sorell Community Health Centre	**1 221**	**200**	**1 021**	**....**
This project is for a new Community and Health Centre to provide for development services for the Sorell municipality.				
West Coast Multi Purpose Service Development	**3 900**	**250**	**500**	**500**
This project is for the construction of a Community and Health Centre in Queenstown, including residential aged and in-patient care services.				
TOTAL		**11 683**	**9 691**	**6 507**
DEPARTMENT OF INFRASTRUCTURE, ENERGY AND RESOURCES				
Wiltshire Junction to Smithton Railway	**850**	**500**	**....**	**....**
This funding will provide for the costs associated with land acquisition and obtaining planning approvals for the Wiltshire Junction to Smithton Railway link.				
TOTAL		**500**	**....**	**....**

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

	Estimated Total Cost	2001-02 Estimate	2002-03 Estimate	2003-04 Estimate
	$'000	$'000	$'000	$'000
DEPARTMENT OF JUSTICE AND INDUSTRIAL RELATIONS				
Building Services Maintenance	**ongoing**	**94**	**94**	**94**
Ongoing funding is provided to agencies to meet maintenance requirements including occupational health and safety issues and heritage requirements.				
Prisons Infrastructure Redevelopment Program	**53 344**	**1 228**	**3 815**	**13 705**
This project provides for the construction of new correctional facilities.				
TOTAL		**1 322**	**3 909**	**13 799**
LEGISLATURE-GENERAL				
Conservation Works	**555**	**39**	**....**	**....**
Completion Date: February 2001 These works provides for the restoration and conservation of the 'historic core' of Parliament House.				
TOTAL		**39**	**....**	**....**
OFFICE OF THE GOVERNOR				
Building Services Maintenance	**ongoing**	**8**	**8**	**8**
Ongoing funding is provided to agencies to meet maintenance requirements including occupational health and safety issues and heritage requirements				
TOTAL		**8**	**8**	**8**
DEPARTMENT OF POLICE AND PUBLIC SAFETY				
Breathalyser Replacement Program	**ongoing**	**300**	**150**	**150**
This funding provides for the replacement of breathalyser units. The replacement program will be completed in 2003-04.				

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

	Estimated Total Cost	2001-02 Estimate	2002-03 Estimate	2003-04 Estimate
	$'000	$'000	$'000	$'000
DEPARTMENT OF POLICE AND PUBLIC SAFETY (continued)				
Building Services Maintenance	**ongoing**	**376**	**376**	**376**
Ongoing funding is provided to agencies to meet maintenance requirements including occupational health and safety issues and heritage requirements.				
Rokeby Police Academy	**4 362**	**500**	**536**	**1 395**
Completion Date: March 2004 This funding is to be provided for the refurbishment and upgrade of accommodation and classrooms at the Rokeby Police Academy facility.				
TOTAL		**1 176**	**1 062**	**1 921**
DEPARTMENT OF PREMIER AND CABINET				
Service Tasmania – Clarence	**200**	**200**	**....**	**....**
Funding for a new shop in the city of Clarence.				
TOTAL		**200**	**....**	**....**
DEPARTMENT OF PRIMARY INDUSTRIES, WATER AND ENVIRONMENT				
Building Services Maintenance	**ongoing**	**244**	**244**	**244**
Ongoing funding is provided to agencies to meet maintenance requirements including occupational health and safety issues and heritage requirements.				
Coal Mines Historic Site	**549**	**349**	**....**	**....**
Completion Date: September 2002 This project provides for the conservation of the Coal Mines Historic Site and the construction of visitor infrastructure.				

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

	Estimated Total Cost	2001-02 Estimate	2002-03 Estimate	2003-04 Estimate
	$'000	**$'000**	**$'000**	**$'000**
DEPARTMENT OF PRIMARY INDUSTRIES, WATER AND ENVIRONMENT (continued)				
Cradle Mountain Infrastructure	**1 500**	**1 500**	**....**	**....**
This project provides for the linkage of water, sewerage and electrical mains at Cradle Mountain. The project is a prerequisite to upgrading and sealing the Cradle Mountain Tourist Road.				
King Solomon's Cave	**180**	**180**	**....**	**....**
This project provides for a through extension to King Solomon's Cave, a return surface Karst Walk and replacement of existing toilet facilities.				
RFA East Coast Interpretation Centre Car Park	**200**	**200**	**....**	**....**
This project provides for car parking for the proposed RFA East Coast Interpretation Centre located within Freycinet National Park.				
Royal Tasmanian Botanical Gardens Paths and Drainage	**280**	**280**	**....**	**....**
This project provides for the reconstruction of pathway surfaces and substructure, under path drainage, new kerbs and guttering.				
Wellington Park Pinnacle Zone Development	**373**	**137**	**88**	**30**
This project provides for the implementation of landscape planning actions as recommended in the (draft) Pinnacle Zone Site Development Plan (Wellington Park Management Trust).				
TOTAL		**2 890**	**332**	**274**
DEPARTMENT OF STATE DEVELOPMENT				
Abt Railway	**3 400**	**3 400**	**....**	**....**
This project provides for the reconstruction of the Abt Railway. Commonwealth and private funding is also being provided to the project.				

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

	Estimated Total Cost	2001-02 Estimate	2002-03 Estimate	2003-04 Estimate
	$'000	$'000	$'000	$'000
DEPARTMENT OF STATE DEVELOPMENT (continued)				
Building Services Maintenance	**ongoing**	**11**	**11**	**11**
Ongoing funding is provided to agencies to meet maintenance requirements including occupational health and safety issues and heritage requirements.				
Inveresk Rail Yard	**1 100**	**600**	**....**	**....**
This project provides for the redevelopment of the Inveresk Rail Yard into a nationally significant tourism, cultural, educational and recreational precinct.				
Port Arthur Historic Site - Conservation Program	**10 000**	**2 000**	**2 000**	**2 000**
This project provides for essential conservation works at the Port Arthur Historic Site over five years.				
TOTAL		**6 011**	**2 011**	**2 011**
DEPARTMENT OF TREASURY AND FINANCE				
Building Services Maintenance	**ongoing**	**838**	**834**	**828**
Ongoing funding is provided to agencies to meet maintenance requirements including occupational health and safety issues and heritage requirements.				
Essential Maintenance	**ongoing**	**5 500**	**6 050**	**6 655**
This funding is provided to agencies to enable them to source urgent maintenance funding for projects outside the Capital Investment Program.				
Property Services Office Works	**ongoing**	**1 138**	**1 138**	**1 138**
This sub-program provides for building consultancies and landlord works for Government owned and leased buildings.				
TOTAL		**7 476**	**8 022**	**8 621**
TOTAL CAPITAL INVESTMENT PROGRAM DEPARTMENTS		**59 293**	**49 544**	**44 833**

Roads Program

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

A summary of allocated funds is shown in Table 5.5.

Table 5.5: Roads Program – Summary

Category of Project	2000-01 Budget	2001-02 Budget
	$'000	$'000
Commonwealth Funds		
Infrastructure Development	**17 280**	**15 916**
Infrastructure Maintenance	**6 250**	**7 285**
Road Safety and Traffic Management	**4 600**	**7 370**
Environmental Management	**70**	**30**
Program Management	**1 255**	**1 400**
Asset Management	**905**	**950**
Strategic Planning and Policy	**195**	**480**
State Funds		
Infrastructure Development	**6 820**	**2 460**
Infrastructure Maintenance	**26 265**	**24 350**
Road Safety and Traffic Management	**3 511**	**5 805**
Environmental Management	**812**	**520**
Program Management	**2 496**	**3 370**
Asset Management	**2 595**	**3 650**
Strategic Planning and Policy	**2 205**	**2 290**
Sorell Causeway Upgrade	**5 000**	**7 700**
TOTAL	**80 259**	**83 576**

Table 5.6 Roads Program – Project Details

Project	Estimated Total Cost	2001-02 Estimate
	$'000	$'000
NATIONAL HIGHWAY SYSTEM		
INFRASTRUCTURE DEVELOPMENT		
Road Upgrading		
Various (incl. Carry-over from 2000-01)	500	3 376
Bass Highway - Westbury to Hagley	36 000	2 800
Midland Highway - Bridgewater Industrial Estate	3 120	330
Bass Hwy-East Devonport to Port Sorell Rd	17 465	7 660
Midland Hwy-Hobart to Launceston-overtaking lanes	5 000	700
Bridge Upgrading		
Bridgewater Bridge	92 000	1 050
INFRASTRUCTURE MAINTENANCE		
Road Routine Maintenance	2 285	2 285
Road Specific Maintenance	905	905
Miscellaneous Fees/Charges	740	740
Road Reinstatement	450	450
Bridge Maintenance	1 050	1 050
Vehicle Mass and Dimension Management	2 000	1 855
ROAD SAFETY AND TRAFFIC MANAGEMENT		
Safety Works	600	600
Traffic Management Works	640	440
Minor Improvements	250	250
Bass Highway- Don Interchange	3 470	1 200
Midland Highway - Powranna Rail Crossing	4 870	3 930
Blackspots	950	950
ENVIRONMENTAL MANAGEMENT		
Roadside Rehabilitation	30	30
PROGRAM MANAGEMENT		
Corporate Management	1 100	1 100
Management Systems	300	300
ASSET MANAGEMENT	950	950
STRATEGIC POLICY AND PLANNING	480	480

Table 5.6: Roads Program - Project Details (continued)

Project	Estimated Total Cost	2001-02 Estimate
	$'000	$'000
STATE FUNDED PROJECTS		
INFRASTRUCTURE DEVELOPMENT		
Road Upgrading		
Tasman Highway - Paradise Gorge	2 925	1 600
Various carryovers	860	860
INFRASTRUCTURE MAINTENANCE		
Emergency and Flood Repairs	150	150
Road Routine Maintenance	14 200	14 200
Road Specific Maintenance	3 800	3 800
Miscellaneous Fees/Charges	700	700
Road Reinstatement		
Lyell Highway - East of Strahan	263	35
Midland Hwy - GlenDhu to Wellington St	430	430
Murchison Highway - Que River to Waratah	5 000	750
Landslip Repairs	150	150
Various	500	500
Bridge Maintenance	1 580	1 580
Bridge Reinstatement		
Sorell Causeway Bridge Replacement	15 000	7 700
Various timber bridge replacement	1 480	1 480
Assistance to Local Government	500	500
Maintenance of Other Infrastructure	25	25
Vehicle Mass and Dimension Management	50	50
ROAD SAFETY AND TRAFFIC MANAGEMENT		
Safety Works		
Channel Highway – Algona Main Road to Margate	4 500	2 490
Boyer Road-Various Safety Projects	50	50
Arthur Highway-Various Safety Projects	100	100
Arthur Hwy - Sorell to Forcett	800	800
Various	475	475
Traffic Management Works		
South Arm Road - Acton Road to Bayview Road	1 360	1 360
Tasman Highway - Pittwater Rd Junction	250	250
Various	20	20
Minor Improvements	60	60
State Contribution to Blackspots	200	200

Table 5.6: Roads Program - Project Details (continued)

Project	Estimated Total Cost	2001-02 Estimate
	$'000	$'000
ENVIRONMENTAL MANAGEMENT		
Roadside Rehabilitation		
Secondary Roads - Sealing south of Miena	250	250
Environmental Project	50	50
Quarry Rehabilitation	200	100
Environmental Hazard Management		
Lead Paint Removal	1 000	10
Various	130	80
Flora and Fauna Protection	30	30
PROGRAM MANAGEMENT		
Corporate Management	2 130	2 130
Provision for Third Party Claims	140	140
Management Systems	1 100	1 100
ASSET MANAGEMENT	3 650	3 650
STRATEGIC POLICY AND PLANNING	2 290	2 290
TOTAL ROADS PROGRAM		83 576

HOUSING PROGRAM

The Housing Program aims to ensure that disadvantaged Tasmanians have access to sustainable, affordable, appropriate and secure housing options. The 2001-02 Housing Program is jointly funded by the Commonwealth and State Governments under the terms of the Commonwealth-State Housing Agreement (CSHA).

Total funding for the Program in 2001-02 is $37.8 million, which represents a continuation of the emphasis of the 2000-01 Housing program as detailed in the 2000-01 Budget Papers.

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

The major initiatives to be undertaken as part of the Housing Program in 2001-02 are focussed on improving the outcomes from the portfolio and include:

- a capital program that supports the Division's Strategic Asset Management Framework (SAMF) through plans developed at the local level;
- a construction program which will provide adaptable housing for a range of general purpose, multipurpose, elderly and disability units in high demand suburbs and accessible to essential services. The program includes disability group homes for people with high support needs living in the general community;
- the redevelopment of the Windsor Court units in Hobart and the purchase and construction of multipurpose two bedroom units to meet the increasing demand of clients with complex needs;
- continuation of the strong commitment to people with disabilities, through construction of six homes specifically for people with severe or profound disabilities, following the closure of Willow Court last year;
- the provision of a number of locally developed community housing solutions for clients with a diverse range of needs;
- the provision of crisis accommodation for a range of client groups including youth, families in crisis and families and individuals escaping domestic violence; and
- a continued emphasis on the capital upgrading program which seeks to optimise the performance of the asset base with a particular focus on renovations and site redevelopments to enhance affordability, sustainability, health, safety and security for tenants.

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

Table 5.7: Housing Program - Source and Application of Funds

	2000-01 Budget	2001-02 Budget
	$'000	$'000
Sources of Funds		
Commonwealth-State Housing Agreement Grants[1]	**12 766**	**10 388**
Sale of Assets and Other Capital Receipts	**9 480**	**16 000**
Operating Revenue and Carry Forward Funds	**3 400**	**7 400**
State Matching Grants	**4 507**	**4 020**
	30 153	**37 808**
Application of Funds		
Strategic Asset Management		
Renovations of Existing Stock	**2 400**	**2 800**
Upgrading of Complexes	**2 000**	**2 900**
General Upgrading	**3 400**	**4 098**
Windsor Court	**2 500**	**2 500**
Community Development	**0**	**400**
Targeted Purchases	**8 016**	**7 500**
Construction/Redevelopment	**6 979**	**12 752**
Sundry Capital[2]	**4 858**	**4 858**
TOTAL	**30 153**	**37 808**

Notes:

1. Commonwealth funding under the CSHA includes the following:

	2000-01 Budget	2001-02 Budget
Base Funding (including GST Compensation)	9 482	7 104
Aboriginal Housing rental Program	696	696
Crisis Accommodation Program	990	990
Community Housing Program	1 598	1 598
TOTAL	12 766	10 388

2. Details of estimated expenditure of Sundry Capital in 2000-01 and 2001-02 are as follows:

	2000-01 Budget $'000	2001-02 Budget $'000
Loan Repayments	4 461	4 654
Computer Capital Costs	397	204
TOTAL	4 858	4 858

DEPARTMENT OF STATE DEVELOPMENT

The Department of State Development is continuing to focus on assisting business in sourcing finance from private sector providers, rather than providing routine commercial lending. Additional finance facilitation resources were provided in 1999-00 to support this strategy.

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

The planned 2001-02 Lending Program will be totally internally funded, as shown in Table 5.8.

Table 5.8: 2001-02 Department of State Development Lending Program

	2000-01 Budget	2001-02 Budget
	$'000	**$'000**
Sources of Funds		
Internal Funds[1]	**14 550**	**28 750**
Total Sources of Funds	**14 550**	**28 750**
Application of Funds		
Advances		
Tasmanian Development Act 1983	**9 550**	**23 750**
Total Advances	**9 550**	**23 750**
Debt Repayment	**5 000**	**5 000**
Total Applications of Funds	**14 550**	**28 750**

Note:
1. The increased funds are due to higher than expected client loan repayments.

INFRASTRUCTURE FUND

The IF is a major Government initiative that will provide one-off funding of $60 million for Tasmanian economic and social infrastructure. Of this, $40 million is for key economic infrastructure and $20 million is for social infrastructure, predominantly schools and hospitals.

IF funds are additional to the Government's ongoing capital investment program, which has been maintained at previous levels in real terms.

This major Government initiative is being funded from one-off surplus funds of $40 million in 2000-01 and $20 million in 2001-02.

A second Appropriation Bill for 2000-01 will be presented to the Parliament to redirect $40 million to economic infrastructure. One-off funding available in 2001-02 has been allocated to social infrastructure.

The community will derive significant economic and social benefits from the application of additional funding to economic and social infrastructure projects under the IF. Such projects will:

- provide infrastructure that supports private sector investment in development opportunities;
- address the rundown of infrastructure assets that are needed to support future expansion of existing service delivery;
- address the rundown of public infrastructure assets that are needed to support the delivery of Government services;
- assist in managing the backlog of maintenance of public infrastructure assets; and
- stimulate economic activity in the State during the period of national slowdown.

The Government has allocated the funding under the IF to a number of general and specific economic and social infrastructure projects. A summary of the funding sources to the IF and the anticipated total expenditure on projects is provided in Table 5.9, Table 5.10 and Table 5.11.

Table 5.9 Infrastructure Fund – Summary

	2001-02 Budget
	$'000
Contribution to the Infrastructure Fund	
Economic Infrastructure Fund	40 000
Social Infrastructure Fund	20 000
Total Source of Funds	60 000
Less Estimated Expenditure	
Economic Infrastructure Fund	40 000
Social Infrastructure Fund	20 000
Total Estimated Expenditure	60 000

Table 5.10 Economic Infrastructure Fund

	Total Project Cost
	$'000
Projects	
Irrigation Schemes and Associated Water Developments	10 000
Strategic Transport Projects	22 200
Capital Projects (North-West and West Coast)	6 600
Community Projects	1 200
TOTAL	40 000

Table 5.11 Social Infrastructure Fund

	Total Project Cost
	$'000
Projects	
School Maintenance and Fire Protection	10 000
Health and Human Services	5 600
Police and Public Safety	2 600
Community Development Projects	1 800
TOTAL	20 000

Economic Infrastructure Fund

Irrigation Schemes and Associated Water Developments

$10 million from the Economic Infrastructure Fund has been allocated to irrigation schemes and associated water developments. The increasing demands on water to meet community goals of water quality; domestic, industrial and agricultural usage; environmental needs; electricity generation; and recreational and tourism opportunities has brought into focus the need for Tasmania to have an overall strategic approach to water storage, distribution and management. A review, by the Department of Primary Industries, Water and Environment, has identified proposals and projects that would provide for sustainable water use and development in Tasmania. Intensive consultation with the community was undertaken during the review. Projects funded will provide clear returns to the community of Tasmania taking into account economic, financial, environmental, cultural, heritage and community benefits.

Strategic Transport Projects

The projects funded will be based upon the Land Transport Infrastructure Investment Strategy developed by the Department of Infrastructure, Energy and Resources. This Strategy targets key investment imperatives on Tasmania's road and rail networks. Its implementation will permit transport services, critical to the function of the Tasmanian economy, to be more efficient and also more effective. The projects will support economic growth, social well being, environmental sustainability and the Tasmanian lifestyle.

Capital Projects (North-West and West Coast)

$6.6 million of the Economic Infrastructure Fund has been allocated for capital spending in the North-West and West Coast, of which $2.5 million is for water and sewerage works to support the high tourist demand in Strahan and Queenstown.

Community Projects

$1.2 million of the Economic Infrastructure Fund has been allocated for community projects of an economic nature, including the Old Launceston Port Development.

Social Infrastructure Fund

School Maintenance and Fire Protection

$10 million of the Social Infrastructure Fund has been allocated for school maintenance and fire protection.

Health and Human Services

$5.6 million of the Social Infrastructure Fund has been allocated for capital projects in health and human services, including $4 million for replacement and upgrading of equipment in public hospitals.

Police and Public Safety

$2.6 million of the Social Infrastructure Fund has been allocated to the Department of Police and Public Safety for refurbishment of police stations and residences throughout the State and replacement of marine police vessels.

Community Development Projects

$1.8 million of the Social Infrastructure Fund has been allocated for community development projects of a social nature.

GBEs, State-owned Companies and State Authorities

Expenditure of Capital Funds

Budgeted total capital expenditure for Government Business Enterprises (GBEs), State-owned Companies (SOCs) and State Authorities in 2000-01 was $248.1 million. This compares with a Budget estimate in 2001-02 of $236.8 million, $256.6 million in 2002-03 and $244.7 million in 2003-04.

Capital expenditure expected to be incurred by the Port Arthur Historic Site Management Authority (PAHSMA) during 2001-02 will be funded from the Consolidated Fund and appropriated to the Department of State Development. The PAHSMA funds are included in the total Budget estimate in 2001-02.

Details of the total expenditure of capital funds for GBEs, SOCs and State Authorities are shown in Table 5.12.

Table 5.12: Expenditure of Capital Funds for GBEs, State-owned Companies and State Authorities 1999-00 to 2002-03

	2000-01 Budget	2001-02 Budget	2002-03 Budget	2003-04 Budget
	$'000	$'000	$'000	$'000
Aurora Energy Pty Ltd	50 600	55 200	49 800	48 800
Burnie Port Corporation Pty Ltd	2 365	325	1 740	415
Civil Construction Corporation	1 710	2 000	3 000	4 000
Egg Marketing Board	30	...	...	...
Forestry Tasmania	47 000	25 000	24 500	24 500
Health and Human Services – Home Ownership Assistance Program	9 000	...	...	...
Hobart Ports Corporation Pty Ltd	5 268	3 007	2 239	2 315
Hydro Tasmania	59 400	65 100	98 600	99 300
Metro Tasmania Pty Ltd	1 855	3 803	3 949	3 816
Motor Accidents Insurance Board	400	400	400	400
Port Arthur Historic Site Management Authority	1 133	2 400	2 400	2 400
Port of Devonport Corporation Pty Ltd	6 160	4 000	457	301
Port of Launceston Corporation Pty Ltd	750	1 600	850	750
Printing Authority of Tasmania	60	250	70	110
Private Forests Tasmania	30	30	32	35
The Public Trustee	50	...	...	...
Retirement Benefits Fund Board	1 850	2 370	3 557	4 170
Rivers and Water Supply Commission	500	600	50	50
Southern Regional Cemetery Trust	1 662	145	148	160
Stanley Cool Stores Board	125	...	...	...
State Fire Commission	6 400	5 500	5 500	5 500
Tasmanian Grain Elevators Board	95	170	...	50
Tasmanian International Velodrome Management Authority	375	...	...	...
Tasmanian Public Finance Corporation	215	654	149	139
TOTE Tasmania Pty Ltd	3 675	5 825	3 563	7 172
Transend Networks Pty Ltd	47 400	57 400	54 500	39 300
TT Line Company Pty Ltd	...	1 000	1 100	1 000
	248 108	**236 779**	**256 604**	**244 683**

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

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

Aurora Energy Pty Ltd

2001-02 estimated capital expenditure: $55.2 million.

During 2001-02, Aurora's capital expenditure program includes expenditure on:

- development and enhancement of Aurora's electricity distribution network ($34.9 million);
- new customer installations ($2.1 million);
- metering technologies ($5.2 million);
- information technology ($7.0 million)
- fleet upgrades and replacement ($3.6 million);
- operational requirements ($1.9 million); and
- land and buildings ($500 000).

Civil Construction Corporation

2001-02 estimated capital expenditure: $2.0 million

During 2001-02, Civil Construction Corporation's capital expenditure program will include:

- information technology system re-development and purchase of new hardware ($500 000); and
- the replacement of plant and equipment ($1.5 million).

Forestry Tasmania

2001-02 estimated capital expenditure: $25.0 million.

During 2001-02, Forestry Tasmania's capital expenditure program will include:

- the development of land and buildings and other property ($1.0 million);
- road construction ($12.0 million);
- the acquisition of property, plant and equipment ($4.8 million);
- plantations ($6.5 million); and
- native forest thinning and other works ($700 000).

Hobart Ports Corporation Pty Ltd

2001-02 estimated capital expenditure: $3.0 million.

During 2001-02, the Corporation's capital expenditure includes the following:

- wharf upgrade ($200 000);
- ballast water base line study ($250 000);
- air conditioning upgrade of 1 Franklin Wharf ($440 000); and
- maintenance of wharves, buildings, plant and equipment ($2.1 million).

Hydro Tasmania

2001-02 estimated capital expenditure: $65.1 million.

During 2001-02, the major part of Hydro Tasmania's capital expenditure program is aimed at ensuring the ongoing safe, reliable and efficient operation of the electricity generating assets and preparing for entry to the National Electricity Market.

This involves major cyclical refurbishment of assets, including turbines, transformers and penstocks and upgrading of assets. Hydro Tasmania's planned capital expenditure includes:

- refurbishment, replacement and upgrade of generating assets ($34.0 million);
- renewable energy developments:
  - Woolnorth wind development ($10.5 million);
  - other Tasmanian wind developments ($13.5 million); and
- corporate and other including fleet vehicles and information technology ($7.1 million).

Metro Tasmania Pty Ltd

2001-02 estimated capital expenditure: $3.8 million.

During 2001-02, Metro Tasmania's capital program will include expenditure on:

- bus purchases, refurbishments and improvements ($2.8 million);
- replacement of the ticketing system ($400 000); and
- information technology ($600 000).

Port of Devonport Corporation Pty Ltd

2001-02 estimated capital expenditure: $4.0 million.

During 2001-02, the Corporation's capital expenditure principally includes land acquisition for development of the proposed Holyman shipping and freight forwarding terminals ($3.0 million).

Port of Launceston Pty Ltd

2001-02 estimated capital expenditure: $1.6 million.

During 2001-02, the Port of Launceston's capital expenditure principally includes the following:

- construction of a conveyor system to transfer woodchips to the No 6 Berth ($750 000); and
- improvements to the drainage and surface of No 6 Berth.

Retirement Benefits Fund Board

2001-02 estimated capital expenditure: $2.4 million

During 2001-02, the Board will continue to develop its infrastructure to electronically provide members and staff with easier and more efficient access to information that will support member education and decision making. The major projects will be the:

- extension of the RBF's interactive web site to provide for the transfer of electronic member and payroll data between agencies and the RBF;
- extension of the Member Investment Choice from the current five choices to 12; and
- establishment of a financial planning service with a focus on RBF investment and benefit options.

State Fire Commission

2001-02 estimated capital expenditure: $5.5 million.

The capital expenditure for the Commission during 2001-02 continues with the station upgrade and vehicle replacement programs and includes:

- construction of a number of small to medium fire stations;
- completion of training facilities in the north of the State; and
- fabrication of a number of heavy, medium and light tankers.

TOTE Tasmania Pty Ltd

2001-02 estimated capital expenditure: $5.8 million.

During 2001-02, TOTE Tasmania's capital expenditure program will include:

- computer development ($3.2 million);
- the refurbishment and re-branding of the retail network of outlets ($2.4 million); and
- replacement of motor vehicles ($150 000).

Transend Networks Pty Ltd

2001-02 estimated capital expenditure: $57.4 million.

During 2001-02, Transend's capital program is expected to include expenditure on:

- redevelopment of Smithton substation and associated transmission line upgrades ($5.0 million);
- development of a new Mowbray substation and 110kV transmission line ($2.5 million);
- redevelopment of Risdon substation in Hobart ($1.3 million);

- redevelopment of Creek Road substation and related projects that form part of the Hobart area supply upgrade ($6.5 million);
- upgrade of the Burnie and Queenstown substations ($2.0 million);
- substandard clearance program on transmission lines statewide ($10.7 million); and
- replacement of switchgear, refurbishment of transformers, upgrade of protection and control systems and the installation of modern oil containment facilities at substations ($29.4 million).

6 STATE TAXATION

Features

- Total taxation receipts for 2000-01 are expected to be $534.8 million.
- Estimated taxation receipts for 2001-02 are $484.9 million, which is $35.7 million, or 6.9 per cent, below the 2000-01 Budget estimate.
- Tax relief of $31.8 million is being provided in 2001-02, increasing to $34.7 million in 2002-03.
- The payroll tax rate is to be reduced from 6.53 per cent to 6.30 per cent and the general exemption threshold increased from $606 000 to $1.0 million, effective 1 July 2001.
- The payroll tax rate is to be further reduced to 6.24 per cent and the general exemption threshold increased to $1.01 million from 1 July 2002.
- The payroll tax grouping provisions will be relaxed with effect from 1 July 2001 to enable the de-grouping of entities operating in different industry sectors.
- Total payroll tax relief of $18.2 million is being provided in 2001-02, increasing to $19.2 million in 2002-03.
- The Electricity Entities Levy is to be abolished on electricity consumed after 1 July 2001.
- The new *Land Tax Act 2000* replaced the *Land and Income Taxation Act 1910* from 1 January 2001.
- The *Stamp Duties Act 1931* will be replaced by the *Duties Act 2001* and the *Debits Duty Act 2001* from 1 July 2001.
- Financial Institutions Duty will be abolished from 1 July 2001 in accordance with the *Intergovernmental Agreement on the Reform of Commonwealth–State Financial Relations* (IGA).
- Duty on the transfer of quoted marketable securities will cease from 1 July 2001 in accordance with the IGA.
- The collection of racing tax revenue from TOTE Tasmania Pty Ltd ceased from 1 August 2000.

INTRODUCTION

The purpose of this Chapter is to provide information on historical taxation collections, estimated aggregate receipts for 2000-01, and projected state taxation revenue estimates for 2001-02.

For each of the major tax areas a description of the tax base and its operation is provided, including any concessions which may be available, along with an estimate of individual tax receipts for each head of tax for 2001-02. A summary of major legislative changes which occurred in 2000-01 is also included.

The charts and tables in this Chapter generally refer to actual tax collections for 1999-00, while estimates for 2001-02 are compared with Budget estimates for 2000-01. A current estimate for the projected aggregate receipt of taxes in 2000-01 is also provided.

A comparison of the revenue raising effort in Tasmania relative to the other states and territories, based on the standardised revenue collections calculated by the Commonwealth Grants Commission, is reported in Chapter 7 of this Budget Paper. A comparison of Tasmania's level of taxation severity with other states and territories is provided in Chapter 1 of this Budget Paper.

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

BUDGET INITIATIVES

The 2001-02 Budget incorporates several taxation relief initiatives. The Electricity Entities Levy imposed under the *Electricity Entities (Contributions) Act 1997* will be abolished on electricity consumed after 1 July 2001. The *Pay-roll Tax Act 1971* will be amended with effect from 1 July 2001 to reduce the tax rate from 6.53 per cent to 6.30 per cent and to increase the general exemption threshold from $606 000 to $1.0 million.

The Pay-roll Tax Act will also be amended with effect from 1 July 2002 to reduce the tax rate from 6.30 per cent to 6.24 per cent and to increase the general exemption threshold from $1.0 million to $1.01 million. These changes are necessary to honour the Government's existing commitment that the effective rate of payroll tax will be adjusted to ensure that the payroll tax liability does not rise in line with the projected increase in the Commonwealth's superannuation guarantee charge to nine per cent of salary from 1 July 2002.

A further amendment of the Pay-roll Tax Act will, with effect from 1 July 2001, enable the Commissioner of State Revenue to de-group entities which have been grouped on the basis of common control where:

- the entities are classified under different Australian and New Zealand Standard Industrial Classification (ANZSIC) Division codes as determined by the Australian Bureau of Statistics (ABS); and
- the entities operate independently of each other.

These measures will result in taxation revenue forgone of approximately $31.8 million in 2001-02, rising to $34.7 million in 2002-03.

IMPACT OF NATIONAL TAX REFORM

In accordance with its commitments under the *Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations* (IGA), Tasmania is required to both forego significant state revenue and incur significant expenditure on subsidy payments as a result of national tax reform. This comprises:

- revenue forgone through the abolition of Financial Institutions Duty (FID) and stamp duty on the transfer of quoted marketable securities from 1 July 2001;
- a reduction in the rates of gambling taxes to 'make room' for the Commonwealth's goods and services tax (GST);
- the maintenance of liquor and petroleum subsidies; and
- a reduction in the guaranteed minimum amount calculation for budget balancing assistance for the amount of revenue previously expended on off-road diesel subsidies.

The estimated cost to the State of the above for 2000-01 is $36.8 million and $62.4 million for 2001-02.

Table 6.1 provides details of the national tax reform impacts on state tax revenue.

Table 6.1: National Tax Reform Impacts

	Revised Estimate 2000-01[1]	Estimate 2001-02
	$m	$m
Abolition of Financial Institutions Duty	**....**	**21.1**
Abolition of Stamp Duty on listed marketable securities	**....**	**0.7**
Reduced gambling taxes		
Casino tax	**14.8**	**17.6**
Racing tax	**2.8**	**3.2**
Lotteries	**1.8**	**2.2**
Liquor subsidies	**2.9**	**2.9**
Petroleum subsidies	**12.5**	**12.5**
Off road diesel	**2.0**	**2.2**
Total	**36.8**	**62.4**

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

In addition, further revenue may be forgone from 1 July 2005 from the abolition of Debits Duty. This decision is, however, subject to review by the Treasurers' Conference, which is described in Chapter 7 of this Budget Paper. The IGA also provides for the review of a range of stamp duties to assess the need for their retention beyond 2005. These include stamp duty on non-residential conveyances, non-quoted marketable securities, leases, mortgages, bonds, debentures, other loan securities, credit arrangements, instalment purchases, rental arrangements, cheques, bills of exchange, and promissory notes.

EXPECTED TAXATION RECEIPTS FOR 2000-01

The capacity of Tasmania and the other states and territories (states) to raise tax revenues is constrained by the Australian Constitution and by Australia's Commonwealth-state financial arrangements. This is reflected by the fact that in 2000-01 the Commonwealth is expected to raise 73 per cent of total General Government revenue, while its spending is expected to represent only 54 per cent of General Government outlays. On the other hand, the states are expected to collect only 22 per cent of total General Government revenue, while spending by the states is expected to represent 41 per cent of total General Government outlays. This situation is described as 'vertical fiscal imbalance'.

Chart 6.1: Total State Taxation 1996-97 to 2001-02

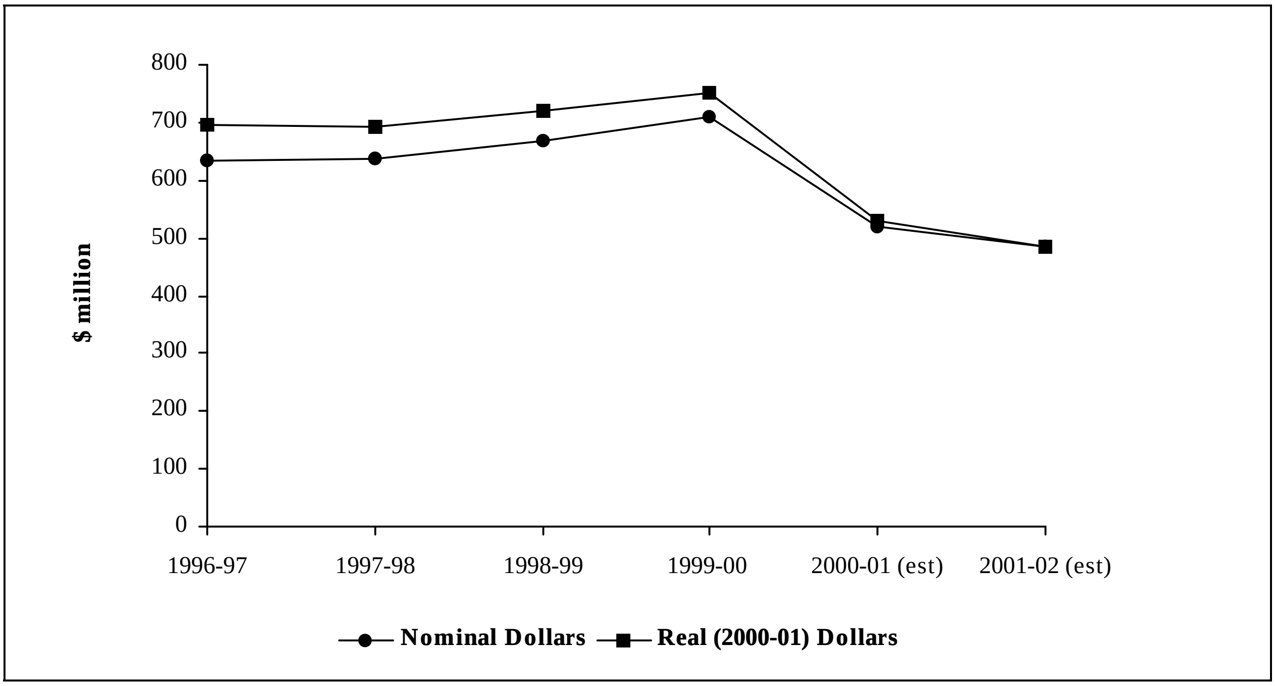


Chart 6.1 shows moderate growth in state taxation receipts in nominal terms since 1996-97, with a significant decrease in 2000-01 due to the introduction of the Commonwealth's GST and the associated changes to various state taxes required under the IGA (as outlined earlier in this chapter). The expected decrease in receipts for 2001-02 reflects further change resulting from the IGA, namely the abolition of FID and duty on the transfer of quoted marketable securities effective from 1 July 2001. In addition, the tax reductions introduced in this Budget in relation to payroll tax and the Electricity Entities Levy will have a significant negative impact on expected tax receipts for 2001-02.

Table 6.2: State Taxation Collections 1997-98 to 2001-02[1]

	Actual			Budget	Budget
	1997-98	1998-99	1999-00	2000-01	2001-02
	$'000	$'000	$'000	$'000	$'000
Payroll tax[2]	**205 594**	**206 420**	**216 045**	**217 753**	**213 622**
Land tax	**25 940**	**27 261**	**27 522**	**27 271**	**29 396**
Motor tax	**39 129**	**39 275**	**38 322**	**42 834**	**40 239**
Financial Transaction Taxes					
Stamp Duties[3]	**124 057**	**124 361**	**136 279**	**127 904**	**133 019**
Financial Institutions Duty[4]	**26 311**	**22 471**	**23 692**	**25 527**	**2 126**
Franchise Fees and Levies					
Electricity Entities Levy[5]	**14 879**	**14 297**	**14 428**	**15 711**	**1 942**
Tobacco Franchise Licence Fees[6]	**6 314**	**18**	**1**	**....**	**....**
Liquor Licence Fees[6]	**2 089**	**....**	**....**	**....**	**....**
Petroleum Products Licence Fees[6]	**3 791**	**2**	**....**	**....**	**....**
Safety Net Revenue[6]	**126 418**	**165 747**	**175 432**	**2 109**	**....**
Gambling Taxes					
Lottery Tax[3]	**18 813**	**19 600**	**21 655**	**20 182**	**19 992**
Racing and Gaming Taxes[3, 7]	**9 197**	**8 193**	**7 478**	**4 556**	**363**
Casino Tax and Licence Fees	**35 763**	**40 567**	**47 579**	**36 754**	**44 159**
Soccer Football Pools Tax[3]	**79**	**75**	**....**	**....**	**....**
Other					
Sundry Licences	**56**	**40**	**22**	**30**	**30**
Total	**638 431**	**668 327**	**708 455**	**520 631**	**484 888**

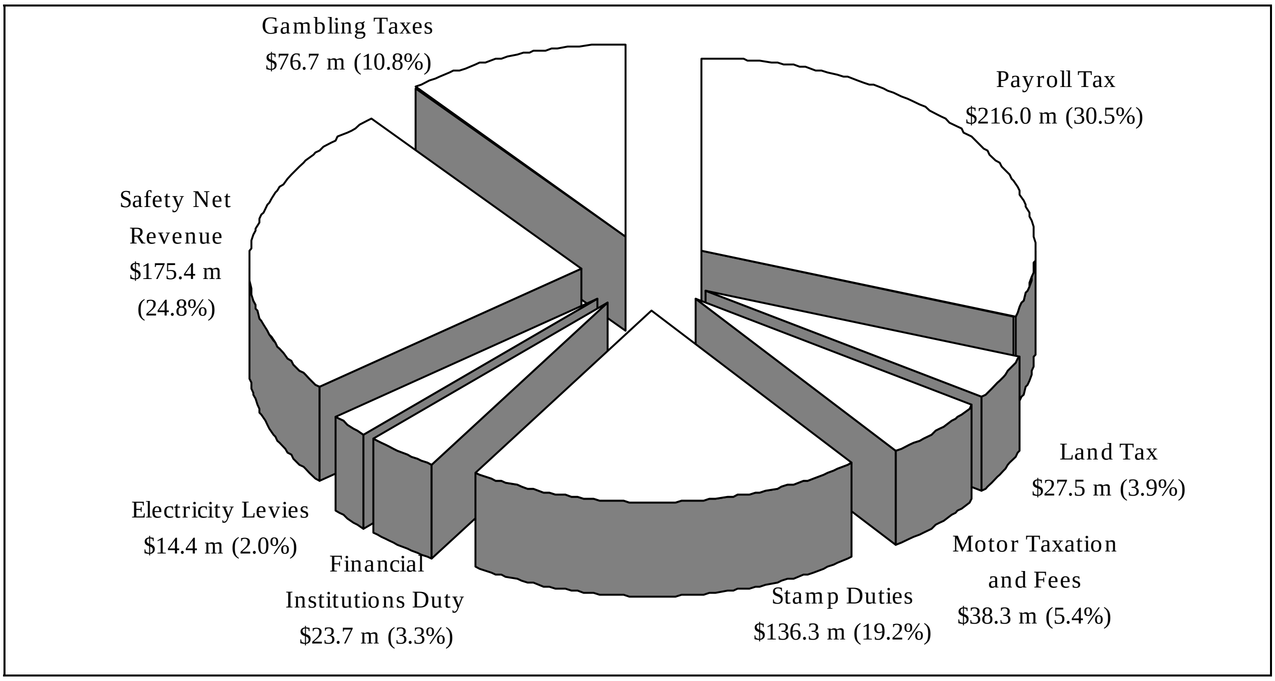
Notes:

1. The figures shown in this table represent the amounts received and paid into the Consolidated Fund for each head of taxation and duty in a financial year.
2. The Budget estimate for payroll tax for 2001-02 reflects tax relief of $18.2 million which is partially offset by expected growth in employment and wage levels.
3. Soccer football pools tax is now included under lottery tax. For 2000-01, lucky envelope receipts are included under lottery tax, whereas previously they were included as part of stamp duties. For 2001-02, lucky envelope receipts are included in racing and gaming tax.
4. The Budget estimate for FID for 2001-02 represents duty levied in 2000-01 but not received until 2001-02.
5. The Budget estimate for the Electricity Entities Levy represents revenue received in 2001-02 relating to electricity consumed prior to 1 July 2001 but billed after that date.
6. From 5 August 1997, the State's business franchise fees on tobacco, petroleum and liquor products were no longer collected. To replace the state and territory franchise fee revenue, the Commonwealth implemented a Safety Net Arrangement by increasing excises on tobacco and petroleum and wholesale sales tax on liquor, distributing the additional revenue raised to the states. The Commonwealth's Safety Net Arrangements were abolished on 1 July 2000 as part of national tax reform. The amount shown for 2000-01 relates to payment received in 2000-01 in respect of 1999-00.
7. From 1 August 2000, TOTE Tasmania Pty Ltd is no longer required to remit racing tax.

On current estimates, aggregate taxation receipts for 2000-01 are expected to total $534.8 million. This represents a nominal decrease of $173.7 million, or 24.5 per cent over receipts for the 1999-00 year. Expected receipts are $14.2 million or 2.7 per cent over the 2000-01 Budget estimate. The expected increase over the Budget estimate is primarily the result of higher than expected conveyance duty receipts due to a large unanticipated one-off transaction together with increased activity in the property market. In addition, payroll tax receipts are greater than expected due to higher than expected employment growth.

Table 6.2 sets out the estimates included in the 2000-01 Budget for collections for each state tax during 2000-01, the actual collections in each of the preceding three years and details of the Budget estimates for 2001-02. Chart 6.2 illustrates the contribution of each tax to total state taxation revenue in 1999-00.

Chart 6.2: State Taxation Collections, 1999-00 - Dollar Amounts and Percentage of Total



ESTIMATED TAXATION RECEIPTS FOR 2001-02

Total taxation revenue for 2001-02 is estimated to be $484.9 million, a decrease of $35.7 million or 6.9 per cent on the estimate for 2000-01 included in 2000-01 Budget Papers. This expected outcome is primarily due to:

- the abolition of FID and duty on the transfer of quoted marketable securities from 1 July 2001 in accordance with the IGA;
- reduced payroll tax and Electricity Entities Levy receipts following the tax relief initiatives announced in this Budget;

- reduced motor tax receipts following the introduction of periodic registrations from 1 July 2001; and
- the cessation of racing tax receipts from TOTE Tasmania Pty Ltd from 1 August 2000.

Payroll Tax

Description

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

Employers are required to submit returns, usually monthly, to the Commissioner of State Revenue. Frequency of lodgement may be varied where payrolls are close to the exemption level, or where seasonal employment occurs. Table 6.3 details payroll tax received in 1999-00 by tax liability range.

Table 6.3: Payroll Tax, 1999-00

Tax Liability Range		Number of Employers	Tax Paid
$			$'000
1 -	50 000	1 193	14 277
50 001 -	100 000	185	13 038
100 001 -	250 000	134	21 413
250 001 -	500 000	72	24 733
500 001 -	1 000 000	38	28 141
1 000 001	and over	34	114 443
TOTAL		**1 656**	**216 045**

From 1 July 1999, assistance up to the full value of payroll tax liability was provided to Tasmanian businesses engaged in specified information technology (IT) activities. Assistance is ongoing and provided by way of a full tax rebate on payroll tax. This tax relief initiative is aimed at encouraging and facilitating the expansion of value adding IT businesses in Tasmania. To date 15 applications for assistance have been received, with all applicants receiving some assistance. The expected revenue impact of providing this assistance in 2000-01 is $802 300, compared with $196 400 for 1999-00.

During the year, the eligibility criteria were changed by relaxing the test for 'significant participation' in the IT industry from more than 80 per cent of the turnover of the employer having to be generated from eligible activities in the IT industry to more than 50 per cent.

Payroll tax assistance is also available, on a case by case basis, to selected and significant new industries and activities which exhibit all of the following characteristics:

- will make a significant contribution to the Tasmanian economy on a long-term sustainable basis;

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

The Pay-roll Tax Act will be amended with effect from 1 July 2001 to reduce the tax rate from 6.53 per cent to 6.30 per cent and to increase the general exemption threshold from $606 000 to $1.0 million.

The Pay-roll Tax Act will also be amended with effect from 1 July 2002 to reduce the tax rate from 6.30 per cent to 6.24 per cent and to increase the general exemption threshold from $1.0 million to $1.01 million. These changes are necessary to honour the Government's existing commitment that the effective rate of payroll tax will be adjusted to ensure that the payroll tax liability does not rise in line with the projected increase in the Commonwealth's superannuation guarantee charge to nine per cent of salary.

Amendments will also be made to the Pay-roll Tax Act with effect from 1 July 2001 to enable the Commissioner of State Revenue to de-group entities which have been grouped on the basis of common control where:

- the entities are classified under different Australian and New Zealand Standard Industrial Classification (ANZSIC) Division codes as determined by the Australian Bureau of Statistics; and
- the entities operate independently of each other.

These payroll tax initiatives will result in a saving to taxpayers of approximately $18.2 million in 2001-02, rising to $19.2 million in 2002-03 and beyond compared to the tax that would have been paid without the initiatives. Table 6.4 compares the tax liability for a range of payrolls under the existing rate and the new rates commencing 1 July 2001 and 1 July 2002.

Table 6.4: Comparison of Payroll Tax Liability, 2000-01 to 2002-03

Annual Payroll	Approximate Number of Employees[1]	Annual Tax Payroll 2000-01	2001-02	2002-03
$		$	$	$
606 000	**19**	**....**	**....**	**....**
800 000	**26**	**12 668**	**....**	**....**
1 000 000	**32**	**25 728**	**....**	**....**
1 250 000	**40**	**42 053**	**15 750**	**14 976**
1 500 000	**48**	**58 378**	**31 500**	**30 576**
2 000 000	**64**	**91 028**	**63 000**	**61 776**
4 000 000	**128**	**221 628**	**189 000**	**186 576**

Note:
1. Average number of employees is calculated using Australian Bureau of Statistics data series Average Weekly Earnings, Private Sector, Australia, Total Earning–Trend, average over four quarters to November 2000.

Estimated Receipts for 2001-02

Receipts from payroll tax in 2001-02 are estimated to be $213.6 million, representing a decrease of 1.9 per cent over the 2000-01 Budget estimate. The expected decrease in collections is the result of the tax relief initiatives introduced in this Budget offset by expected growth in employment and wage levels.

Land Tax

Description

From 1 January 2001, land tax is imposed under the *Land Tax Act 2000*. Prior to this it was imposed under the *Land and Income Taxation Act 1910*. Land tax is levied on the basis of three land categories: general; primary production; and principal residence land. However, since 1 July 1996, the rate of tax on principal residence and primary production land has been set to zero, thereby effectively exempting such land from land tax. The land tax scales are currently fixed by the *Land Tax Rating Act 2000*.

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

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

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

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

Certain non-profit sporting organisations and bodies controlling or promoting horse racing, dog racing or motor racing are eligible for a concessional rate of land tax, equal to 0.4 per cent of the assessed land value.

Legislated exemptions were included in the *Land and Income Taxation Act 1910* for certain bodies or land used for certain purposes. These exemptions have been maintained in the *Land Tax Act 2000*. However, from 1 July 2001 all land owned by persons who hold a pensioner concession card will now be exempt from land tax. This is an extension of the previously applied concession which required that a pensioner must be in receipt of a rates remission under the *Local Government (Rates and Charges Remissions) Act 1991*.

Table 6.5 provides details of the number of properties and the land tax assessed for each category of land in 2000-01. Assessed land tax differs from tax collected, as shown in Table 6.2, due to the timing of receipts.

Table 6.5: Land Tax Assessed, 2000-01

			Principal Residence		Rural		General	
Property Value			Number of Properties	Tax Payable	Number of Properties	Tax Payable	Number of Properties	Tax Payable
$				$		$		$
1	-	1 000	478	....	3	....	917	....
1 001	-	15 000	12 085	....	80	....	10 715	266 500
15 001	-	20 000	10 694	....	53	....	6 327	256 299
20 001	-	25 000	13 191	....	93	....	5 620	434 304
25 001	-	35 000	19 153	....	301	....	8 131	1 038 837
35 001	-	40 000	5 471	....	220	....	2 686	505 530
40 001	-	50 000	9 330	....	516	....	4 263	1 079 367
50 001	-	65 000	7 230	....	826	....	3 783	1 407 184
65 001	-	68 750	1 086	....	236	....	686	326 441
68 751	-	100 000	3 773	....	1 323	....	3 159	1 579 500
100 001	-	125 000	1 177	....	807	....	1 247	798 588
125 001	-	170 000	630	....	965	....	1 205	1 305 895
170 001	-	210 000	247	....	649	....	630	1 135 705
210 001	-	250 000	91	....	457	....	375	953 760
250 001	-	500 000	98	....	1 459	....	856	4 192 476
500 001	-	1 000 000	3	....	594	....	280	3 630 813
1 000 001		and over	1	....	184	....	176	9 448 692
Total			84 738	....	8 766	....	51 056	28 359 891

Estimated Receipts for 2001-02

It is expected that land tax collections in 2001-02 will be $29.4 million, which is $2.1 million or 7.8 per cent, higher than the 2000-01 Budget estimate. The increase in land tax revenue is in line with expected movements in land values, together with growth in the base following compliance activity undertaken by the State Revenue Office.

Motor Tax

Description

Motor tax is imposed under the *Vehicle and Traffic Act 1999,* which commenced on 14 August 2000, on the owners of motor vehicles or trailers, at the time of initial registration or annual renewal. Depending on the type of vehicle, the tax is determined by the number of cylinders and / or weight, seating capacity, or the number of axles and mass of each vehicle. The legislation specifies six classes of vehicles, each attracting its own scale of rates. A rebate of 40 per cent is available in certain cases to eligible pensioners owning commercial goods vehicles, provided they are not engaged in any trade or business, and commercial vehicles used predominantly for farming or horticultural purposes.

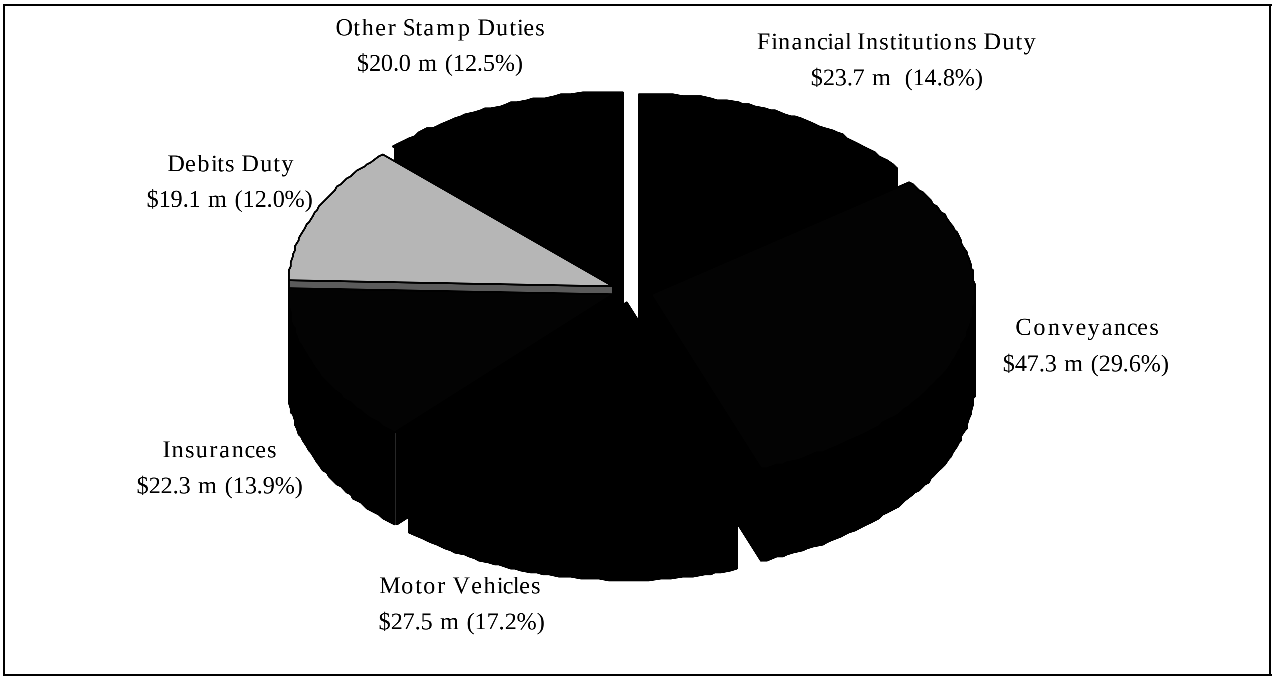
Estimated Receipts for 2001-02

Motor tax collections are estimated to be $40.2 million in 2001-02, a decrease of $2.6 million or 6.1 per cent over the 2000-01 Budget estimate. The decrease in motor tax revenue expected in 2001-02 reflects the introduction of periodic registration for light vehicles from 1 July 2001. This enables vehicle owners to register their vehicles at six monthly intervals, rather than annually.

Financial Transaction Taxes

Taxes classed as financial transaction taxes are stamp duties (including Debits Duty) and Financial Institutions Duty. The yield from financial transaction taxes in 1999-00 was $160.0 million, or 22.6 per cent of total taxation receipts. Chart 6.3 shows the actual collections of various stamp duties and FID for 1999-00.

Chart 6.3: Financial Transaction Taxes, Actual Collections 1999-00, Dollar Amounts and Percentage of Total



Stamp Duties (including Debits Duty)

Description

Up until 30 June 2001, the *Stamp Duties Act 1931* provides for revenue to be raised through the imposition of stamp duty on a range of instruments, transactions and arrangements which are generally of a commercial character. From 1 July 2001, the Stamp Duties Act will be replaced by the *Duties Act 2001* and the *Debits Duties Act 2001*. These two Acts are the result of an inter-jurisdictional rewrite of stamp duties legislation which was aimed at reducing inter-jurisdictional differences in principles, definitions and structure of the legislation which resulted in increased compliance costs for business. Debits duty provisions are currently incorporated into the Stamp Duties Act. Under the rewrite they have been transferred to a separate Act in line with the treatment in other jurisdictions.

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

Certain concessions are available in relation to stamp duties. Holders of a Commonwealth Pensioner Concession or Health Care Card are eligible for exemptions from Debits Duty. Only accounts to which at least a portion of the pension is credited can be exempted. The Stamp Duties Act also provides for payments from the Consolidated Fund to certain first home buyers to meet the cost of stamp duty on the purchase of their first home. The payments are in the form of an interest-free loan, repayable over two years. Since 1995-96, the scheme has been available to first home buyers purchasing properties to a maximum value of $120 000.

In accordance with the IGA, stamp duty on transfers of marketable securities quoted on a recognised exchange ceases to apply to transactions entered into from 1 July 2001. This results in an estimated loss of $700 000 in stamp duty revenue for 2001-02. The 2001-02 Budget estimates for stamp duty receipts are reported by category in Table 6.6.

Table 6.6: Stamp Duties, 1997-98 to 2001-02

		Actual		Budget	Budget
	1997-98	1998-99	1999-00	2000-01	2001-02
	$'000	$'000	$'000	$'000	$'000
Conveyances[1]	**41 609**	**38 062**	**47 318**	**41 285**	**48 727**
Motor Vehicles	**29 360**	**27 821**	**27 541**	**29 387**	**25 823**
Insurances	**18 177**	**21 010**	**22 312**	**22 620**	**24 807**
Debits Duty	**16 418**	**16 796**	**19 129**	**20 391**	**20 605**
Rental Business[2]	**2 916**	**3 109**	**3 531**	**2 673**	**3 603**
Bank Returns[1]	**2 054**	**....**	**....**	**....**	**....**
Mortgages[1]	**6 947**	**5 887**	**5 993**	**7 527**	**6 257**
Sundry Legal Documents	**334**	**5 251**	**5 571**	**2 291**	**2 553**
Lucky Envelopes[3]	**707**	**621**	**546**	**....**	**....**
Credit Cards[4]	**1 635**	**2 155**	**....**	**....**	**....**
Marketable Securities	**2 660**	**2 564**	**3 297**	**722**	**89**
Hire Purchase and Related Agreements[2]	**739**	**639**	**542**	**394**	**....**
Leases	**544**	**446**	**499**	**614**	**555**
Adhesive Revenue Stamps[5]	**(20)**	**....**	**....**	**....**	**....**
Less General Refunds	**(25)**	**....**	**....**	**....**	**....**
Total	**124 057**	**124 361**	**136 279**	**127 904**	**133 019**

Notes:

1. Bank returns includes duty relating to conveyances, mortgages and sundry legal documents paid by way of return. From 1997-98, receipts relating to conveyances and mortgages have been disaggregated and distributed between these components. The Budget estimate for conveyances, mortgages and sundry legal documents includes those paid by way of bank return.
2. From 2001-02, duty on hire purchase and related agreements are included in rental business duty.
3. From 1999-00, figures for debits duty includes duty on credit card transactions.
4. Lucky envelope receipts are included in lottery tax for 2000-01 and in racing and gaming tax for 2001-02.
5. In 1997-98, $20 000 was paid on return of stamps.

Estimated Receipts for 2001-02

Stamp duty receipts for 2001-02 are estimated to be $133.0 million, an increase of $5.1 million or 4.0 per cent over the Budget estimate for 2000-01.

Financial Institutions Duty

Description

The *Financial Institutions Duty Act 1986* provides for the imposition of Financial Institutions Duty (FID) at the rate of 0.06 per cent on the taxable receipts of registered financial institutions, subject to a maximum of $1 200 for any single receipt. Holders of a Commonwealth Pensioner Concession or Health Care Card are eligible for an exemption from paying FID.

Receipts include bills of exchange and promissory notes. Financial institutions with receipts of less than $5.0 million per annum are not required to be registered except where they are a subsidiary of, or associated with, another financial institution. The $1 200 maximum was introduced in order to limit the liability for duty on large value transactions that tend to operate on small margins.

Registered financial institutions are required to submit monthly returns to the Commissioner of State Revenue within 21 days from the commencement of the month. Duty is paid in respect of the number of dutiable receipts of $2.0 million or more (which attract the $1 200 maximum duty) and on the total value of all other dutiable receipts.

Short-term money market operators are required to submit returns on the same basis as other registered financial institutions. However, the information furnished by these operators is required to specify the average daily liability in respect of short-term dealings during that month and the daily amounts used in the calculation of that average daily liability.

In accordance with the IGA, Financial Institutions Duty will cease to apply from 1 July 2001. This results in an estimated loss of State own source revenue of $21.1 million in 2001-02.

Estimated Receipts for 2001-02

Revenue from FID in 2001-02 is expected to be $2.1 million, representing a 91.7 per cent reduction below budgeted receipts for 2000-01. As FID ceases to apply from 1 July 2001, the budgeted receipts for 2001-02 reflect FID levied in 2000-01 but not expected to be received until 2001-02.

Electricity Entities Levy

Description

The *Electricity Entities (Contributions) Act 1997* requires that prescribed electricity entities pay to the Consolidated Fund five per cent of the revenue received each quarter in respect of the retailing of electricity to commercial and residential customers. Electricity entities are not required to pay the levy in respect of sales to eligible pensioners and certain exempt contracts. The levy has been applied continuously in its current form since 1980.

As part of the tax relief initiatives announced in this Budget, the Electricity Entities Levy will cease to apply to electricity consumed after 1 July 2001. The estimated cost of this initiative is $13.6 million in 2001-02 with a full year effect of $15.5 million. This initiative will result in reduced electricity bills for residential, commercial and industrial consumers.

Estimated Receipts for 2001-02

Receipts for 2001-02 are estimated to be $1.9 million, which is the estimated revenue received in 2001-02 relating to electricity consumed prior to 1 July 2001 but billed after that date.

Gambling Taxes

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

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

The *Racing and Gaming Act 1952* provides the overall framework for racing and minor gaming activities within the State. The *Gaming Control Act 1993* provides the legislative framework within which Tasmanian casinos operate, for the operation of Keno and video gaming machines, and the regulation of fixed odds wagering, sports betting, major lotteries and other gaming activities which may be prescribed. The *TT-Line Gaming Act 1993* governs gaming operations aboard the *Spirit of Tasmania.*

Gambling tax rates were effectively reduced from 1 July 2001 in accordance with the requirements of the IGA by the introduction of a tax credit system, which refunds the casino operator for GST paid on casino gaming gross profits. Legislation currently before Parliament will see this interim arrangement replaced from 1 July 2001 by a set of new GST adjusted tax rates. These are detailed later in the Chapter. The reduction in tax was to 'make room' for the Commonwealth's GST on gambling operator's margins. The estimated loss of taxation revenue as a result of these changes is expected to be $19.4 million in 2000-01 and $23.0 million in 2001-02. Table 6.7 disaggregates these figures to the individual gambling activities.

Table 6.7: Gambling Tax Revenue Forgone, 2000-01 to 2001-02

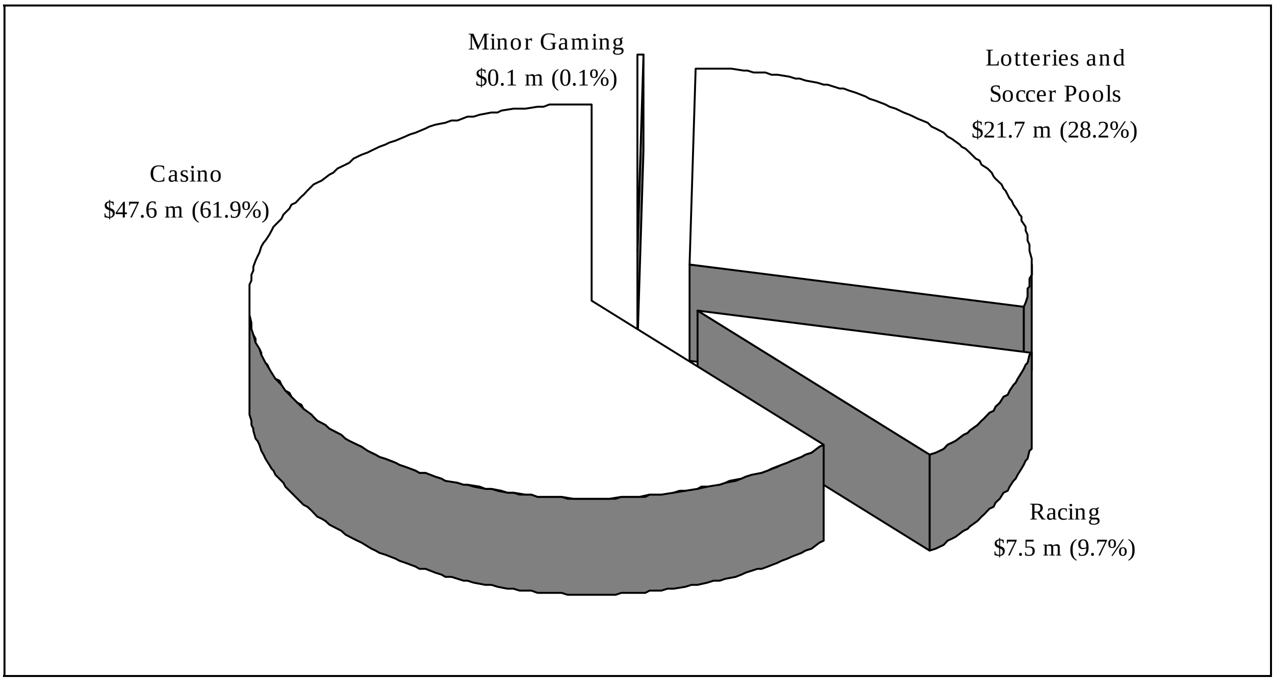
	Budget 2000-01	Budget 2001-02
	$m	$m
Racing	**2.8**	**3.0**
Lottery	**1.8**	**2.0**
Casino	**14.8**	**17.5**
Total	**19.4**	**22.5**

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

Lottery sales are conducted in Tasmania by Tattersall's under a revenue sharing arrangement with the Victorian Government. Tax rates applying to Tattersall's are set by the Victorian Government. Adjustment of the gambling tax arrangements applying to Tattersall's for the GST is a matter for the Victorian Government. However, the impact on Tasmanian lottery tax receipts will flow through the revenue sharing arrangements (see below).

Chart 6.4 provides details of actual gambling receipts for 1999-00.

Chart 6.4: Gambling Revenue, 1999-00 - Dollar Amounts and Percentage of Total



Lottery Tax

Description

Since 1960, there has 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. By agreement, Tattersall's is the sole permit holder for lottery sales in Tasmania until 31 January 2002. The arrangements under the agreement between Victoria and Tasmania have been varied from time to time. The current permit was renewed in February 1999 following the conclusion of negotiations regarding associated duty sharing arrangements with Victoria.

Under the agreement, Victoria remits to Tasmania 100 per cent of the duty paid on all Tattersall's products sold in Tasmania, together with a proportionate share of unclaimed prizes. The agreement is now open-ended and there is legislation currently before Parliament that will extend Tattersall's permission to sell lottery tickets in Tasmania beyond the current sunset of 31 January 2002, until 31 January 2010. All lottery tax is collected by the Victorian Government, which remits the required payment to Tasmania each month.

Tattersall's also has permission to sell tickets to a soccer football pools and an Australian Rules Football tipping competition.

Estimated Receipts for 2001-02

It is expected that revenue in relation to Tasmanian lottery and soccer pools subscriptions will be $20.0 million in 2001-02, representing a decrease of $0.2 million or 0.9 per cent on budgeted receipts for 2000-01.

Racing And Gaming Tax

Description

The *Racing and Gaming Act 1952* provides for the imposition of taxes and fees on racing and minor gaming. As a result of the corporatisation of TOTE Tasmania Pty Ltd, racing tax is no longer remitted to the Consolidated Fund. In its place, TOTE Tasmania is required to make tax equivalent payments. Consequently, from 1 August 2000, receipts from racing and gaming taxes only include minor gaming activities.

Legislation currently before Parliament transfers minor gaming provisions from the *Racing and Gaming Act 1952* to the *Gaming Control Act 1993* with an associated new tax regime which takes effect from 1 July 2001. In addition, lucky envelope provisions previously included in the *Stamp Duties Act 1931* have also been transferred to the *Gaming Control Act 1993*.

Estimated Receipts for 2001-02

The estimated revenue from minor gaming activities for 2001-02 is $0.4 million, which includes revenue from lucky envelopes.

Casino Tax

Description

The *Gaming Control Act 1993* provides for the payment of licence fees by Tasmania's two casinos and a tax on the gross profit from casino operations. The tax payable by the casinos is 15 per cent of the gross profits derived from Keno and table gaming, while the gross profits derived from gaming machines are taxed on a sliding scale as follows:

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

A tax credit is currently payable to the casino operator for GST paid on casino gaming gross profits. Legislation currently before Parliament will see new GST adjusted tax rates apply from 1 July 2001. They will be 5.88 per cent for Keno and table gaming and, for gaming machines, a sliding scale as follows:

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

The licence fee payable by the casino operator in respect of each casino is indexed by movements in the Consumer Price Index. In 1999-00, the fees paid by the two casinos totalled $1.8 million.

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

The Act also provides for the payment of a community support levy, calculated at two per cent and four per cent of the gross profit derived from gaming machines in licensed clubs and hotels respectively. It is estimated that the levy will raise $2.4 million in 2000-01, to be distributed as follows:

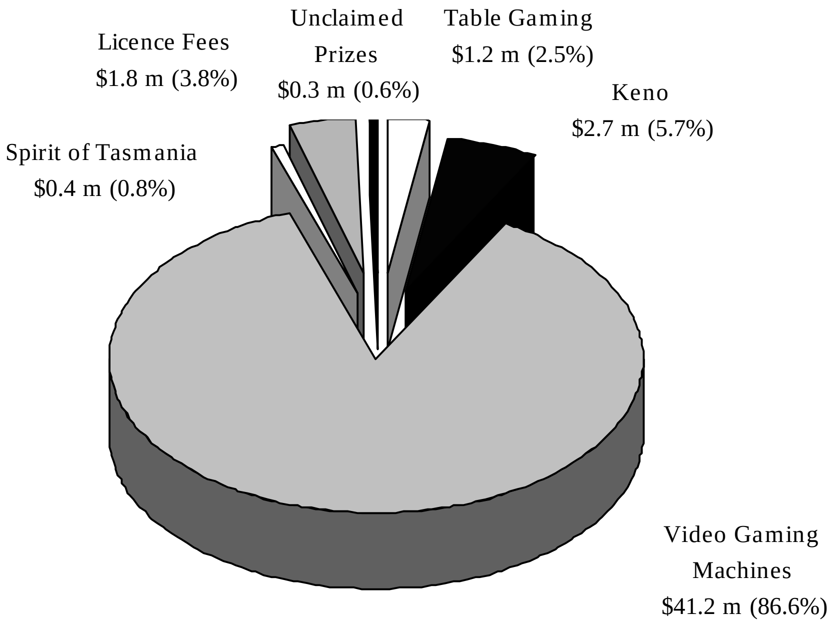
- 25 per cent for the benefit of sport and recreation clubs;
- 25 per cent for the benefit of charitable organisations; and
- 50 per cent for the provision of:
  - research into gambling;
  - services for the prevention of compulsive gambling;
  - the treatment or rehabilitation of compulsive gamblers;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

In July 1998, a deed of agreement was signed between the Crown and ANH to permit ANH to operate a virtual, or Internet, casino from its premises at Wrest Point in Hobart. Due to the moratorium imposed by the Commonwealth Government on Internet gaming, the Internet casino has not been able to continue operation.

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

Chart 6.5 details the components of total casino revenue for 1999-00.

Chart 6.5: Casino Receipts, 1999-00[1] - Dollar Amounts and Percentage of Total



Note:

1. The amount shown for the *Spirit of Tasmania* is net of the amount paid to the Victorian Government under the revenue sharing arrangement.

Estimated Receipts for 2001-02

Taxation revenue from casino operations for 2001-02 is estimated to be $44.2 million, representing an increase of $7.4 million or 20.1 per cent above the 2000-01 Budget estimate. The expected increase in casino tax revenue is primarily due to increased receipts from video gaming machines due to the increases in the allowable number of machines in venues which is provided for under the 1993 Deed of Agreement between the Crown and ANH.

Sundry Licences

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

Budgeted revenue receipts for 2000-01 are expected to be $30 000. Estimated revenue for 2001-02 is expected to be $30 000.

Petroleum and Liquor Subsidies

Description

For the year 2000-01, safety net revenue of $2.1 million was received from the Commonwealth. This amount represented final safety net payments relating to June 2000, which were not received until after 1 July 2000.

Although the subsidy payments associated with the safety net arrangements ceased on 1 July 2000 with the commencement of the GST, the Government has continued to provide subsidies for petroleum and liquor products, similar to those that existed as part of the safety net arrangements.

The following subsidies are currently provided:

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

The aggregate cost of providing these subsidies is expected to be $15.4 million in 2001-02.

The previously provided off-road diesel subsidy ceased on 1 July 2000 as part of national tax reform. Off-road diesel concessions are now provided by the Commonwealth, although the Commonwealth takes into account the cost forgone by the State in providing the subsidy in calculating the minimum guaranteed minimum amount for the purposes of budget balancing assistance. The estimated cost forgone by the State is $2.0 million for 2000-01 and $2.2 million for 2001-02.

MAJOR LEGISLATIVE CHANGES

A summary of legislative changes made during 2000-01 and tax reforms relating to specific taxes is provided in this section.

Land Tax Act 2000

The *Land Tax Act 2000* received Royal Assent on 13 December 2000. The *Land Tax Act 2000* replaces the *Land and Income Taxation Act 1910*. The Act commenced on 1 January 2001.

Changes to the land tax arrangements in the Act include:

- consistency with the administrative provisions of the *Taxation Administration Act 1997*;
- renaming of the 'rural land' category to 'primary production land' to help clarify the true purpose of this classification, as well as clarifying the definition of land in this class;
- extension of the definition of 'aquaculture' to ensure consistent treatment with other primary production activities;
- reduction in the administrative burden in relation to the granting of partial exemptions from land tax for certain sporting bodies;
- removal of redundant exemptions and the provision of a fair and consistent treatment of taxpayers in the application of exemptions, while also reducing administrative and compliance costs;

- a full exemption from land tax to all pensioners who hold a current Pensioner Concession Card issued by the Commonwealth;
- granting individual taxpayers a right of appeal regarding valuation adjustment factors in the calculation of tax; and
- changes to the presentation of the tax calculation for home unit companies, retirement villages and cooperative housing societies, by including provisions in the Act to calculate apportioned assessed land values rather than including provisions in the Land tax Rating Act.

The Act reflects the recommendations of the 1997 Committee of Inquiry into the *Land and Income Taxation Act 1910*. As is the case with the previous legislation, rates of land tax are set in a separate Land Tax Rating Act.

Land Tax Rating Act 2000

The *Land Tax Rating Act 2000* received Royal Assent on 13 December 2000. While the arrangements for the imposition of land tax are set out in the *Land Tax Act 2000*, the rates of land tax are set in the *Land Tax Rating Act 2000*. With the commencement of the *Land Tax Act 2000*, a new Land Tax Rating Act was required to be consistent with that Act. The rates of land tax in this Act remain unchanged from those that were in effect for the financial year beginning 1 July 2000. The rate of tax for principal residence land and primary production land is zero.

Pay-roll Tax Amendment (No.2) Act 2000

The *Pay-roll Tax Amendment (No.2) Act 2000* received Royal Assent on 14 November 2000. The purpose of the Act was to amend the *Pay-roll Tax Act 1971* to ensure that payroll tax is assessed on the GST-exclusive value of contracts for the supply of labour services. In addition, the Act makes several administrative revisions to the Pay-roll Tax Act.

The employment agency provisions of the Pay-roll Tax Act were amended to ensure that any amount taken to be wages does not include an amount in respect of GST payable on the supply to which the employment agency contract relates. The provisions relating to relevant contract payments are also amended to exclude any GST payable in relation to such a contract. In addition, where the Commissioner of State Revenue makes a determination under the relevant contract provisions, he cannot include as wages any GST payable on the supply to which the contract relates. These changes ensure that the payroll tax liability of businesses who engage workers through employment agencies or by direct hire contract remains unchanged as a result of the introduction of the GST.

The Act also provides for the replacement of references to the *Companies (Tasmania) Code* with references to the Corporations Law. This is an administrative issue aimed at ensuring that the integrity of the Act is maintained. The amendments contained had effect from 1 July 2000 to ensure that employers are not disadvantaged as a result of the commencement of the GST from that date.

Debits Duties Act 2001

The *Debits Duties Act 2001* received Royal Assent on 26 April 2001. The *Debits Duties Act 2001* will impose duty on debits to accounts held with financial institutions and credit card providers from 1 July 2001. Debits duties are currently imposed under the *Stamp Duties Act 1931*. There is no change in the rate of duty or in the range of dutiable transactions.

The administrative provisions of the *Taxation Administration Act 1997* apply to debits duties resulting in reduced compliance costs for both taxpayers and tax administrators in Tasmania. Credit card providers become subject to a registration regime as opposed to the licensing regime in place under the previous Act.

Duties Act 2001

The *Duties Act 2001* received Royal Assent on 26 April 2001. The *Duties Act 2001* commences from 1 July 2001 and replaces the *Stamp Duties Act 1931*.

Stamp duty is currently applied to a wide range of transactions including:

- conveyances and mortgages;
- transfers of motor vehicle registration;
- insurance policies;
- hire of goods;
- leases;
- hire purchase and other similar types of credit arrangements;
- transfers of marketable securities;
- a range of legal documents; and
- duty on debit transactions to bank accounts and credit card accounts.

The Act includes provisions relating to most stamp duties covered under the *Stamp Duties Act 1931*, the exceptions being duty on transfers of quoted marketable securities and debits duties. Duty on transfers of quoted marketable securities cease with effect from 1 July 2001 in accordance with the IGA. Debits duties provisions are contained in the *Debits Duties Act 2001*.

The Duties Act is the result of an inter-jurisdictional stamp duties re-write project involving Tasmania, New South Wales, the Australian Capital Territory, Victoria and South Australia. New South Wales, the Australian Capital Territory and Victoria have already enacted similar legislation. The legislation developed in each participating jurisdiction utilises common principles, definitions and structures where possible, thereby providing benefits to business by reducing compliance costs. The Act provides for significant harmonisation of provisions with other jurisdictions, particularly in the areas of property transfers, leasing, mortgages and hire of goods. The Duties Act has been drafted so as to raise about the same overall amount of revenue as did the Stamp Duty Act.

The provisions of the *Taxation Administration Act 1997* apply to the Duties Act.

Taxation Administration Amendment Act 2000

The *Taxation Administration Amendment Act 2000* received Royal Assent on 13 December 2000. The Act amends the Taxation Administration Act to extend taxation laws to include the *Land Tax Act 2000*.

Taxation Administration (Consequential) Amendment Act 2001

The *Taxation Administration (Consequential) Amendment Act 2001* received Royal Assent on 26 April 2001. The Act amends the Taxation Administration Act to extend taxation laws to include the *Duties Act 2001* and the *Debit Duties Act 2001.*

Gaming Control Amendment (Minor Gaming and Miscellaneous Amendments) Bill 2001 and Racing and Gaming Amendment (Gaming Provisions Removal) Bill 2001

The Gaming Control Amendment (Minor Gaming and Miscellaneous Amendments) Bill 2001, in combination with the Racing and Gaming Amendment (Gaming Provisions Removal) Bill 2001, will amend the *Gaming Control Act 1993* and the *Racing and Gaming Act 1952* to introduce a more flexible regulatory framework to apply to minor gaming activities.

This is in many respects consistent with the approach that has been taken with respect to the licensing framework that was introduced in late 1999 to regulate major gaming operations, such as sports betting for example.

In addition, the Bills extend the application of a Tasmanian Gaming Licence to Australian National Hotels Internet gaming activities; adjusts gambling tax rates applying to ANH for the effect of the GST; and replaces the current sunset clause on Tattersall's permit to sell lottery tickets in Tasmania with a general authorisation for the sale of tickets in Tasmania to 30 June 2010.

The Bills also facilitate a number of miscellaneous amendments to enhance the overall efficiency and effectiveness of the State's gaming regulatory framework.

Revenue Measures Bill 2001

A Revenue Measures Bill is to be introduced into the Budget session of Parliament to give effect to the tax relief measures announced in this Budget. Specifically the Bill will provide for an Act to amend the *Pay-roll Tax Act 1971* to reduce the rate of payroll tax and to increase the general exemption threshold. In addition, changes will be made to the company grouping provisions to allow for the de-grouping of companies where they operate independently and in different industry sectors. The Bill will also provide for the abolition of the Electricity Entities Levy.

7 COMMONWEALTH-STATE FINANCIAL ARRANGEMENTS

Features

- Under the *Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations* (IGA), Commonwealth general purpose payments to the states and territories are funded primarily from the goods and services tax (GST), rather than general revenue.
- Because GST revenue is still not sufficient to compensate states and territories for their commitments under the IGA, Commonwealth funding to Tasmania and all other states and territories for 2001-02 will again require additional payments from the Commonwealth in the form of Budget Balancing Assistance. The level of general purpose grants will therefore be determined by the Commonwealth's guarantee under the IGA.
- Tasmania will be paid Budget Balancing Assistance until such time as the revenue from the GST is sufficient to ensure that Tasmania is no worse off compared to the previous funding arrangements. It is estimated that Tasmania will not be better off under the IGA arrangements until at least 2007-08.
- Budget Balancing Assistance is estimated to total $53 million in 2001-02.
- In 2001-02 Commonwealth grants to Tasmania are estimated to total $1 681.4 million.
- General purpose grants will total $1 177.9 million. Specific purpose recurrent and capital grants will total $503.5 million, a marginal increase in real terms of 1.8 per cent.
- Because of changes to Commonwealth-State financial relations from 1 July 2000, direct comparisons of funding levels between pre 2000-01 and subsequent years are not valid.

INTRODUCTION

This Chapter covers:

- the nature and level of Commonwealth payments to Tasmania;
- the institutional arrangements that govern these payments; and
- current issues in Commonwealth-State financial relations of significance to Tasmania.

It should be noted that, due to new Commonwealth-State financial relations arrangements implemented on 1 July 2000, a number of changes have been made to the level and type of payments received from the Commonwealth. The major change is that, from 1 July 2000, Commonwealth Financial Assistance Grants (FAGs) and revenue replacement (safety net) payments were replaced by GST revenue and Budget Balancing Assistance (BBA).

The estimates for Commonwealth General Purpose Payments (GPPs), which include GST revenue and BBA (including both grants and loans), Health Care Grants (HCGs), Competition Payments and Specific Purpose Payments (SPPs) used in this Chapter are derived from the *Statement of Estimated Payments* (SOEP) provided to the March 2001 Treasurers' Conference and program-specific information.

Although most Commonwealth payments are formally provided through the Commonwealth Budget, there are important institutional arrangements that determine or influence the amount of assistance that each state and territory receives from the Commonwealth. These institutional arrangements comprise the Treasurers' Conference and the Commonwealth Grants Commission (CGC). The Treasurers' Conference and CGC arrangements are discussed later in this Chapter. Detail regarding the Loan Council, another significant Commonwealth-State institution, is provided in Chapter 11 of this Budget Paper.

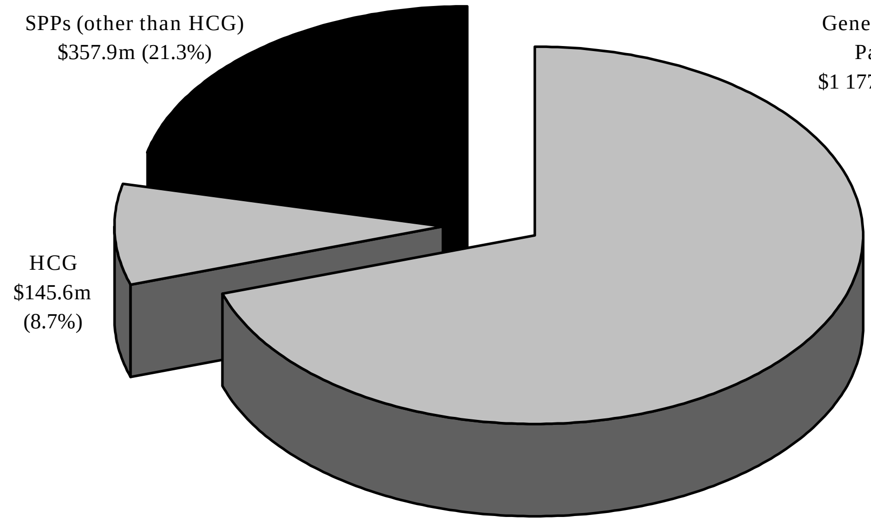
All real terms variations have been calculated using the underlying national Consumer Price Index (CPI) estimate because Commonwealth grants are indexed by the underlying national CPI and, in some instances, national population growth. This differs from the approach used elsewhere in the Budget Papers where an estimate of the Tasmanian Gross State Product Implicit Price Deflator is used.

COMMONWEALTH PAYMENTS

GPPs can be applied at the State's discretion, whereas SPPs must be spent in accordance with purposes agreed between the Commonwealth and the State (or as prescribed by the Commonwealth). In the past the largest component of Commonwealth payments has been the FAG, which is a GPP. However, since 1 July 2000 FAGs have been replaced by GST revenue and BBA, both of which are also classified as GPPs. Other grants classified as GPPs in this document are Competition Payments. The HCG, by convention, is identified as an SPP in Commonwealth and State budget papers, but in Tasmania it is applied as if it were general purpose funding, because of its link with the GST revenue distribution. There are no general purpose capital grant programs currently in place. Chart 7.1 shows the relative size of the main types of Commonwealth payments to Tasmania.

In 2001-02, estimated total Commonwealth payments through the Consolidated Fund are expected to comprise about 66.2 per cent of total Consolidated Fund receipts, with the GST revenue alone contributing 47.6 per cent.

Chart 7.1: Estimated Commonwealth Recurrent and Capital Payments to Tasmania, 2001-02



Sources: *Commonwealth Statement of Estimated Payments,* March 2001 Treasurers' Conference; Department of Treasury and Finance.

The Intergovernmental Agreement

Under the *Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations* (IGA) the Commonwealth and the states made a number of commitments. The Commonwealth agreed:

- to legislate to provide all of the revenue from the GST to the states and maintain the rate and base of the GST in accordance with the IGA;
- to cease to apply wholesale sales tax (WST) from 1 July 2000 and to not reintroduce a similar tax in the future;
- to distribute the GST revenue to the states on the basis of horizontal fiscal equalisation (HFE);
- that GST revenue would be available to the states as GPPs; and
- that the Commonwealth would continue to pay Specific Purpose Payments (SPPs) to the states and to not cut them as part of the reform process.

As part of their commitment, the states agreed to forego FAGs and the payment of revenue associated with the safety net surcharge for alcohol, petroleum and tobacco products by the Commonwealth from 1 July 2000. The states also undertook to reduce their gambling tax revenues to the extent of the impact of the GST on gambling operators from 1 July 2000 and to abolish:

- bed taxes (applicable only in the Northern Territory and New South Wales) from 1 July 2000;
- financial institutions duty (FID) and stamp duty on quoted marketable securities from 1 July 2001; and
- debits tax by 1 July 2005, subject to review by the Treasurers' Conference.

It was also agreed that the Treasurers' Conference would, by 1 July 2005, review the need for the retention of a range of stamp duties including: stamp duty on non-residential conveyances; non-quoted marketable securities; leases; mortgages, bonds, debentures and other loan securities; credit arrangements; instalment purchase arrangements, rental arrangements; bills of exchange; cheques; and promissory notes.

In addition, the states accepted responsibility for funding and administering a First Home Owners Scheme (FHOS) from 1 July 2000 and for compensating the Commonwealth for the cost of administrating the GST.

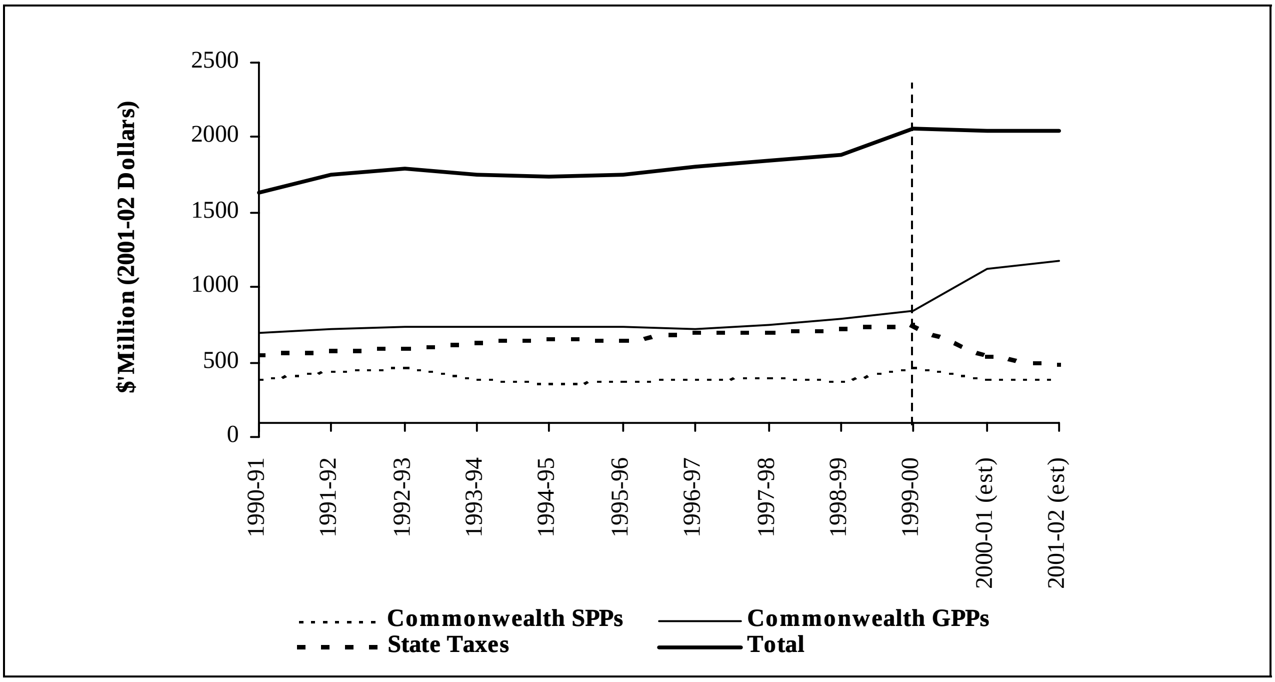
The Commonwealth has guaranteed that the budgetary position of each individual state and territory would be no worse off than it would have been had the reforms not been implemented. Commonwealth payments are therefore determined in those years until GST revenues are sufficient to cover the states' IGA commitments by a Guaranteed Minimum Amount (GMA). An explanation of the GMA is provided below. The Commonwealth will make BBA payments to the states to top-up the GST revenue during this period.

Impact of IGA Changes to Commonwealth-State Financial Arrangements

In the short-term, the GST revenue will not be sufficient to offset the revenue the states will forego, or the additional expenditure incurred under the IGA. This means that Commonwealth payments to Tasmania, and indeed all the states, will be determined under the guarantee arrangements. By definition, this means that, in terms of its total Budget, Tasmania is no better off financially than it would have been had the pre-IGA arrangements continued.

This is demonstrated by Chart 7.2, which shows receipts from the major sources of revenue and the total from all these sources for the period 1990-91 to 2001-02. The major sources of revenue are Commonwealth payments, in the form of GPPs and SPPs, and State taxes. Other sources of revenue not shown include returns from GBEs, royalties and a range of fees. This chart demonstrates that, in aggregate, the trend in funding from these sources has been one of gradual increase over time.

Chart 7.2: Major Sources of Budget Revenue 1990-91 to 2001-02 (Real Terms)



Sources: *Commonwealth Budget Paper Number 3* (numerous years); *Commonwealth Statement of Estimated Payments*, March 2001 Treasurers' Conference; Department of Treasury and Finance, Budget Paper No 1 *Budget Overview* (numerous years.)

It is clear from Chart 7.2 that there has not been any increase in total budget receipts as a result of the reforms implemented under the IGA, and that the increase in GPPs for 2000-01 and 2001-02 is at the expense of forgone state tax revenue, which all states committed to under the IGA arrangements.

Furthermore, forward estimates of the impact of the IGA reforms on each state indicate that it will be a number of years before the states are better off from the IGA arrangements.

Table 7.1 provides indicative forward estimates of when each state is expected to be out of the guarantee period and no longer in need of BBA payments. The level of Commonwealth funds for states will then be determined by their share of GST revenue, rather than the GMAs. These estimates were agreed by the Commonwealth and the states at the March 2001 Treasurers' Conference.

Table 7.1: First Year States are out of the Guarantee Period

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

Source: Treasurers' Conference, Commonwealth Treasurer's Press Release 30 March 2001.

During the guarantee period, any increase in the level of GST revenue collected will not result in more funding to the states, but will reduce the Commonwealth's obligation to make BBA payments to the states. For example, in 2000-01 the Commonwealth increased its estimate of the GST revenue to be collected by $2.25 billion or 9.35 per cent. Even this significant increase did not change the overall funding to any state, but simply enabled the Commonwealth to reduce BBA payments to the states by the equivalent amount. Any revenue gain through the GST will continue to benefit the Commonwealth, and not the states, while the states remain in the guarantee period.

Guaranteed Minimum Amount

To meet its guarantee that no state would be worse off under the new arrangements, the Commonwealth has agreed to make transitional assistance in the form of BBA payments to each state as necessary. These payments take the form of untied grants.

The amount of BBA required in any financial year is determined by calculating the guaranteed minimum amount (GMA). The GMA is the sum of revenue forgone by a state; additional expenditure responsibilities incurred as a result of the reforms agreed to under the IGA; and savings in expenditure and increased receipts as a result of national tax changes. The difference between the GMA and the state's share of GST revenue is the amount of BBA which is to be paid to that state.

Table 7.2 provides an estimate of the amount to be received by Tasmania in 2001-02, in respect of GST revenue and BBA payment.

Table 7.2: Estimated Guaranteed Minimum Amount - Tasmania, 2000-01 and 2001-02

	2000-01 Budget	2001-02 Budget
	$m	$m
GST Revenue	**977.7**	**1107.6**
Budget Balancing Assistance (Grants and Loans)	**85.6**	**53.1**
Guaranteed Minimum Amount	**1063.3**	**1160.7**

Sources: Budget Paper No 1 *Budget Overview 2000-01*, *Commonwealth Statement of Estimated Payments*, March 2001 Treasurers' Conference.

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

Calculation of GMA

Table 7.3 provides details of the amounts used to calculate the GMA in 2000-01 and 2001-02 for Tasmania.

Table 7.3: Guaranteed Minimum Amount - Tasmania, 2000-01 and 2001-02

	2000-01 Estimated	2001-02 Estimated
	$m	**$m**
State Revenue Forgone[1]		
Financial Assistance Grants	**816.8**	**884.6**
Revenue Replacement Payments	**195.3**	**209.2**
Reduced Gambling Taxes	**17.7**	**23.0**
Financial Institutions Duty	**0**	**21.1**
Stamp Duty on Marketable Securities	**0**	**0.7**
Wholesale Sales Tax Equivalent Payments	**13.0**	**13.0**
	1042.9	**1151.4**
Plus Taxation Needs Adjustment[2]		
Relating to Marketable Securities	**….**	**1.8**
		1.8
Plus Additional State Expenditures		
First Home Owners Scheme	**14.8**	**12.0**
GST Administration	**19.7**	**12.5**
Interest Costs	**2.2**	**0.5**
	36.7	**25.0**
Less Expected Savings to State Governments		
Off-road Diesel Subsidies	**2.4**	**2.2**
Tax Reform Savings	**12.2**	**13.0**
	14.6	**15.2**
Less Growth Dividend		
Relating to Remaining State Taxes	**1.7**	**2.3**
	1.7	**2.3**
Guaranteed Minimum Amount	**1063.3**	**1160.7**

Sources: Budget Paper No 1 *Budget Overview 2000-01; Commonwealth Statement of Estimated Payments,* March 2001 Treasurers' Conference.

Notes:

1. The figures for state taxation revenue forgone for 2000-01 are 2000-01 budget estimates. They differ from those provided in Table 6.1 of Chapter 6 which are more up-to-date estimates.
2. The Commonwealth agreed to provide states with the additional funds associated with the CGC needs assessment of Stamp Duty on Marketable Securities. As the duty is to be abolished, the CGC no longer makes an assessment of each state's capacity to raise taxation revenue through this source.

Reconciliation of the Increase in GMA for Tasmania

Table 7.4 provides a reconciliation of the estimated GPPs from the Commonwealth to Tasmania between 2000-01 and 2001-02.

Table 7.4: Reconciliation of General Purpose Payments (Excluding Competition Payments), 2000-01 to 2001-02

	Amount	
	$m	**$m**
GMA 2000-01	**1063.3**	
Plus Changes in FAGs and HCGs		
Reduction due to population share decline	**(8.4)**	
Increase due to increase in relativity factor	**35.6**	
Increases due to national indexation and population adjustment	**40.3**	
		67.5
Plus increase in State revenue forgone		
Safety net payments	**13.9**	
Financial institutions duty	**21.1**	
Gambling taxes	**5.3**	
Stamp duty on marketable securities (including needs adjustment)	**2.5**	
		42.8
Less changes in costs incurred		
Reduced interest costs	**(1.7)**	
Reduced First Home Owners Scheme expenditure	**(2.8)**	
Reduced GST administration costs	**(7.2)**	
		(11.7)
Less changes in expected savings which are clawed back by the Commonwealth		
Reduced off-road diesel subsidies	**(0.2)**	
Increased savings from tax reform	**0.8**	
		(0.6)
Less the accelerated growth of remaining state taxes which are clawed back by the Commonwealth		**(0.6)**
Total estimated GPPs (excluding competition payments)[1]		**1160.7**

Sources: *Budget Paper No 1, 2000-01, Commonwealth Statement of Estimated Payments,* March 2001 Treasurers' Conference*; Report on General Revenue Grant Relativities 2001 Update,* Commonwealth Grants Commission; Department of Treasury and Finance.

Note:
1. This amount is exactly the same in aggregate as would have been received under the previous Commonwealth-State financial arrangements after adjustment for the revenue to be forgone and the additional expenditure to be incurred by the State. See discussion under the section 'Guaranteed Minimum Amount' above.

It is estimated that the GMA for Tasmania for 2001-02 will be $1 160.7 million. The major factor in the GMA is the level of FAGs forgone by the State. The level of FAGs is determined by the size of the national pool (which is indexed in real per capita terms), Tasmania's population share and its FAG relativity. While the

Commonwealth's estimate of Tasmania's population share declined for 2001-02, the State's FAG relativity increased from 1.62565 for 2000-01 to 1.68714. The combined effect has meant that Tasmania's share of the FAG / HCG pool has increased from 3.95 per cent to 4.07 per cent. This increase accounts for $67.5 million of the increase in the GMA.

The costs Tasmania will incur in 2001-02 in relation to interest costs due to changed cash flow arrangements, the introduction of the FHOS and the payment of the GST administration costs to the ATO are estimated to reduce by $11.7 million compared to 2000-01. Costs will reduce as the high demand for FHOS experienced in 2000-01 is not expected to be sustained in 2001-02. In addition, the GST administration costs for 2001-02 will only reflect costs incurred for this year. The costs for 2000-01 included the costs incurred, by the Commonwealth, for both 2000-01 and 1999-00.

In addition, state revenue forgone as a result of the tax reform process will be higher in 2001-02. Financial Institutions Duty (FID) and Stamp Duty on quoted Marketable Securities will be abolished on 1 July 2001. These two items add an additional $21.1 million and $2.5 million to the GMA respectively. Revenue replacement payments and gambling taxes forgone are also higher for 2001-02 than for 2000-01, contributing to the increase in the GMA by $19.2 million.

For 2001-02, it is estimated that Tasmania's share of the GST revenue pool will be less than the GMA. The level of Commonwealth funding to Tasmania in 2001-02 will therefore be determined by the GMA and not the GST revenue.

Competition Payments

At its April 1995 meeting, the Council of Australian Governments (COAG) signed a number of Agreements, based on the recommendations of the *National Competition Policy - Report by the Independent Committee of Inquiry* (the Hilmer Report), to give effect to a package of economic reform measures that represent the National Competition Policy (NCP). Three Agreements were signed: the *Conduct Code Agreement*; the *Competition Principles Agreement*; and the *Agreement to Implement the National Competition Policy and Related Reforms*.

The main reform measures required by the NCP Agreements relate to: the extension of Part IV of the Commonwealth's *Trade Practices Act 1974* (TPA) to all business activities (public and private, incorporated and unincorporated); the structural reform of public monopolies; the application of competitive neutrality principles to public sector businesses; processes for reviewing anti-competitive legislation; the establishment of State-based prices oversight regimes to apply to public sector monopolies; and guaranteed third party access to the services provided by means of significant infrastructure facilities.

The NCP Agreements also commit Australian governments to achieving sector specific reforms in relation to the electricity, gas, water and transport industries.

The *Agreement to Implement the National Competition Policy and Related Reforms* provides for the states to receive general revenue grants which reflect a share of the expected revenue gains to the Commonwealth arising from states' implementation of the NCP. The Commonwealth acknowledged that the benefits to the states from the expanded economic activity arising from economic reform would, as a result of the states' limited own-source revenue measures, not otherwise be fully available to them. It is these circumstances which gave rise to the Competition Payments, rather than compensation for complying with the process requirements of the NCP. These Competition Payments are being made in three tranches according to a schedule agreed between the Commonwealth and the states at the 1995 Premiers' Conference.

An indicative schedule of Competition Payments (in 2001-02 prices), together with Tasmania's expected share, over the first 10 years of implementing the NCP reform agenda, is provided in Table 7.5. All payments will continue to be distributed on an equal per capita basis.

Table 7.5 shows that Competition Payments for Tasmania are estimated to be $11.2 million in 2000-01, and $17.2 million in subsequent years to 2006-07 (in 2001-02 prices).

The National Competition Council (NCC) has been charged with the task of assessing the compliance by each state with the conditions governing the Competition Payments. Tasmania received a positive assessment in relation to the first and second tranche payments. The NCC is currently assessing all jurisdictions for the third tranche payments, and this report is to be completed by July 2001.

Table 7.5: Competition Payments (2001-02 prices)

	Competition Payments	
Year	National Total	Tasmanian Share[1]
	$m	$m
1997-98 actual[2]	**213.0**	**5.4**
1998-99 actual[2]	**216.1**	**5.4**
1999-00 actual[2]	**439.2**	**10.8**
2000-01 estimate[2]	**461.7**	**11.2**
2001-02 estimate	**715.8**	**17.2**
2002-03	**715.8**	**17.2**
2003-04	**715.8**	**17.2**
2004-05	**715.8**	**17.2**
2005-06	**715.8**	**17.2**
2006-07	**715.8**	**17.2**

Notes:
1. Based on the following assumptions: a continuation of current state population shares and the achievement of NCP targets.
2. These amounts are in nominal terms.

Health Care Grant

The Australian Health Care Agreements (AHCAs) provide for HCGs to be paid to states for the five years ending 2002-03. The HCG is the single largest Commonwealth payment after GST revenue.

The AHCA funding consists of three main elements:

- a base grant to assist states in providing the full range of hospital services and to assist with public hospital quality improvement and the provision of palliative care;
- payments to assist with implementing the National Mental Health Strategy; and

- a grant from the National Health Development Fund (NHDF) to help finance significant health system restructuring (as agreed between Tasmania and the Commonwealth) as one means of improving the performance of the system. The amount of the grant for 2001-02 is not known at this stage as it is dependant upon the approval of specific projects.

It is important to note that, apart from the mental health and NHDF components, the HCG is not specifically earmarked for expenditure on hospitals and there are no matching funding obligations, although all states are required to provide free public hospital services under the AHCA.

Table 7.6 provides details of the estimated HCG payments for 2000-01 and 2001-02.

Table 7.6: Health Care Grant - Tasmania

Components	2000-01 Estimated	2001-02 Estimated
	$m	**$m**
Base Grant	**134.4**	**144.3**
Other payments	**1.3**	**1.3**
TOTAL	**135.7**	**145.6**
Real terms percentage change (2001-02 over 2000-01)		**4.5%**

Sources: *Commonwealth Statement of Estimated Payments*, March 2001 Treasurers' Conference.

Specific Purpose Payments

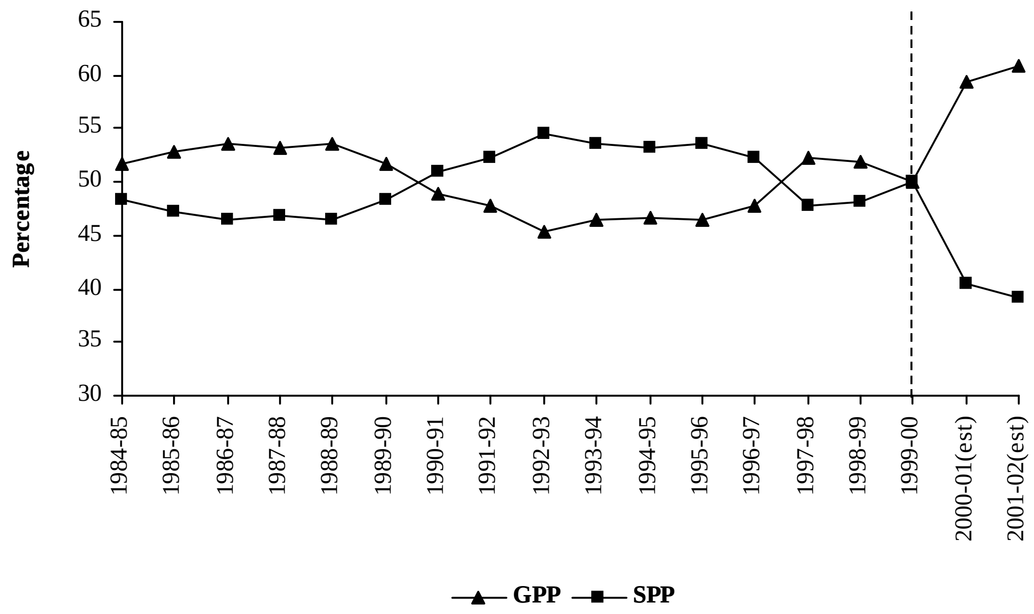
SPPs are grants provided for specific purposes, either agreed between the state and the Commonwealth, or as prescribed by the Commonwealth.

SPPs are usually determined through the Commonwealth Budget. Recurrent SPPs normally result from specific fixed term funding agreements, usually of three or five years duration. Often the State has to commit to matching these grants dollar for dollar in order to receive the funds made available. Conditions such as this reduce the State's control over its own budget priorities by limiting discretion as to how its financial resources can be applied. Consequently, all states are continually looking to remove such conditions from new or renegotiated inter-government agreements.

Chart 7.3 shows that, from 1988-89 through to 1992-93, there was a significant increase in the share of total Commonwealth assistance provided by way of SPPs. This increase was financed by the Commonwealth reducing its payments to the states in the form of GPPs. The significant decline in the proportion of SPPs experienced in 1997-98 was due to some funding programs, such as grants to Universities, being reclassified by the Commonwealth as own-purpose outlays and no longer being considered as SPPs.

It should be noted that, as a result of the changes to Commonwealth–State financial relations, the states received a significant increase in GPPs from the Commonwealth from 2000-01 onwards. This increase was necessary to compensate the states for both revenue forgone and the additional costs to be incurred by the states as a result of the changes. It does not represent any movement by the Commonwealth away from SPPs to GPPs or a significant reduction in SPP funding. Chart 7.3 may give the impression that the State has greater budget flexibility following the reforms to Commonwealth-State financial arrangements, but this is not the case because the pre and post 2000-01 shares are not comparable following the implementation of the reforms. GPPs now include compensation for state taxes abolished under the IGA, and additional expenditure responsibilities incurred under the IGA. These revenue and expenditure items are listed in Table 7.3. During 2001-02 Commonwealth SPPs are expected to be 16.3 per cent of total Consolidated Fund receipts. This represents a small decrease from 2000-01 where the proportion is estimated to have been 16.5 per cent.

Chart 7.3: Specific and General Purpose Payments as a Percentage of Total Commonwealth Payments to the States since 1984-85[1]



Sources: *Commonwealth Budget Paper Number 3* (numerous years*); Commonwealth Statement of Estimated Payments*, March 2001 Treasurers' Conference; Department of Treasury and Finance.

Note:

1. As a result of the changes to Commonwealth-State financial arrangements, Commonwealth payments to the states from 2000-01 onwards are not directly comparable with previous years. The amount to be received is the same as that which would have been received under the previous Commonwealth-State financial arrangements, after adjustment for the revenue to be forgone and the additional expenditure to be incurred by the states. See discussion under the section 'Guaranteed Minimum Amount' above.

States generally prefer Commonwealth assistance paid as general purpose payments because it provides them with greater flexibility in budget formulation and providing services. This greater flexibility allows the Government to pursue Tasmanian priorities in ways it may determine to be the most effective.

Table 7.7 presents estimates for the major tied grant programs for 2001-02 compared with estimates for 2000-01.

The largest SPPs are for public hospitals (discussed above), roads, housing and education. Together, the Home and Community Care (HACC), Supported Accommodation Assistance (SAAP) and Disability Services programs also constitute substantial tied funding. Total SPPs to Tasmania, including the HCG, are estimated to be $503.5 million in 2001-02, representing a real terms increase of 1.8 per cent over the 2000-01 estimate of $482.0 million.

The Commonwealth has guaranteed that funding for SPPs will not be reduced as a result of the reform of Commonwealth-State financial arrangements. This guarantee will be monitored by the Treasurers' Conference. The Treasurers' Conference agreed that the Commonwealth met this commitment for 2000-01.

Table 7.7: Specific Purpose Payments - Tasmania 2000-01 and 2001-02[1]

Program	2000-01 Estimate	2001-02 Estimate	Real Terms Change Over 2000-01
	$m	$m	%
Health Care Grants[2]	**135.7**	**145.6**	**4.5**
CSHA Block Assistance	**25.0**	**24.6**	**(4.1)**
Government Schools	**42.4**	**44.4**	**2.0**
Roads	**27.5**	**23.8**	**(15.7)**
HACC and SAAP	**21.3**	**22.9**	**4.7**
Disability Services	**15.5**	**17.6**	**10.6**
Local Government General Purpose Payments	**45.1**	**45.3**	**(2.1)**
Other[3]	**169.5**	**179.3**	**3.1**
TOTAL	**482.0**	**503.5**	**1.8**

Sources: *Statement of Estimated Payments,* March 2001 Treasurers' Conference; Department of Treasury and Finance.

Notes:

1. Payments do not necessarily correspond with items in the Consolidated Fund estimates because some payments are for on passing to non-State organisations and others are paid into the Special Deposits and Trust Fund.
2. Comprise grants under the AHCA.
3. Comprise all remaining SPPs from the Commonwealth to Tasmania.

It is important to note that the amounts in Table 7.7 represent capital as well as recurrent grants transacted through both the Consolidated Fund and the Special Deposits and Trust Fund and to the benefit of State and local government and non-government organisations. There are two categories of SPPs: those involving payments directly to a state government that assist in meeting its expenditure responsibilities; and those involving payments through a state government for on-passing to other bodies (including local government). These categories are referred to as SPPs 'to' the state and SPPs 'through' the state respectively. Table 7.8 provides a reconciliation of the total SPPs transacted through each Fund, and to the direct benefit of the State Government or to other beneficiaries.

'Through' payments in 2001-02 are expected to constitute about 22.8 per cent of total SPPs received by Tasmania. These include payments for non-government schools and general purpose and SPP assistance to local government and therefore do not assist in meeting the expenditure obligations of the State. 'Through' payments are expected to total $114.7 million in 2001-02, which is a reduction in real terms from 2000-01 of 1.5 per cent.

As indicated above, the estimates for SPPs in this Chapter will not necessarily correspond to the estimates used for the purposes of presenting the State's Consolidated Fund estimates in Chapter 4 of this Budget Paper, because of the transfer of some Commonwealth payments through the Special Deposits and Trust Fund.

Table 7.8 shows that there is expected to be an increase in payments to the benefit of the State Government (2.8 per cent) in 2001-02.

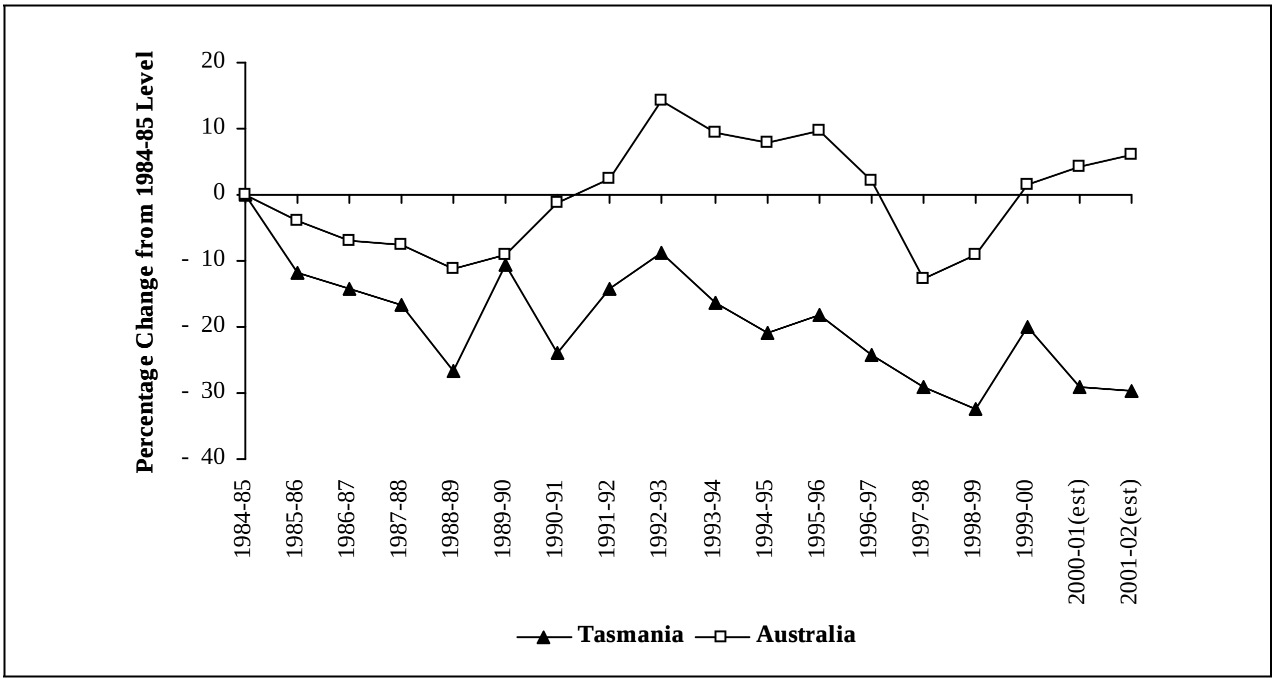
Table 7.8: Classification of Specific Purpose Payments by Destination

Destination	2000-01 Estimate	2001-02 Estimate	Real Terms Change Over 2000-01
	$m	$m	%
Through the Consolidated Fund:			
For on-passing to Local Government	**45.1**	**45.3**	**(2.1)**
To the benefit of the State Government	**316.4**	**333.1**	**2.6**
Total	**361.5**	**378.4**	**2.0**
Through the Special Deposits and Trust Fund:			
For on-passing to other organisations	**68.4**	**69.4**	**(1.1)**
To the benefit of the State Government	**52.1**	**55.7**	**4.2**
Total	**120.5**	**125.1**	**1.2**
TOTAL SPECIFIC PURPOSE PAYMENTS	**482.0**	**503.5**	**1.7**
Total for the State Government	**368.5**	**388.8**	**2.8**
Total for other beneficiaries	**113.5**	**114.7**	**(1.5)**

Sources: *Commonwealth Statement of Estimated Payments,* March 2001 Treasurers' Conference; Department of Treasury and Finance.

Chart 7.4 illustrates that for all years shown, Tasmania has continually received a proportionately lower level of SPPs compared to the 1984-85 level than has been the case for all states on average. Fluctuations in the real terms level of SPPs between 1989-90 and 1992-93 were largely due to variations in the receipt of tied capital grants over the period. However, while there was an increasing trend in SPPs between the late 1980s and the early 1990s, there was a decline to 1998-99 for Tasmania. While there was a slight rise in 1999-00, SPP payments for Tasmania for 2001-02 are estimated to be 30 per cent lower in real terms than the level received in 1984-85.

Chart 7.4: Percentage Change in Specific Purpose Payments Since 1984-85 (Real Terms)



Sources: *Commonwealth Budget Paper Number 3* (numerous years); *Commonwealth Statement of Estimated Payments,* March 2001 Treasurers' Conference; Department of Treasury and Finance.

Total Commonwealth Payments

The reforms to Commonwealth-State financial relations significantly increased the level of Commonwealth payments to the states from 2000-01. However, this only compensates the states for the revenue forgone and the additional expenditure incurred by all states, as a result of the reforms. There is no revenue benefit to the states under the revised arrangements.

Table 7.9 shows the (nominal) amounts and shares that Tasmania has received in general purpose, specific purpose and total Commonwealth payments over the period 1975-76 to 2001-02. The last column of the table shows the decline in Tasmania's population as a proportion of Australia's population.

Table 7.9 also shows that there has been no increase in Tasmania's share of Commonwealth payments as a consequence of the reform of Commonwealth-State financial relations under the IGA. For GPPs, levels of funding for 2000-01 and 2001-02 cannot be directly compared with earlier years because of the change in funding arrangements under the IGA.

Table 7.9: Commonwealth Payments to Tasmania

Year	General Purpose Grants	Tasmania's Grant Share	Specific Purpose Grants	Tasmania's Grant Share	Total Grants	Tasmania's Grant Share	Tasmania's Population Share
	$m	%	$m	%	$m	%	%
1975-76	**187.2**	**5.3**	**168.5**	**4.1**	**355.7**	**4.6**	**3.0**
1976-77	**218.2**	**5.2**	**149.4**	**3.7**	**367.6**	**4.5**	**2.9**
1977-78	**247.6**	**5.1**	**164.5**	**3.7**	**412.1**	**4.4**	**2.9**
1978-79	**274.2**	**5.2**	**156.1**	**3.5**	**430.4**	**4.4**	**2.9**
1979-80	**301.8**	**5.2**	**163.0**	**3.5**	**464.8**	**4.3**	**2.9**
1980-81	**329.1**	**4.8**	**189.6**	**3.5**	**518.8**	**4.2**	**2.9**
1981-82	**357.3**	**4.1**	**202.7**	**4.3**	**560.0**	**4.2**	**2.9**
1982-83	**400.1**	**3.7**	**244.2**	**4.1**	**644.3**	**4.1**	**2.8**
1983-84	**465.8**	**3.9**	**307.7**	**4.3**	**773.5**	**4.3**	**2.8**
1984-85	**512.7**	**4.0**	**308.0**	**3.8**	**820.6**	**4.2**	**2.8**
1985-86	**532.7**	**3.9**	**287.5**	**3.4**	**820.1**	**3.9**	**2.8**
1986-87	**548.7**	**3.8**	**302.2**	**3.4**	**851.0**	**3.8**	**2.8**
1987-88	**547.3**	**3.7**	**314.8**	**3.4**	**862.1**	**3.6**	**2.8**
1988-89	**516.4**	**3.8**	**367.2**	**3.2**	**883.7**	**3.6**	**2.7**
1989-90	**528.8**	**3.9**	**483.8**	**3.9**	**1 012.6**	**3.8**	**2.7**
1990-91	**549.4**	**4.1**	**433.8**	**3.0**	**983.3**	**3.5**	**2.7**
1991-92	**592.0**	**4.3**	**496.2**	**3.3**	**1 088.2**	**3.7**	**2.7**
1992-93	**605.8**	**4.3**	**537.8**	**3.1**	**1 143.6**	**3.6**	**2.7**
1993-94	**615.7**	**4.2**	**498.8**	**3.0**	**1 114.6**	**3.5**	**2.7**
1994-95	**628.8**	**4.2**	**497.6**	**2.8**	**1 126.4**	**3.5**	**2.6**
1995-96	**661.9**	**4.2**	**538.2**	**2.9**	**1 200.1**	**3.5**	**2.6**
1996-97[1]	**662.8**	**4.2**	**552.4**	**2.9**	**1 215.2**	**3.5**	**2.6**
1997-98	**677.7**	**4.2**	**480.1**	**3.3**	**1 157.8**	**3.7**	**2.5**
1998-99	**726.1**	**4.3**	**498.0**	**3.2**	**1 224.1**	**3.6**	**2.5**
1999-00	**796.6**	**4.5**	**539.6**	**3.0**	**1 336.2**	**3.8**	**2.5**
2000-01 (estimate)[2,3]	**1 074.5**	**3.9**	**482.0**	**2.7**	**1 556.5**	**3.4**	**2.4**
2001-02 (estimate)[2,3]	**1 177.9**	**3.9**	**503.5**	**2.6**	**1 681.4**	**3.4**	**2.4**

Sources: *Commonwealth Budget Paper Number 3* (numerous years); *Commonwealth Statement of Estimated Payments*, March 2001 Treasurers' Conference; Department of Treasury and Finance; and program specific information.

Notes:

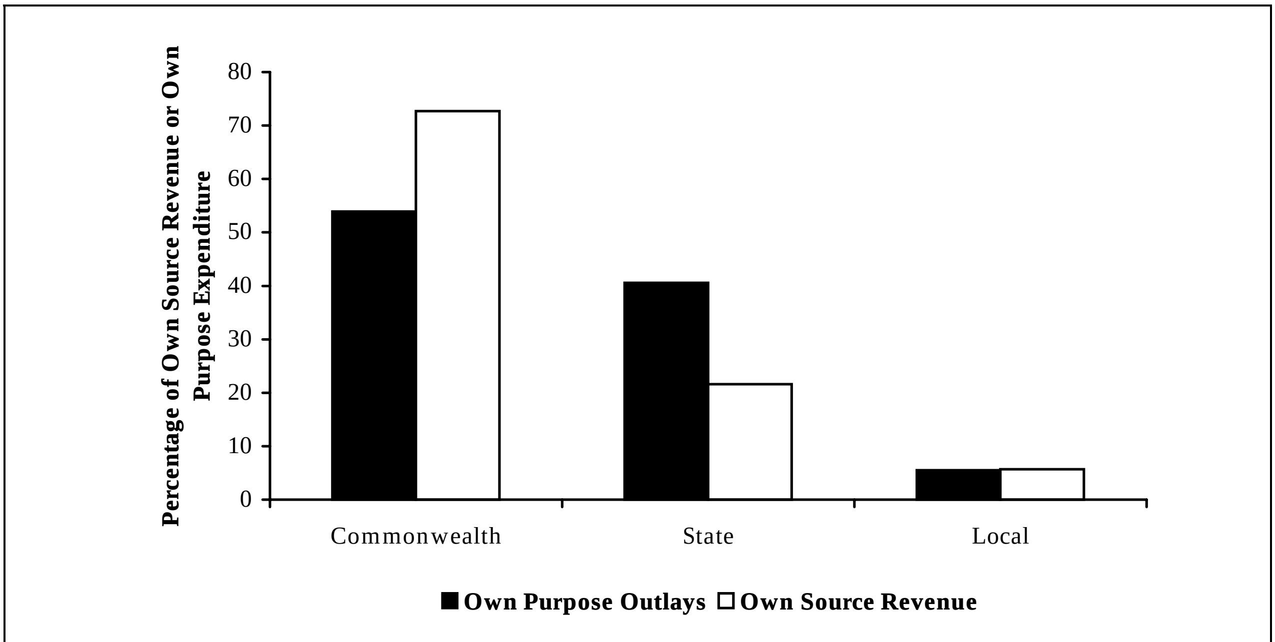
1. GPPs for 1996-97 to 1998-99 are net of State Fiscal Contributions and include Competition Payments from 1997-98 onwards.
2. GPPs include GST revenue, BBA and Competition Payments.
3. As a result of the changes to Commonwealth-State financial arrangements, Commonwealth payments to the states from 2000-01 onwards are not directly comparable with previous years. The amount to be received is the same as that which would have been received under the previous Commonwealth-State financial arrangements, after adjustment for the revenue to be forgone and the additional expenditure to be incurred by the states. See discussion under the section 'Guaranteed Minimum Amount' above.

The Need for Commonwealth Payments

Since Federation, a financial relationship between the Commonwealth Government and the state and territory Governments (referred to hereafter as the states) has evolved in which the dominant characteristic is the fundamental imbalance between the revenue raising powers and functional responsibilities of each level of government. While the seeds of the present vertical fiscal imbalance lie in the original Constitution agreed at Federation, it has since been reinforced by Constitutional amendments and by High Court interpretations of the Constitution.

The term vertical fiscal imbalance (VFI) refers to the difference between own source revenue and own purpose expenditure commitments for a level of government. This is illustrated in Chart 7.5, which compares the percentage shares of revenue and expenditure on a consolidated basis for the Commonwealth, state and local governments. It shows that in 2000-01 the Commonwealth is expected to raise 73 per cent of total (General Government) revenue, whereas its own purpose (General Government) spending is expected to represent only 54 per cent of total General Government outlays. In contrast, the states' share of this revenue is expected to be only 22 per cent, while combined state General Government outlays are expected to represent 41 per cent of the national total. Revenues and expenditures for local government are estimated to be broadly in balance.

Chart 7.5: Vertical Fiscal Imbalance for 2000-01



Source: *Government Finance Estimates, Australia, 2000-01,* Cat. No 5501.0 Australian Bureau of Statistics.

As a result of VFI, there is a requirement for significant Commonwealth financial transfers to the states on an ongoing basis. Commonwealth financial assistance is provided in a variety of ways. It comprises GPPs or recurrent untied grants, and tied grants, known as SPPs, for both recurrent and capital purposes.

The reforms to Commonwealth-State financial relations, which commenced under the IGA on 1 July 2000, have resulted in a substantial increase in VFI. The states have forgone FAGs and revenue replacement payments and will cease to collect financial institutions duty, debits tax and a range of stamp duties, in return for receiving all the revenues collected under GST, which is a Commonwealth tax. While VFI will be increased, these arrangements will actually provide the states with a greater level of certainty in relation to

Commonwealth payments. This is because they will, in effect, sever the link between Commonwealth general revenue grants to the states and the fiscal policy decisions of the Commonwealth.

INSTITUTIONAL ARRANGEMENTS

March 2001 Treasurers' Conference

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

The Treasurers' Conference replaces the annual Premiers' Conference which in previous years agreed on the amount and distribution of Commonwealth FAGs to the states.

The major functions of the Treasurers' Conference are to:

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

The Treasurers' Conference last met on 31 March 2001. At that meeting the Treasurers discussed the recommendations of the CGC and made recommendations to the Commonwealth Treasurer in relation to the GMA for each State. This issue is discussed later in the Chapter under horizontal fiscal equalisation. The Commonwealth's commitment under the IGA to maintain SPPs as part of the reform of the tax system was scrutinised and it was agreed that the Commonwealth met this commitment for 2000-01.

As required by the IGA, the Treasurers' Conference has established a Goods and Services Tax Administration Sub-Committee (GSTAS), comprised of Commonwealth and state officials, to monitor the operation of the GST, to make recommendations regarding modifications to the GST base and rate and to monitor the ATO's performance in administering the GST. The GSTAS reported to the Treasurers' Conference on its operations at the meeting of 31 March 2001.

Commonwealth Grants Commission

The CGC is an independent Commonwealth Government statutory body, which was established in 1933. It is charged with the task of making recommendations, in the form of per capita relativity factors, to the Commonwealth Treasurer each year on how Commonwealth GPPs and the HCGs should be distributed between the states.

The basis for its recommendations (since 1981) is an assessment of the relative fiscal capacities of the states. These assessments are carried out in accordance with the principle of horizontal fiscal equalisation (HFE), a principle which addresses the fiscal imbalance that exists between the states due to their differing capacities to raise revenue and the relative cost differentials they face in delivering similar levels and standards of service.

The assessments are based on a five year 'period of review' which, for the 2001 Update, was 1995-96 to 1999-00 inclusive. The CGC conducts major reviews of its methodology usually on a five year cycle, with annual updates to account for changes in fiscal circumstances and more up-to-date data since its last recommendation. The CGC reported on its most recent major five year review in February 1999. The results of this review have been updated to determine the per capita relativities for the distribution of funds between the states in both 2000-01 and 2001-02. The 2001 Update is discussed below.

The Principle of Horizontal Fiscal Equalisation

A fundamental characteristic of financial relations in the Australian Federation is the degree to which the fiscal capacities of the states differ. This refers to the difference, in per capita terms, between the cost to a state of providing a range of services common to all states and the financial resources available to it, including own source revenues and certain grant monies paid from the Commonwealth (apart from GPPs). The causes of such horizontal fiscal imbalance are complex and varied (demographic, geographic and economic to name a few). Those causes over which a state has no control are the explicit focus of the HFE process.

At the time of Federation there was recognition of the need for states to be treated equitably, both in relation to the Commonwealth and each other. However, the degree to which the economic and financial capacities of the states have since diverged was not anticipated. Furthermore, the need for a systematic means of effecting transfers between the Commonwealth and the states in a manner which overcame this divergence was largely overlooked until the CGC was established in 1933. Until then, the process through which the special financial needs of particular states were addressed was cumbersome, costly and, to a large extent, arbitrary.

The HFE framework which is now used takes, as its starting point, the scope of state transactions and functions, including all related recurrent expenditures and revenues, which are considered the normal responsibility of state governments. The actual expenditures and revenues for each state are taken to differ from the experience of all states on average, due to influences beyond the state's control (disabilities) as well as differences in policy, practice and operating efficiency. The Commission makes adjustments to the average expenditure and revenue for individual states to reflect their disabilities relative to the situation faced by other states, but it does not 'compensate' for differences attributable to policy, practice and relative efficiency. In this way the smaller states such as South Australia, Tasmania and the Northern Territory, which on the whole face higher than average per capita costs and lower than average revenue raising abilities, are granted a greater than proportional share of general revenue assistance to enable them to discharge their standard functions without necessarily having to impose above average revenue raising measures on their communities.

In the absence of an arrangement whereby Commonwealth GPPs and HCGs are distributed in accordance with HFE, those states which face unduly high costs and/or a lesser ability to raise revenues, through no fault of their own, would be required to deprive their communities of the opportunity to access similar levels and standards of service than those offered elsewhere in Australia. Thus, the principle of HFE, and the CGC process, are integral parts of Commonwealth-State financial transfers.

The IGA requires the GST revenue to be distributed to the states using the principle of HFE. As the IGA is attached to Commonwealth legislation and to legislation in each of the states, HFE is now effectively given the force of the law. This is a significant benefit to Tasmania, given the importance of the distribution of revenues on an HFE basis for the State.

Moreover, the trend in relativity factors, as recommended by the CGC, is testimony to the fact that the present system is responsive (albeit with a lag) to changes in states' fiscal circumstances over time. Those states which are experiencing growth in their revenue bases, relative to the average of all states, have relativity factors which are gradually declining (as less Commonwealth funding is therefore required), while those states for which such growth has been slower (such as Tasmania) have relativities which are tending to increase over time.

The Commonwealth Grants Commission's 2001 Update Report

The Terms of Reference provided to the CGC for the 2001 Update Report required it to again calculate two sets of relativities. The first set of relativities, referred to as the GST relativities, was calculated on the basis of the new Commonwealth-State financial arrangements that have applied from 1 July 2000. The second set of relativities, referred to as the FAG relativities, are based on the assumption that the reforms as set out in the IGA had not occurred.

The GST relativities are used to determine the proportion of the GST revenue and HCG pool to be allocated to each state. The FAG relativity is used to calculate the amount of FAG revenue forgone by each state as part of the calculation of the GMA. It is estimated that, for 2001-02, no state's share of the GST revenue will be sufficient to compensate it for the revenue forgone and additional costs incurred under the IGA. As a result, all states are expected to receive budget balancing (or transitional) assistance from the Commonwealth during 2001-02. The main factor in determining the level of general purpose funding to Tasmania, and all other states during 2001-02 will, therefore, be the FAG relativity.

In its 2001 Update report, the CGC recommended increased FAG relativity factors for Queensland, South Australia, Tasmania, the Australian Capital Territory and the Northern Territory. Lower factors were recommended for the other states. This recommendation means that, had the 2001-02 grant shares for each state been applied to the FAG/HCG pool for 2000-01 - before adjustment for inflation and population change - Tasmania would have received a combined FAG and HCG entitlement $36 million greater than the estimated outcome for the current financial year.

In overall terms, Tasmania is assessed by the CGC as incurring above average costs in the delivery of services and as having a lower than average capacity to raise revenue. This assessment will result in Tasmania receiving an estimated combined FAG/HCG in 2001-02 of $420 million more than it would have done had these grants been distributed on an equal per capita basis, thus highlighting the critical nature of fiscal equalisation to Tasmania.

The GST relativity for Tasmania is lower than the FAG relativity. There are two main reasons for this. Firstly, the GST pool of funds is significantly greater than the FAG pool. The per capita weighting required for each jurisdiction to achieve HFE becomes relatively less significant with a larger pool of funds to distribute.

Secondly, changes to Commonwealth-State financial relations included the abolition of some taxes and the introduction of new expenditure responsibilities. Both these adjustments reduce Tasmania's GST relativity compared with the FAG relativity.

Under the FAG relativities, Tasmania is assessed as having a need for additional assistance in relation to the taxes that were abolished from 1 July 2000 and those to be abolished from 1 July 2001. With the abolition of these taxes being embodied in the GST relativities, Tasmania's relative need for assistance is reduced.

Further, Tasmania is assessed as having a relative advantage in relation to expenditure under FHOS. The introduction of this expenditure category to the GST relativities reduces Tasmania's need for assistance relative to other states. States' contributions to ATO administrative costs are assessed on an equal per capita basis.

Implications of the Commission's Assessments

The Commission's assessments provide the states with an important source of comparable data on which to assess their relative performance in the areas of expenditure efficiency and revenue raising effort.

The revenue raising effort in each state can be measured by comparing own-source revenue actually raised with the states' revenue raising capacity as assessed by the CGC. This measure includes state taxation, income from interest earnings, property and mining royalties, and contributions to Government from public trading enterprises. A revenue raising effort index has been calculated for each state and is shown for the five years to 1999-00 in Table 7.10. Chart 7.6 shows the revenue raising effort ratio of each state for the 1999-00 financial year, the most recent year for which Commission data are available.

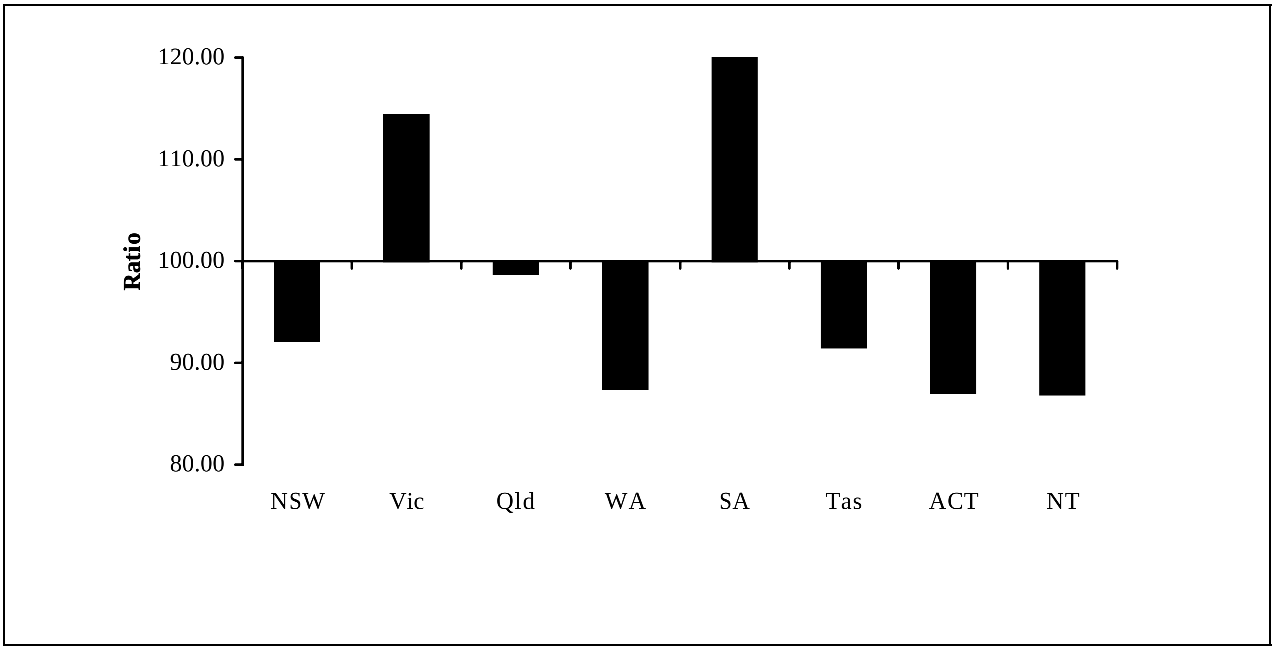
In both Table 7.10 and Chart 7.6 the average revenue raising effort of all states is represented by 100.

Table 7.10: Trends in Revenue Raising Effort Ratios[1]

State/Territory	1995-96	1996-97	1997-98	1998-99	1999-00
New South Wales	**113.02**	**101.93**	**101.18**	**94.48**	**92.16**
Victoria	**113.56**	**106.92**	**105.27**	**107.29**	**114.35**
Queensland	**81.43**	**91.00**	**89.71**	**99.18**	**98.79**
Western Australia	**92.19**	**89.98**	**89.37**	**90.84**	**87.49**
South Australia	**120.94**	**108.59**	**121.35**	**111.99**	**119.89**
Tasmania	**91.62**	**93.07**	**100.70**	**93.05**	**91.53**
Australian Capital Territory	**91.65**	**86.77**	**86.75**	**85.76**	**87.05**
Northern Territory	**128.59**	**102.29**	**98.82**	**85.69**	**86.91**

Source: *Report on General Revenue Grant Relativities 2001 Update*- Commonwealth Grants Commission.
Note:
1. The CGC undertakes reviews of its methodology of assessing the capacity of each state to raise revenue. Comparisons over time need to take into consideration the changes the CGC makes to its method of assessing revenue raising capacity. For example, in the 1999 Review, the CGC assessed Tasmania as having a lower revenue raising capacity than previously. As a result of this reduction in assessed capacity, the ratio of actual to assessed revenue raised, as indicated above, increased between 1996-97 and 1997-98, even though actual own-source revenue raised had not changed significantly.

Chart 7.6: Revenue Raising Effort Ratios, 1999-00[1]



Source: *Report on General Revenue Grant Relativities 2001 Update*, Commonwealth Grants Commission.

It should be noted that the indices for 1995-96 to 1998-99 in Table 7.10 are not directly comparable with those published last year in Budget Paper No 1 *Budget Overview 2000-01*. This is because the Commission updates the data used to assess revenue raising capacity each year. The figures reported in the CGC's 2001 Update Report are those used to calculate the GST relativities and as such also incorporate changes to state taxation measures implemented on 1 July 2000, and those to be implemented on 1 July 2001. The figures used in Table 7.10 have been adjusted to include all state revenue raising activities in 1999-00.

It is apparent from Table 7.10 that Tasmania's total revenue raising effort ratio has been close to the average of all the states in the five years shown.

An index has also been calculated that shows the relative level of service provision for each state. This index for the five years to 1999-00 is presented in Table 7.11. The ratio indicates a state's actual outlays as a proportion of the CGC's assessment of standardised expenditure. Standardised expenditure is simply the average expenditure by all states adjusted for each state to reflect its assessed disabilities.

The index incorporates an adjustment to exclude outlays for depreciation and debt servicing payments. This has been necessary because of the differences in approaches across jurisdictions, which makes a meaningful comparison of these outlays, using this information, very difficult. The figures are shown graphically in Chart 7.7 for 1999-00, which is the most recent year for which Commission data are available.

Table 7.11: Trends in Level of Service Provision Ratios[1]

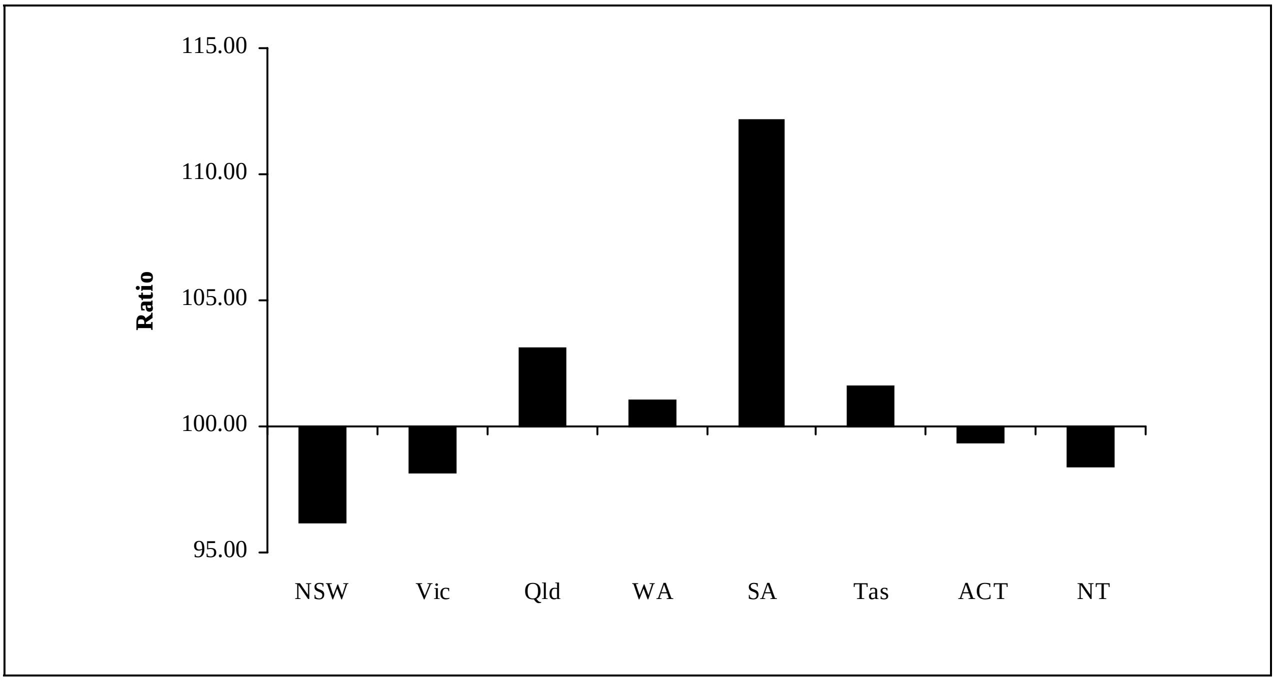
State/Territory	1995-96	1996-97	1997-98	1998-99	1999-00
New South Wales	**101.24**	**98.68**	**101.72**	**97.06**	**96.21**
Victoria	**100.20**	**99.93**	**98.41**	**97.24**	**98.18**
Queensland	**97.85**	**101.52**	**96.64**	**103.83**	**103.10**
Western Australia	**99.84**	**103.21**	**102.61**	**101.26**	**101.02**
South Australia	**98.34**	**98.05**	**105.75**	**108.66**	**112.15**
Tasmania	**95.22**	**99.55**	**89.66**	**96.96**	**101.56**
Australian Capital Territory	**101.11**	**101.24**	**101.23**	**106.57**	**99.36**
Northern Territory	**108.99**	**99.19**	**97.84**	**101.10**	**98.43**

Source: *Report on General Revenue Grant Relativities 2001 Update,* Commonwealth Grants Commission.

Note:

1. The CGC undertake reviews of its methodology for assessing of the disabilities experienced by states in the delivery of services. Comparisons over time need to take into consideration changes in the method of assessing expenditure disabilities by the CGC. For example, in the 1999 Review, the CGC assessed Tasmania as having higher expenditure disabilities (excluding depreciation and debt charges) than previously. As a result of this, the ratio of actual expenditure to assessed expenditure falls between 1996-97 and 1997-98, even though actual expenditure remained relatively steady.

Chart 7.7: Level of Service Provision Ratios, 1999-00



Source: *Report on General Revenue Grant Relativities 2001 Update,* Commonwealth Grants Commission.

The chart shows a comparison of the aggregate levels of service provision across all states (excluding the effects of depreciation and debt servicing costs) for 1999-00, after allowance is made for the cost disabilities faced by each in providing the same standard range of services. The ratio indicates that Tasmania's aggregate level of service provision is now marginally above the national average.

Table 7.11 also shows that Tasmania's level of service provision has increased in recent years.

CURRENT ISSUES IN COMMONWEALTH-STATE FINANCIAL RELATIONS

ATO Performance Agreement

Clause 38 of the IGA provides that accountability and performance agreements will be established between the ATO and the states. The Performance Agreement (the Agreement) will provide an agreed basis for the GSTAS (on behalf of the Treasurers' Conference) to monitor the administration of the GST by the ATO and its agents. The Agreement will stipulate performance outcomes and appropriate benchmarks to be achieved by the ATO.

The Agreement is to be finalised by 30 June 2002. A GSTAS working group has been established to develop an interim Agreement, to assist the GSTAS with monitoring the agreement's operation, and to prepare a draft final Agreement for consideration by the GSTAS in February 2002. It is envisaged that the GSTAS will recommend that the Treasurers' Conference endorse the draft Performance Agreement at its meeting in March 2002. The states and the ATO would then sign the Agreement before 30 June 2002.

A draft interim Agreement has been developed by the working group and was provided to the Treasurers, for information, at the Treasurers' Conference on 31 March 2001. It is expected that the draft interim Agreement will be implemented as an operational trial. The interim Agreement, modified as necessary as a result of the experience gained during the trial, will form the basis for the final Agreement.

Amendments to GST Legislation

A number of minor changes to the GST base were agreed by the Commonwealth and state Treasurers. These largely addressed operational issues that were brought to the Commonwealth's attention by industry groups. The states also proposed a number of changes to the GST base. These included an amendment to provide that the sale of public housing will be input taxed, which was approved by Treasurers in September 2000. The Commonwealth's *Taxation Laws Amendment Act (No.8) 2000* amended legislation to reflect these changes.

Process for Amending GST Legislation

The *A New Tax System (Commonwealth-State Financial Arrangements) Act 1999* (the CSFA Act) and the IGA provide that the GST base and the GST rate cannot be varied unless the Commonwealth and each state agrees. They also require that changes to the GST base should be consistent with the maintenance of the integrity of the tax base, simplicity of administration and minimising compliance costs for taxpayers.

However, there are two exceptions. The first is transitional and allows for changes to be made unilaterally by the Commonwealth before 1 July 2001 if they are of an administrative nature. The second is on going and allows changes to the base if they are administrative in nature and approved by a majority of jurisdictions. Administrative changes are defined in the IGA to be changes that are necessary to maintain the integrity of the base or to prevent tax avoidance.

Given the requirement for state agreement to proposals to vary the GST, a process is being developed by Treasurers to deal with proposals in a timely manner. The IGA itself is not prescriptive in setting out these processes but provides roles for the Treasurers' Conference and the GSTAS.

Ministerial Determinations

Under the GST legislation, some supplies, such as most health, education, child care and aged services, are not taxed. These exemptions are specified by way of Ministerial determinations made initially by the Commonwealth Minister with the relevant portfolio responsibility. Clause 34 of the IGA provides that Ministerial determinations require the unanimous agreement of the Treasurers' Conference. During 2000-01, the Treasurers agreed to Ministerial determinations on Health Goods, Health Services, Drugs and Medical Preparations, Adult and Community Education Courses, Residential Care (Government Funded Suppliers), Residential Care (Non Government Suppliers), and Care.

As the specific goods and services associated with these areas will change constantly over time, a process has been developed to allow for amendments to determinations. Proposed amendments are raised by either the Commonwealth or the states with the GSTAS members by way of the drafting of a revised determination. Following discussion and comment on the proposed determination, the Commonwealth Treasurer, as Chair of the Treasurers' Conference, writes to the Treasurer in each state seeking approval for that revised determination.

Taxes and regulatory charges imposed by Commonwealth, state and local governments are exempt from the GST by a determination under Division 81 of the GST Act. The Treasurers have agreed to three Division 81 determinations to date. The initial Division 81 determination was gazetted by the Commonwealth Treasurer on 1 March 2000 and subsequent determinations gazetted on 29 June 2000 and 16 March 2001. The Division 81 determination is updated in the same manner as other Ministerial determinations, but on a regular basis.

The GSTAS discussed the process for making the Division 81 determinations, with the key issue being the potential difficulty in ensuring that new taxes, fees and charges are included in the determination in a timely manner. In light of advice that the ability of the Commonwealth to make retrospective determinations is limited, it was agreed that a working party would be formed to examine the future direction and form of the Division 81 determination. The working party recommended that the existing Division 81 determination process be retained, but that a fixed timetable would provide greater certainty with respect to timing of determinations and that this would accommodate the vast majority of new taxes, fees and charges.

It has therefore been agreed that the determination be updated twice yearly by subsequent determinations of the Commonwealth Treasurer in order to deal with the abolition of fees and charges and the advent of new fees and charges. The GSTAS is still discussing options for accommodating significant new taxes outside the regular Division 81 determination process.

Many specific issues relating to Division 81 have been discussed by the GSTAS during 2000-01, including the GST treatment of in-kind developer contributions, fishing licences, solicitors' and legal fees, fidelity funds and racing clubs.

SPP Working Group

During 1999 a working group of Commonwealth and state officials was established to review existing SPP arrangements and develop proposals for ensuring quality outcomes from SPP arrangements. States identified a number of problems associated with SPP agreements including: a focus on inputs rather than outputs or outcomes; inflexibility; and high administrative costs.

The working group has developed a set of SPP best practice principles which are intended to provide SPP negotiators, in all jurisdictions, with practical advice about the desirable features of good SPPs. The guidelines also include a template SPP agreement which can be used as a general checklist of the desirable features to be included in SPP agreements.

In Tasmania, the principles have been issued to agencies with the intention that they be used when negotiating SPP agreements. All states have issued the principles to agencies which has assisted in renegotiation of SPP agreements with the Commonwealth.

The working group has also facilitated the establishment of an SPP database which is maintained by the Commonwealth Department of Finance and Administration. The database provides quantitative and qualitative information on SPPs which should improve the planning and management of SPPs. The first version of the database has been distributed and is currently being reviewed by the states with particular regard to whether sufficient information is provided to enable a reconciliation between Commonwealth and state information, with a view to incorporating any possible enhancements identified in the next version.

The working group will also undertake the review of the Supported Accommodation Assistance Program (SAAP) as a pilot project to highlight the benefits of output based measures in effective implementation of an SPP. To date many SPP agreements have focused on measuring inputs of the states in the monitoring of SPPs. Measurement of outputs provides states with the flexibility to determine the most appropriate use of resources to achieve the particular aims of an SPP. A project team has been established comprising representatives of the Commonwealth Treasury, the Department of Finance and Administration, the Department of Family and Community Services, and the Victorian and South Australian Treasuries and relevant line agencies.

The project team will examine the existing SAAP agreement to determine the extent to which it conforms to SPP best practice principles, develop alternative outcome measures and suggest how the reporting requirements of the agreement could be restated using agreed outcome measures.

Shares of National Tax Revenues

At the March 2001 Treasurers' Conference, a paper titled *The State and Territory Shares of National Tax Revenues* was presented. The paper set out the recent history with respect to revenue raising and revenue sharing between the Commonwealth and the states, and addressed the likely impact of the tax reforms.

The paper identified a number of significant points in relation to recent developments in Commonwealth-State financial relations. They were:

- over recent years, growth in state revenue has been mainly due to increased revenue raising effort by the states;

- while Commonwealth grants to the states have grown in real terms, the rate of growth has been significantly less than the rate of growth in Commonwealth revenue; and
- the states' share of national revenue has been declining over a number of years. The new financial arrangements are only expected to slow the rate of decline, not reverse it.

The paper identified that the main benefit to the states of tax reform is primarily that reform will provide the states with access to a broad based tax which will replace the need for other forms of untied financial assistance.

8 FORWARD ESTIMATES

Features

- The Consolidated Fund outcome projections for 2001-02 to 2004-05 on a same policy basis are:
  - 2001-02 $4.2 million surplus;
  - 2002-03 $7.3 million surplus;
  - 2003-04 $8.2 million surplus; and
  - 2004-05 $9.3 million surplus.
- The Forward Estimates indicate that, consistent with its Fiscal Strategy, the Government has budgeted for a small surplus in each financial year, consistent with its primary target that no new debt is incurred. Consolidated Fund surpluses will reduce debt and accordingly improve the State's financial position.
- The Forward Estimates are based on the Government's policies of not introducing new taxes or increasing the rates of existing State taxes, increased funding for industry development and social services and increased contributions towards eliminating the State's unfunded superannuation liability. The estimates also reflect the continuation of the tax reductions announced in the Budget.

FORWARD ESTIMATES 2001-02 TO 2004-05

The Forward Estimates Concept

The Forward Estimates provide a mechanism for projecting expenditure and receipts which impact on the Budget, on the assumption that existing policies are maintained and that the Government's planned objectives continue to be pursued. This is known as the 'same policy basis'. The Forward Estimates which are generated on this basis represent the projected expenditure and revenue outcomes if the same level of services is provided in the immediate three years following this Budget, the existing regime of taxes and charges continues but reflect announced changes in tax policy, expectations of the level of Commonwealth transfer payments are realised and assumptions underlying the economic parameters are realised. The existing regime for government charges is also assumed to be unchanged.

The Forward Estimates are premised on Treasury estimates of a number of economic parameters. These parameters are estimated, and regularly reviewed by Treasury, based on economic conditions and forecast movements in major economic aggregates. Further information on forecasts of Tasmanian economic aggregates is detailed in Chapter 2 of this Budget Paper.

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

It should be noted that the Forward Estimates are not prescriptive of what will happen in future years, since they are based on the assumption that existing policies and the Government's current objectives will not change over the ensuing period. Future policy decisions, variations to the assumptions underlying economic parameters and external influences will have an impact on the Forward Estimates. In this sense, the Forward Estimates are projections of a particular scenario at Budget time rather than forecasts.

Impact of Policy Initiatives

The expenditure reported in this Chapter includes the policy initiatives announced by the Government in this Budget and the ongoing funding of previous initiatives and expenditure commitments. As outlined in the Treasurer's 2001-02 Budget Speech and detailed further in the Budget Papers, the Government is committed to introducing a number of important policy initiatives in the current Budget year and in the future.

In accordance with the Government's Fiscal Strategy, the Forward Estimates are based on there being no increase to the rates of existing State taxes, nor the introduction of any new taxes, but reflect the tax reductions announced in the 2001-02 Budget.

Table 8.1 highlights the projected Consolidated Fund Surplus (CFS) for each of the financial years from 2001-02 to 2004-05. The expected CFS outcome in 2000-01 is a surplus of $3.2 million. The estimate of the CFS for 2001-02 is $4.2 million. The Forward Estimates indicate that the CFS projections are consistent with the achievement of the Government's target to maintain the Consolidated Fund in surplus over its first term in order to achieve its primary objective of no new debt being incurred. Table 8.2 provides detailed Forward Estimates information on an agency basis.

Table 8.1: Consolidated Fund Forward Estimates Summary

	2001-02 Budget	2002-03	2003-04	2004-05
	$'000	$'000	$'000	$'000
Expenditure				
Recurrent Services	2 155 187	2 197 777	2 254 751	2 307 336
Works and Services	166 059	150 820	146 581	148 788
Total Expenditure	2 321 246	2 348 597	2 401 332	2 456 124
Receipts				
Recurrent				
Commonwealth Sources	1 505 410	1 516 844	1 544 125	1 584 118
State Sources	768 286	784 979	812 674	827 773
	2 273 696	2 301 823	2 356 799	2 411 891
Capital				
Commonwealth Sources	50 869	53 259	51 864	52 664
State Sources	831	835	839	839
	51 700	54 094	52 703	53 503
Total Receipts	2 325 396	2 355 917	2 409 502	2 465 394
Consolidated Fund Surplus/(Deficit)[1]	4 150	7 320	8 170	9 270

Note:

1. For the purposes of calculating the CFS, recurrent expenditure has been reduced by the contribution payable to the Debt Retirement Reserve Trust Account of $710 000 in 2001-02, $444 000 in 2002-03, $178 000 in 2003-04 and $95 000 in 2004-05.

Table 8.2: Consolidated Fund Estimates Expenditure Summary

	2001-02 Budget	2002-03	2003-04	2004-05
	$'000	$'000	$'000	$'000
Education	590 691	606 707	624 222	643 977
Finance-General				
Debt Management[1]	132 434	115 098	119 537	111 596
Employee Separation Costs	9 400	....	....	....
Employee Related Costs	16 070	22 070	28 070	34 070
Superannuation	97 982	106 852	116 636	123 064
Payments to Government Business Enterprises	3 905	4 365	4 375	4 386
Other	34 395	53 274	53 084	53 085
Administered Payments	101 026	107 333	109 916	110 424
Health and Human Services	658 677	669 133	681 831	699 292
House of Assembly	4 537	4 632	4 745	4 877
Infrastructure, Energy and Resources	91 226	92 544	93 271	93 654
Justice and Industrial Relations	54 383	56 404	55 221	56 448
Legislative Council	3 324	3 394	3 482	3 582
Legislature-General	3 514	3 544	3 601	3 667
Ministerial and Parliamentary Support	10 795	10 971	11 191	11 431
Office of the Governor	1 918	1 961	2 012	2 058
Police and Public Safety	111 497	113 082	115 515	119 305
Premier and Cabinet	20 125	19 827	20 157	20 512
Primary Industries, Water and Environment	91 014	91 297	92 330	94 110
State Development	86 097	83 109	82 632	84 236
Tasmanian Audit Office	292	298	305	313
Treasury and Finance	32 595	32 326	32 796	33 344
	2 155 897	2 198 221	2 254 929	2 307 431
Capital Investment Program (Departments)	51 301	55 004	49 601	50 523
Roads Program	80 350	81 369	82 493	83 737
Housing Program	14 408	14 447	14 487	14 528
	146 059	150 820	146 581	148 788
Infrastructure Fund	20 000	....	....	....
	166 059	150 820	146 581	148 788
TOTAL	2 321 956	2 349 041	2 401 510	2 456 219

Note:

1. Finance-General debt management expenditure includes the contribution payable to the Debt Retirement Reserve Trust Account of $710 000 in 2001-02, $444 000 in 2002-03, $178 000 in 2003-04 and $95 000 in 2004-05.

Explanation of Major Expenditure Variations

The explanations provided below should be read in conjunction with Table 8.2 of this Chapter.

Education

The 2001-02 Budget and Forward Estimates for the Department of Education include an additional $330 000 in 2001-02 and $700 000 in each of the following years for an Intensive Literacy Program, $700 000 per annum is provided from 2001-02 to fund the School Resource Package and additional funding has been incorporated over the Forward Estimates in order to fund the Government's agreement to a wage nexus with teachers in other states.

Finance-General

Debt Management

The 2001-02 Budget and Forward Estimates relating to debt management have been revised, taking into consideration current interest rate forecasts and the maturity profile of the State's debt over the period covered by the Forward Estimates. In comparison with the Forward Estimates at the time of the 2000-01 Budget, the debt servicing costs to the State are estimated to decrease by $5.0 million in 2001-02, with further savings anticipated in future years.

Employee Separation Costs

The Forward Estimates reflect the repayment of internal borrowings to fund redundancy programs.

Employee Related Costs

During 1999-00 and 2000-01 a number of significant public sector employee wage agreements expired and have been renegotiated by the Government. The additional funding required as a consequence of these new agreements (eg State Service Wages Agreement (SSWA), teachers, nurses and police) has been incorporated within agency 2001-02 Budget allocations and Forward Estimates. A provision has been retained within the Forward Estimates to meet potential additional costs relating to wage negotiations yet to be resolved (over and above the basic SSWA costs) and wage agreements which expire during the term of the Forward Estimates.

Superannuation

In 2001-02, increased funding has been provided to the Superannuation Provision Account (SPA). Over the period of the Forward Estimates, the contributions to the SPA have been increased from $93.1 million in 2001-02 to $119.4 million in 2004-05. This contribution, together with contributions to the superannuation schemes for Parliamentarians, Judges, Legal Officers and Governors, are made to ensure the Government is able to meet the future emerging costs of the schemes. Further details on superannuation can be found in Chapter 9 of this Budget Paper.

Other

Agreement has been reached between the Commonwealth and state governments for the reinstatement of the fuel and alcohol subsidy schemes, resulting in an annual increase of $15.4 million in the Budget and Forward Estimates.

Additional funding of $900 000 has been provided in the Budget and Forward Estimates for increased expenditure relating to loans provided for the conveyance, mortgage and collateral stamp duty for persons purchasing their first home with a purchase price of less that $120 000.

Health and Human Services

The Department has been provided with additional base allocation of $5.2 million in 2001-02 and future years as well as $1.0 million for the Ashley Youth Detention Centre, $800 000 to fund the Mersey Community Hospital Agreement and $2.7 million in order to meet service and cost demands.

Infrastructure, Energy and Resources

The 2001-02 Budget and Forward Estimates for the Department of Infrastructure, Energy and Resources include provision of an additional $2.3 million in 2001-02 and $2.9 million in future years for School Bus Services Contract increases. The Department has also been provided with additional funding of $1.7 million for the Metro Tasmania Pty Ltd Community Service Obligation.

Justice and Industrial Relations

The 2001-02 Budget and Forward Estimates for the Department of Justice and Industrial Relations have been increased by $500 000 for corrective services development initiatives.

Police and Public Safety

The 2001-02 Budget and Forward Estimates for the Department of Police and Public Safety include additional funding of $526 000 for the Police mobile radio network. Additional funding of $1 million in 2001-02 and $1.8 million in 2003-04 and 2004-05 has been provided for the *CrimTrac* DNA Database and National Fingerprint projects.

Premier and Cabinet

The Department of Premier and Cabinet has been provided with additional funds of $683 000 in 2001-02 for *Service* Tasmania. The reduction in the Forward Estimates for 2002-03 relates to one-off funding provided in 2001-02 for the Centenary of Federation celebration.

State Development

The 2001-02 Budget for the Department of State Development includes additional funding of $3.6 million for Industry Assistance and the Abt Railway project of $2.4 million.

Treasury and Finance

The 2001-02 Budget and Forward Estimates for the Department of Treasury and Finance include additional funding for the Bass Strait Islands Community Service Obligation of $1.3 million.

Capital Investment Program

The 2001-02 Budget and Forward Estimates for 2002-03 for the Capital Investment Program (CIP) include additional funding of $5 million in each year for the rebuilding of Reece High School. Funding for CIP in future years is maintained in real terms.

Table 8.3: Consolidated Fund Forward Estimates – Receipts Summary

	2001-02 Budget	2002-03	2003-04	2004-05
	$'000	$'000	$'000	$'000
Commonwealth Sources				
Recurrent Receipts				
General Purpose Payments	1 177 900	1 179 319	1 199 345	1 235 233
Specific Purpose Payments	327 510	337 525	344 780	348 885
Capital Receipts				
Specific Purpose Payments	50 869	53 259	51 864	52 664
Total Commonwealth	1 556 279	1 570 103	1 595 989	1 636 782
State Sources				
Recurrent Receipts				
Taxation	484 888	496 894	507 676	514 420
Receipts from Government Business Enterprises, State-owned Companies and State Authorities	155 708	159 031	176 576	183 796
Departmental Fees and Recoveries	77 408	79 553	80 324	81 461
Recoveries of State Debt Charges	7 018	5 643	4 267	4 267
Sale and Rent of Government Property	11 650	11 697	11 717	11 720
Resource Rents and Royalties	15 945	15 992	15 945	15 940
Other Recurrent Receipts	15 669	16 169	16 169	16 169
Capital Repayments				
Capital Repayments	831	835	839	839
Total State	769 117	785 814	813 513	828 612
Total Receipts	2 325 396	2 355 917	2 409 502	2 465 394

Explanation of Major Revenue Variations

The explanations provided below should be read in conjunction with Table 8.3 of this Chapter and Table 4.4 of Chapter 4 of Budget Paper No 1 *Budget Overview 2001-02*.

Commonwealth Recurrent Receipts

2001-02 is the second year of the revised funding arrangements for the States under the Intergovernmental Agreement on the Reform of Commonwealth-State Financial Arrangements (IGA). Under the IGA, the former Financial Assistance Grants, Safety Net arrangements and some state taxes have been replaced by goods and services tax (GST) revenue. In addition, in the transition period following the introduction of the GST, the states are receiving Budget Balancing Assistance (BBA) payments under the Commonwealth guarantee. Under the IGA, the Commonwealth guarantees that states will be no worse off as a result of the introduction of the national tax changes than they would have been had the previous arrangements continued. BBA payments are the difference between the amount required under the Commonwealth's guarantee and the State's share of the GST revenue.

In 2001-02, Tasmania will receive $1 107.6 million in GST revenue and a total of $53.1 million in BBA payments.

Commonwealth Specific Purpose Payments (SPPs) are not affected by the IGA and major changes in these items include an:

- increase in recurrent funding under the Commonwealth-State Housing Agreement (CSHA) of $2.1 million;
- increase in the Health Care Grant of $2.9 million in 2001-02 when compared with the Forward Estimates for 2000-01 Budget;
- increase of $2.4 million for Disability Services Grant; and
- increase in payments to Education of $3.2 million.

Commonwealth Capital Receipts

The 2001-02 Budget for Commonwealth capital receipts reflects a decrease in funding for Housing of $2.4 million.

State Recurrent Receipts

The increases in the 2001-02 Budget and in the Forward Estimate years for State sourced recurrent revenue relative to the Forward Estimate reported in the 2000-01 Budget principally reflects the increase in recoveries from Government Business Enterprises (GBEs) and State-owned Companies (SOCs), Departmental Fees and Recoveries and Other Recurrent Receipts. The increase is primarily due to the following factors:

- increased recoveries from Government businesses mainly reflects the impact of retirement of debt on interest costs and the impact of the Ralph Committee tax changes;
- an increase in receipts relating to Departmental Fees and Recoveries reflects an increase in receipts from the Department of Infrastructure, Energy and Resources, Department of Police and Public Safety and Department of Primary Industries, Water and Environment; and
- the decrease in the recoveries of State Debt Charges reflects the lower outstanding principal in the debts of GBEs, SOCs and State Authorities.

9 TASMANIAN GOVERNMENT'S ASSETS AND LIABILITIES

Features

- The net assets of the Total State Government Sector as at 30 June 2000 were $6 251 million, comprising $13 950 million in assets and $7 699 million in liabilities. This amounts to net worth per head of population of $13 289 which is greater than Victoria and South Australia, on a par with New South Wales and below Queensland, Western Australia and the Australian Capital Territory.
- The net assets of the General Government Sector as at 30 June 2000 were $3 136 million, comprising $7 041 million in assets and $3 905 million in liabilities. This amounts to net worth per head of population of $6 663.
- Total State Government Sector Net Debt has declined in nominal terms from a peak of $3 082 million as at 30 June 1994 to $2 259 million as at 30 June 2000. It is estimated that Total State Government Sector Net Debt will further decline to $1 988 million as at 30 June 2002.
- In real terms, Total State Government Sector Net Debt has declined from a peak of $3 713 million as at 30 June 1994 to $2 436 million as at 30 June 2000 and an estimated level of $1 988 million as at 30 June 2002.
- The net interest cost ratio for the General Government Sector has declined from a peak of 10.2 per cent in 1993-94 to an estimated 5.2 per cent in 2000-01, with 4.2 per cent being estimated for 2001-02.
- The Government will make an estimated contribution of $65.6 million to the Superannuation Provision Account in 2000–01. After payments from the Account through the year, the net impact is estimated to be an increase in the balance of the Account from $287.6 million as at 30 June 2000 to $344.5 million as at 30 June 2001 and $421.3 million as at 30 June 2002.

INTRODUCTION

Information on assets and liabilities is based on consolidated financial statements, prepared on an accrual basis in accordance with the Australian Accounting Standard AAS31 *Financial Reporting by Governments*. The usefulness of whole-of-government financial statements prepared on an accrual basis has been recognised for some time. In Australia, most jurisdictions now prepare reports on this basis.

The Chapter also includes information with regard to Net Debt and debt servicing costs which is based on data compiled in accordance with the Uniform Presentation Framework (UPF) that was agreed to by the Australian Loan Council in March 1997.

The Net Debt data is not directly comparable with the information presented regarding assets and liabilities as there are some conceptual differences between the UPF data, which are prepared in accordance with international statistical concepts, and the assets and liabilities which are prepared in accordance with AAS31. Some of the differences include:

- classification of public sector entities. For example, the Housing Division of the Department of Health and Human Services is classified as a General Government Sector entity for AAS31 reporting and a Public Trading Enterprise for UPF reporting; and
- treatment of items such as the Government's investment in State-owned Companies (SOCs), which is included as a General Government investment asset for AAS31 reporting, but is excluded from financial assets for Net Debt reporting under the UPF.

CLASSIFICATION OF STATE SECTOR ENTITIES

Public sector entities have been classified according to the General Government, Public Trading Enterprise (PTE) and Public Financial Enterprise (PFE) Sectors. A detailed dissection of the coverage and classification of public sector entities for the UPF is provided in Table 11.9 of Chapter 11 of this Budget Paper.

The General Government Sector comprises those agencies of government the primary function of which is to provide public services, which are mainly non-market in nature, for the collective consumption of the community, or which involve the transfer or redistribution of income and are financed mainly through taxes and other compulsory levies. This sector covers inner-Budget agencies and some statutory authorities such as the State Fire Commission.

The PTE Sector comprises those entities that aim to cover the majority of their expenses by revenue from the sales of goods and services and which are mainly market, non-regulatory and non-financial in nature. Generally, this sector covers the State's Government Business Enterprises (GBEs) and SOCs. This is equivalent to the Public Non-Financial Corporations Sector which is the terminology currently used by the Australian Bureau of Statistics (ABS).

The PFE Sector comprises those entities that perform central borrowing functions or have the authority to incur financial liabilities and acquire financial assets in the market on their own account. This sector covers the Motor Accidents Insurance Board, the Tasmanian Public Finance Corporation (Tascorp) and the Home Ownership Assistance Program. This is equivalent to the Public Financial Corporations Sector which is the terminology currently used by the ABS.

The Non-Financial Public Sector represents the consolidated total of the General Government and PTE Sectors. The Total State Government Sector represents the consolidated total of the General Government, PTE and PFE Sectors. The movement in these sectors is directly linked to the movement of the component sectors.

ASSETS AND LIABILITIES

Information in this section has been prepared in accordance with Australian accounting concepts and standards and is consistent with AAS31 *Financial Reporting by Governments*. The production of this information builds upon financial management reforms which have been implemented progressively in recent years, including the requirement for all government departments and authorities to prepare financial statements on an accrual basis.

Details of the accrual financial statements are presented in the *Consolidated Financial Statements for the State of Tasmania 1999-00*. A summary of the Total State Government Sector assets and liabilities is shown below in Table 9.1.

Table 9.1: Total State Government Sector Assets and Liabilities as at 30 June 2000

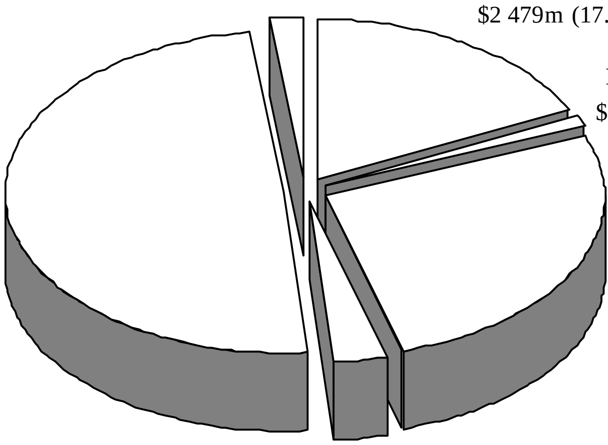
	General Government	Public Trading Enterprises	Public Financial Enterprises	Total State Government Sector[1]
	$m	$m	$m	$m
Current Assets	**746**	**316**	**1 857**	**1 405**
Non-Current Assets	**6 295**	**5 602**	**3 691**	**12 545**
Total Assets	**7 041**	**5 918**	**5 548**	**13 950**
Current Liabilities	**1 059**	**512**	**2 182**	**2 139**
Non-Current Liabilities	**2 846**	**1 829**	**3 292**	**5 560**
Total Liabilities	**3 905**	**2 341**	**5 474**	**7 699**
Net Assets	**3 136**	**3 577**	**74**	**6 251**

Note:
1. Represents the consolidated total for all sectors after eliminating material inter-sector transactions and balances.

Assets

Assets controlled by the Total State Government Sector as at 30 June 2000 totalled $13 950 million. Total assets by category is shown below in Chart 9.1.

Chart 9.1: Total State Government Sector Assets by Category



Source: Department of Treasury and Finance.

Cash and Investments

The Total State Government Sector held $2 479 million in cash and investments as at 30 June 2000. This primarily consisted of cash held representing the balance of the Public Account ($591 million), investments in the Non-Government Sector held by Tascorp ($1 115 million) and the Motor Accidents Insurance Board ($364 million), and other cash and investments ($207 million).

Receivables

The level of receivables in the Total State Government Sector as at 30 June 2000 was $172 million. The level of receivables is recognised net of any provision for bad and doubtful debts and therefore the amount represents the amount ultimately expected to be collected.

Land, Buildings and Forest Estate

The Total State Government Sector held $3 701 million in land and buildings and forest estate as at 30 June 2000, consisting of $1 001 million in land and $1 305 million in buildings and $394 million in forest estate. This category encompasses the value of schools and other buildings held by the Government and the value of Crown Land, including National Parks and Conservation areas.

Plant and Equipment

The Total State Government Sector held $421 million in plant and equipment assets as at 30 June 2000.

Infrastructure Assets

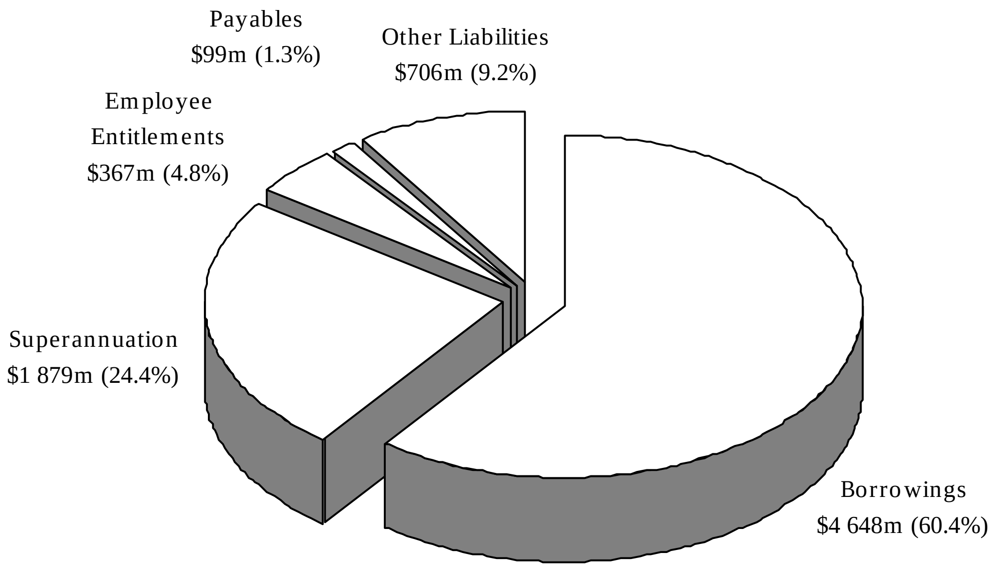
The Total State Government Sector held $6 903 million in infrastructure assets as at 30 June 2000. Infrastructure assets are:

- electricity infrastructure ($4 208 million);
- road infrastructure ($1 652 million);
- bridge infrastructure ($918 million);
- harbour and port facilities ($89 million); and
- water supply systems and reservoirs ($36 million).

Liabilities

Liabilities of the Total State Government Sector as at 30 June 2000 totalled $7 699 million. The components of these liabilities are detailed below in Chart 9.2.

Chart 9.2: Composition of Total State Government Sector Liabilities



Source: Department of Treasury and Finance.

Borrowings

Total State Government Sector borrowings as at 30 June 2000 were $4 648 million. This consisted of Commonwealth debt ($486 million) and Non-Commonwealth debt ($4 162 million). Further detail on borrowings, in particular Net Debt and debt servicing costs, is provided later in this Chapter.

Superannuation

The Total State Government superannuation liability as at 30 June 2000 was $1 879 million. The unfunded superannuation liability as at 30 June 2000 is calculated by deducting the net market value of plan assets from the gross Accrued Benefit liability for all superannuation schemes. Further detail on superannuation is provided later in this Chapter, however the liability is shown net of provisions, which are excluded for consolidated financial reporting.

Employee Entitlements

The provision for employee entitlements in the Total State Government Sector as at 30 June 2000 was $367 million. This provision recognises a liability for all entitlements not taken at the reporting date in respect of wages and salaries, annual leave and long service leave.

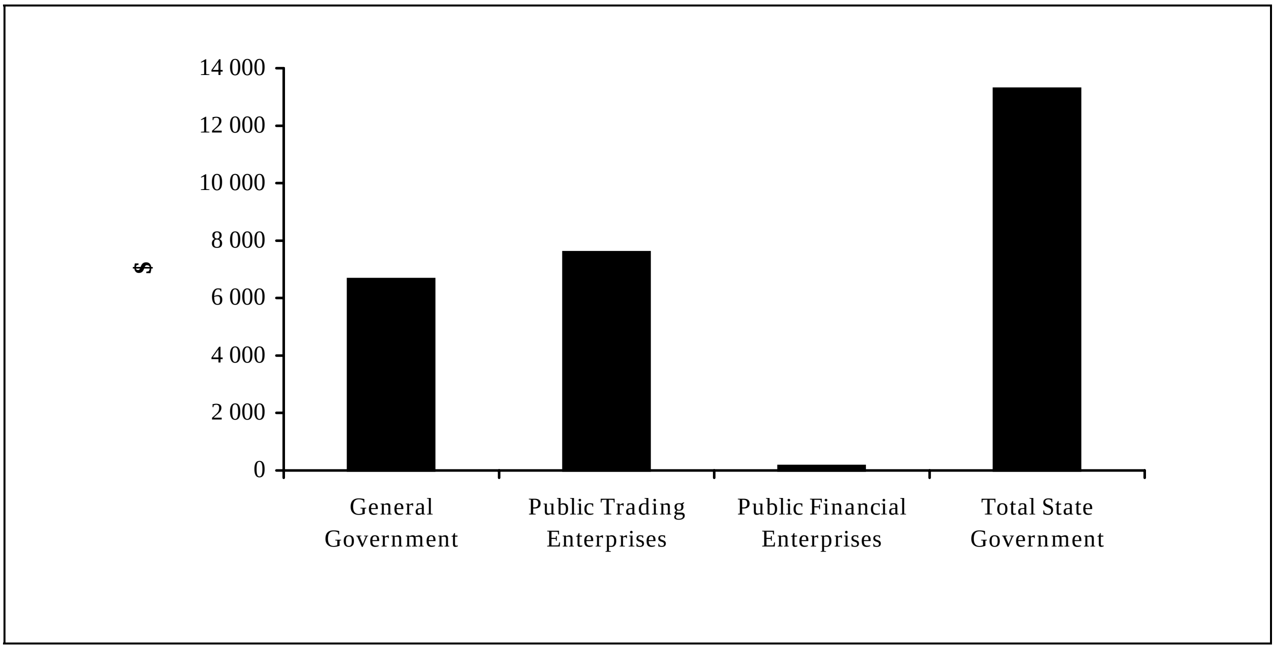
Payables

The Total State Government Sector liability for payables as at 30 June 2000 was $99 million. This item consists primarily of creditors and other sundry liabilities.

Net Worth

The State Government is in a positive equity position, meaning the level of assets is greater than the level of liabilities. The net worth per head of population for the Total State Government Sector as at 30 June 2000 was $13 289. Chart 9.3 shows the net worth per head of population for the Total State Government Sector and its component sectors.

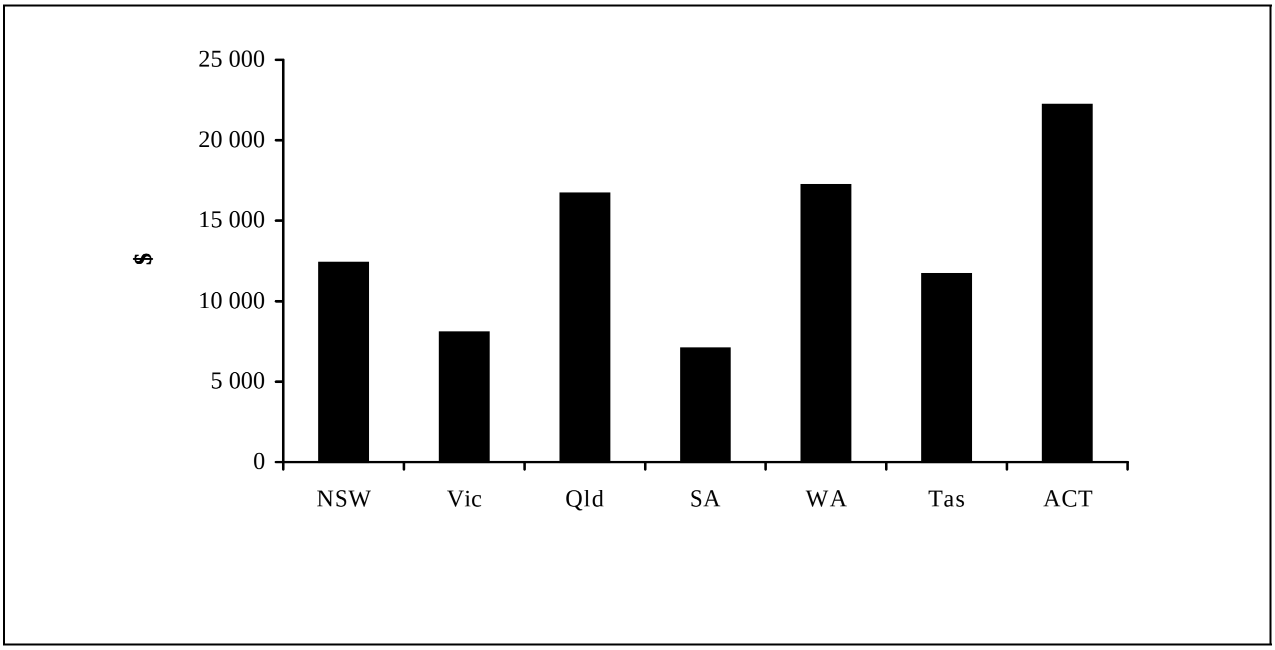
Chart 9.3: Net Worth per Head of Population of the Tasmanian State Government as at 30 June 2000



Source: Department of Treasury and Finance.

Chart 9.4 provides a comparison across states and territories of the net worth per head of population as at 30 June 2000. The chart shows that Tasmania's net worth per head of population is greater than Victoria and South Australia, on a par with New South Wales and below Queensland, Western Australia and the Australian Capital Territory. The comparison of net worth per capita shows that the State is in a stronger financial position than is suggested by analysis that is limited to debt information. This also reflects the level of business assets which remain in public ownership in the State.

Chart 9.4: Interstate Comparison of Total State Government Sector Net Worth per Head of Population as at 30 June 2000



Source: Department of Treasury and Finance; *Australian Demographic Statistics*, ABS Cat No 3101.0.

NET DEBT

The standard measure to assess the State Government's indebtedness is Net Debt, as defined in the Uniform Presentation Framework (UPF). Net Debt is determined by deducting liquid financial assets from gross borrowings.

The Net Debt information is consistent with the UPF data presented in Chapter 11 of this Budget Paper. However, there are some minor differences with the assets and liabilities data presented in the previous section of this Chapter.

As a result of the timing of the Budget, the UPF only requires an estimate of Net Debt as at 30 June 2001. The Net Debt estimate for 30 June 2001 has been prepared on the basis of the Net Debt as at 30 June 2000, adjusted for the 2000-01 surplus, reported in Chapter 11.

More detailed information on Net Debt and Government Financial Statistics will be prepared and publicly released as the *Loan Council Outcomes Report 2000-01* by no later than 31 October 2001, in accordance with the UPF.

Budget and forward estimates for the Public Financial Enterprises (PFE) Sector are not reported due to the nature of the sector, which is subject to potentially significant and unforeseeable market fluctuations. Consequently, information on the PFE Sector and the Total State Government Sector is only presented up to 30 June 2000, but under the terms of the revised UPF, information for 30 June 2001 will be reported in the *Loan Council Outcomes Report 2000-01*.

The Net Debt basis of reporting has been adopted for the following reasons:

- it provides a uniform presentation of debt information that is consistent with that used by Commonwealth, state and territory governments;
- it is consistent with the data published by the Australian Bureau of Statistics (ABS); and
- credit ratings agencies place special emphasis on the Net Debt basis of reporting when assessing the relative performance of the states.

For the purposes of this Chapter, Gross Debt is calculated as the total of financial liabilities, such as deposits held, advances received and borrowings. Gross Debt includes items such as debt incurred by the Government and serviced from the Consolidated Fund, specific purpose loans from the Commonwealth and other borrowings raised from the capital markets.

Net Debt is the difference between Gross Debt, as defined above, and liquid financial assets, comprising the total of cash and deposits and investments or loans. Investments on the short-term money market and fixed deposits held with banks are included as financial assets. Net Debt, rather than Gross Debt, is the more appropriate concept for analytical purposes as an analysis based on Gross Debt will not reflect holdings of financial assets.

The State's Net Debt position, debt servicing costs and other financial assets and liabilities are important measures of the financial position of the public sector. Trends in Net Debt levels and debt servicing costs also provide an indicator of the Government's financial management performance over time.

A credible medium-term Fiscal Strategy is an essential component of prudent contemporary public sector financial management practice. The Fiscal Strategies pursued by successive Governments since 1990-91 have had a significant influence on stabilising the level of State debt.

The Government introduced the current Fiscal Strategy with the 1998-99 Budget. Broadly, the Government's Fiscal Strategy is concerned with reducing Net Debt and debt servicing levels. Its primary objective is to ensure responsible financial management while supporting industry development and job creation. The Fiscal Strategy has five broad components which are outlined in detail in Chapter 1 of this Budget Paper.

Tables 9.2 and 9.3 show the level of the Total State Government Sector Net Debt in nominal and real terms, respectively.

Table 9.2: Total State Government Sector Net Debt (nominal terms as at 30 June)

Year	General Government	Public Trading Enterprises	Total Non-Financial Public Sector	Public Financial Enterprises	Total State Government Sector
	$m	$m	$m	$m	$m
1993	1 288	1 943	3 231	(367)	2 864
1994	1 357	2 008	3 366	(284)	3 082
1995	1 359	1 956	3 316	(298)	3 016
1996	1 382	1 893	3 275	(308)	2 967
1997	1 395	1 803	3 198	(350)	2 848
1998	1 350	1 745	3 095	(390)	2 704
1999	1 271	1 736	3 007	(345)	2 662
2000	940	1 703	2 643	(381)	2 259
2001 (est)	828	1 666	2 494	(402)	2 092
2002 (est)	745	1 654	2 399	(411)	1 988

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

Table 9.3: Total State Government Sector Net Debt (real terms as at 30 June 2002)

Year	General Government	Public Trading Enterprises	Total Non-Financial Public Sector	Public Financial Enterprises	Total State Government Sector
	$m	$m	$m	$m	$m
1993	**1 598**	**2 410**	**4 008**	**(455)**	**3 552**
1994	**1 635**	**2 419**	**4 055**	**(342)**	**3 713**
1995	**1 588**	**2 285**	**3 874**	**(348)**	**3 523**
1996	**1 555**	**2 130**	**3 685**	**(346)**	**3 339**
1997	**1 546**	**1 999**	**3 545**	**(388)**	**3 157**
1998	**1 498**	**1 936**	**3 434**	**(433)**	**3 000**
1999	**1 396**	**1 907**	**3 303**	**(379)**	**2 924**
2000	**1 014**	**1 836**	**2 850**	**(411)**	**2 436**
2001 (est)	**845**	**1 701**	**2 547**	**(410)**	**2 136**
2002 (est)	**745**	**1 654**	**2 399**	**(411)**	**1 988**

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

As can be seen from Table 9.2, the PTE Sector accounts for approximately 64.4 per cent of Total Non-Financial Public Sector Net Debt as at 30 June 2000. This reflects the capital intensive nature of the State's hydro-electric systems and past borrowings by the then Hydro-Electric Commission (HEC) to fund power scheme construction.

The major points to note are as follows:

- General Government Sector Net Debt decreased by $331 million, or 26.0 per cent in nominal terms, from $1 271 million to $940 million between 30 June 1999 and 30 June 2000. In real terms, General Government Sector Net Debt decreased by 27.4 per cent from 30 June 1999 to 30 June 2000. The decrease reflects the repayment of borrowings from the asset sale proceeds relating to the sale of the Trust Bank and the softwood forest plantation, authority repayments, Commonwealth Compensation funds, growth in the Special Deposits and Trust Fund and the surplus for 1999-00. It is estimated that General Government Sector Net Debt will decrease by $112 million, or 11.9 per cent in nominal terms, from $940 million to $828 million between 30 June 2000 and 30 June 2001.

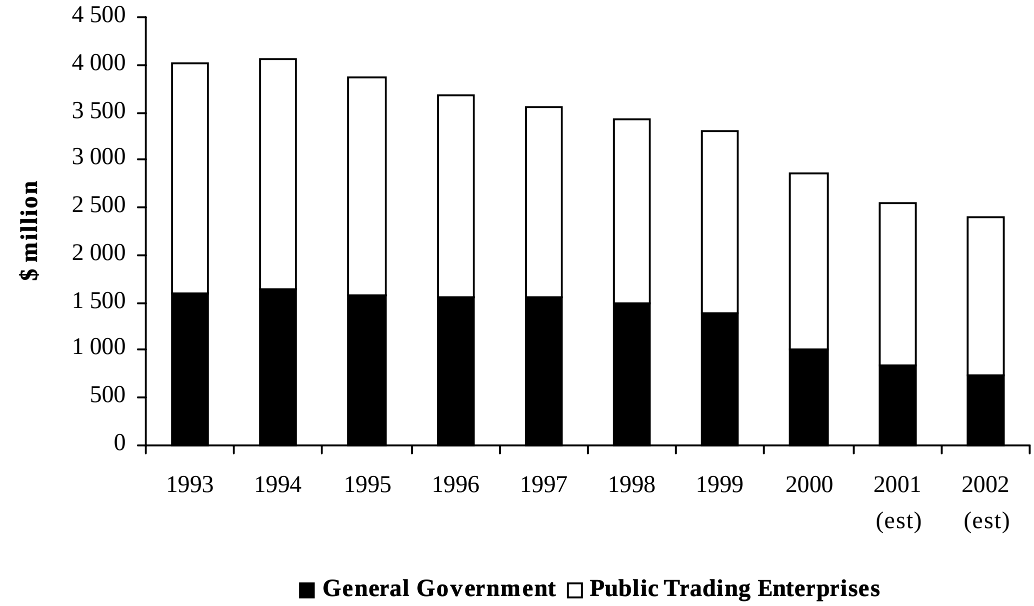
- Net Debt for the PTE Sector decreased by $33 million, or 1.9 per cent in nominal terms, from $1 736 million to $1 703 million between 30 June 1999 and 30 June 2000. It is estimated that PTE Sector Net Debt will decrease by $37 million, or 2.2 per cent in nominal terms, from $1 703 million to $1 666 million between 30 June 2000 and 30 June 2001. The movement is primarily attributable to the operating surplus achieved which is enabling the repayment of debt within the sector.

- Total Non-Financial Public Sector Net Debt decreased by $364 million, or 12.1 per cent in nominal terms, from $3 007 million to $2 643 million between 30 June 1999 and 30 June 2000. The Total Non-Financial Public Sector is the consolidated total of the General Government and PTE Sectors. The movement in Net Debt is therefore directly linked to the movement in Net Debt of the component sectors.

- It is estimated that Total Non-Financial Public Sector Net Debt will decrease by $149 million, or 5.6 per cent in nominal terms, from $2 643 million to $2 494 million between 30 June 2000 and 30 June 2001.
- Net Debt for the PFE Sector is negative which means that it holds net assets. PFE Sector net assets increased by $36 million, or 10.4 per cent in nominal terms, from $345 million to $381 million between 30 June 1999 to 30 June 2000. The negative Net Debt position of the PFE Sector primarily reflects the net assets held by the Motor Accidents Insurance Board (MAIB). The MAIB holds a significant level of cash and investment assets in order to fund its liability for outstanding claims. According to ABS classifications, this liability is not included in the calculation of Net Debt, but it will be included as part of the full presentation of Financial Assets and Liabilities, to be issued in the Outcomes Report.
- Total State Government Sector Net Debt has decreased by $400 million, or 15.0 per cent in nominal terms, from $2 662 million to $2 262 million between 30 June 1999 and 30 June 2000. The Total State Government Sector Net Debt is the consolidated total of the General Government, PTE and PFE Sectors. The movement in Net Debt is therefore directly linked to the movement in Net Debt of the component sectors.

Chart 9.5 depicts the categories of Total Non-Financial Public Sector Net Debt in real terms.

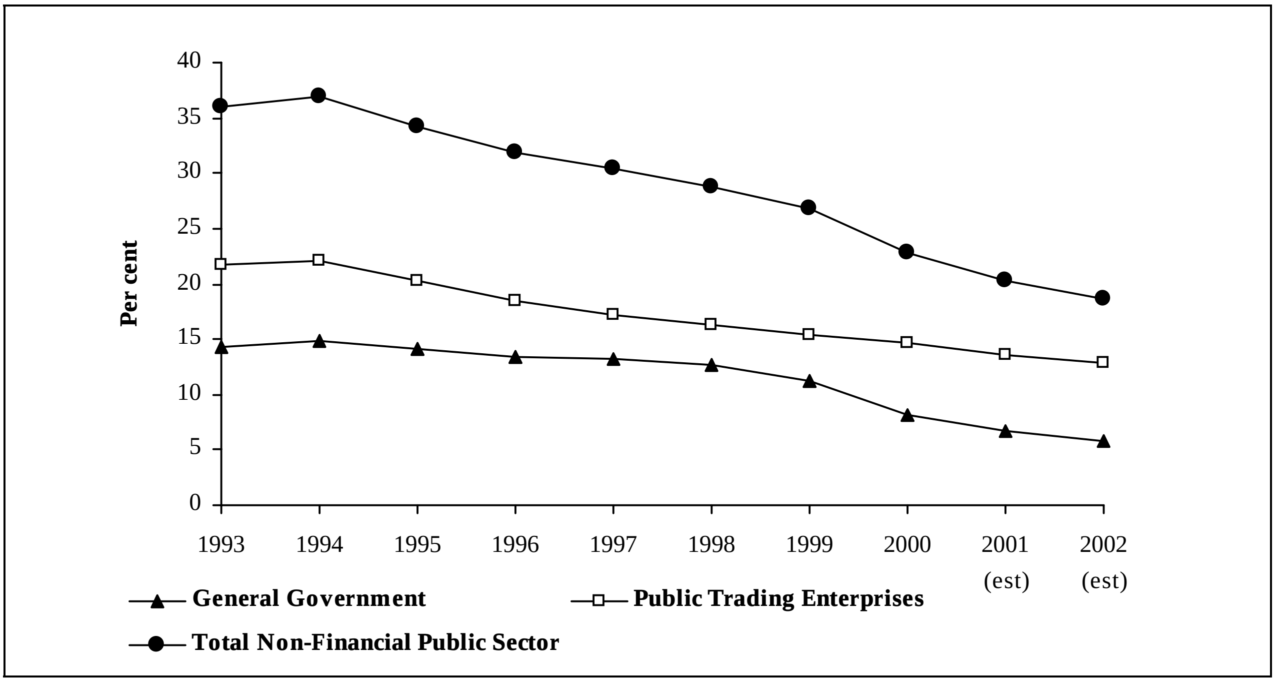
Chart 9.5: Categories of Total Non-Financial Public Sector Net Debt (real terms as at 30 June 2002), 1993 to 2002



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

As can be seen in Chart 9.6, General Government Sector Net Debt as a percentage of Gross State Product (GSP) has fallen from 11.3 per cent as at 30 June 1999 to 8.1 per cent as at 30 June 2000 and is estimated to fall to 5.8 per cent as at 30 June 2002, which is already below the Fiscal Strategy target for 2003-04 of 10 per cent. For the Total Non-Financial Public Sector, Net Debt as a percentage of GSP has fallen from 26.8 per cent as at 30 June 1999 to 22.8 per cent as at 30 June 2000 and is estimated to fall to 18.7 per cent as at 30 June 2002.

Chart 9.6: Total Non-Financial Public Sector Net Debt to Gross State Product, 1993 to 2002



Sources: Australian Bureau of Statistics; Department of Treasury and Finance; *Australian National Accounts: State Accounts*, 1999-00, ABS Cat. No. 5220.0.

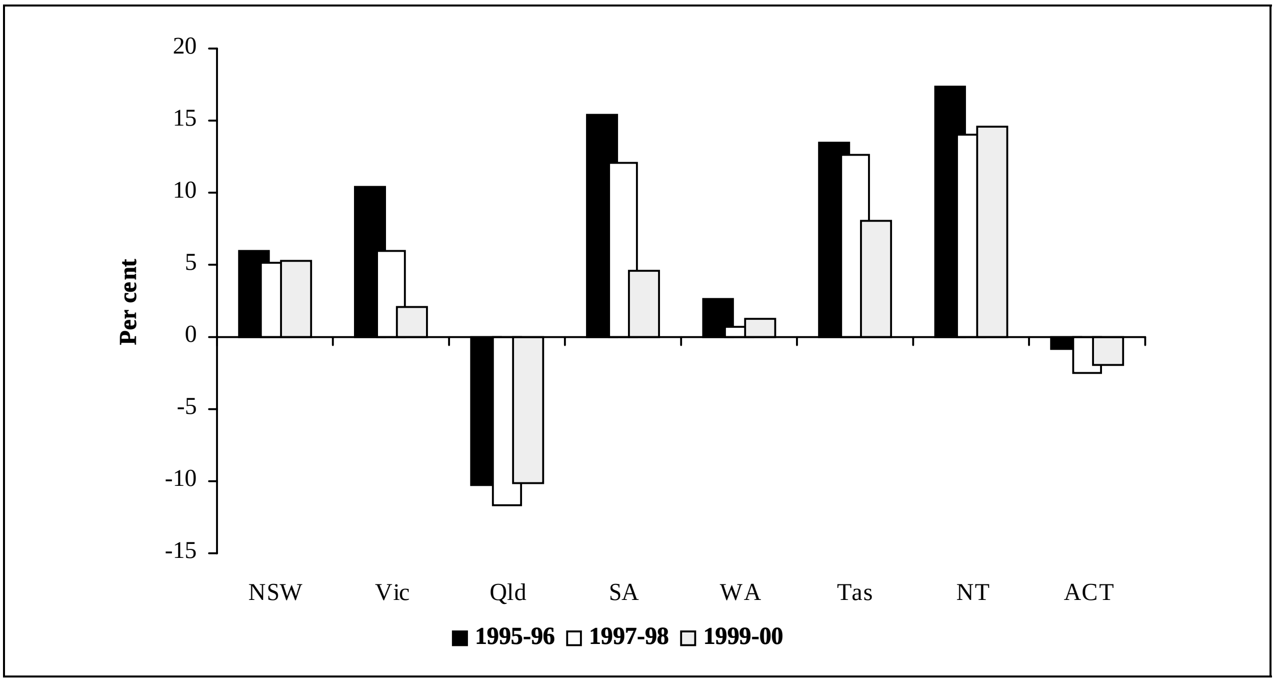
Interstate Comparison

Charts 9.7 and 9.8 show trends in General Government and Total Non-Financial Public Sector Net Debt as a proportion of GSP.

Chart 9.7 shows that Tasmania's General Government Sector Net Debt as a proportion of GSP has been comparable with South Australia and the Northern Territory, but significantly higher than New South Wales, Victoria, Queensland, Western Australia and the Australian Capital Territory (ACT). The chart shows a significant decrease in Net Debt as a proportion of GSP for South Australia in 1999-00 as a result of the long-term lease of its electricity assets. There has also been a steady decrease in Net Debt levels as a proportion of GSP for all other states and territories, with the exception of Queensland and the ACT, over the five years to 1999–00.

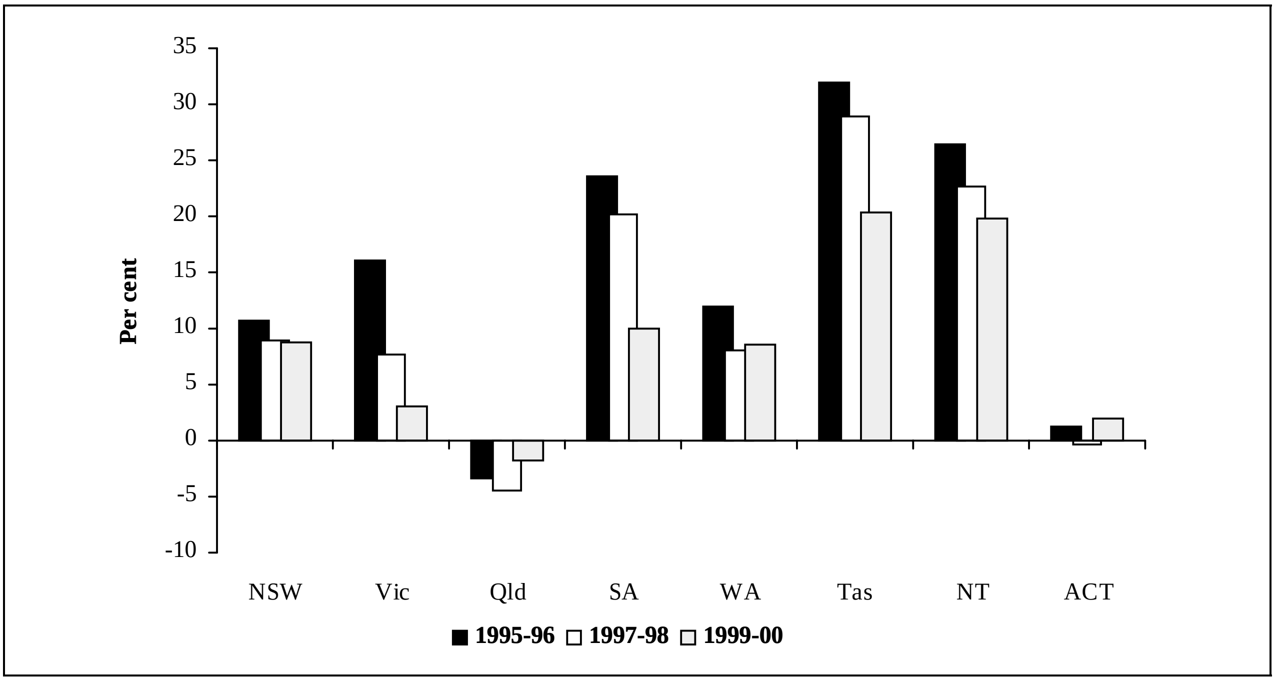
Chart 9.8 shows that Tasmania, on a Total Non-Financial Public Sector basis, has the highest Net Debt burden. This stems from the State's past heavy investment in its electricity system, inadequate past returns from that system and from other PTEs, and a series of substantial deficits in the General Government Sector in the 1980s and early 1990s. Nevertheless, despite Tasmania recording the highest level of Total Non-Financial Public Sector Net Debt as a proportion of GSP in the five years to 1999–00, the State's net debt ratio has continually fallen since the introduction of the first Fiscal Strategy in 1990-91 and will continue to decline in accordance with the Government's Fiscal Strategy announced in the 1998-99 Budget.

Chart 9.7: General Government Sector Net Debt as a percentage of GSP



Sources: Government Financial Estimates, Australia 1999-2000, ABS Cat No 5501.0; *Australian National Accounts: State Accounts, 1999-00*, ABS Cat No 5220.0.

Chart 9.8: Total Non-Financial Public Sector Net Debt as a percentage of GSP



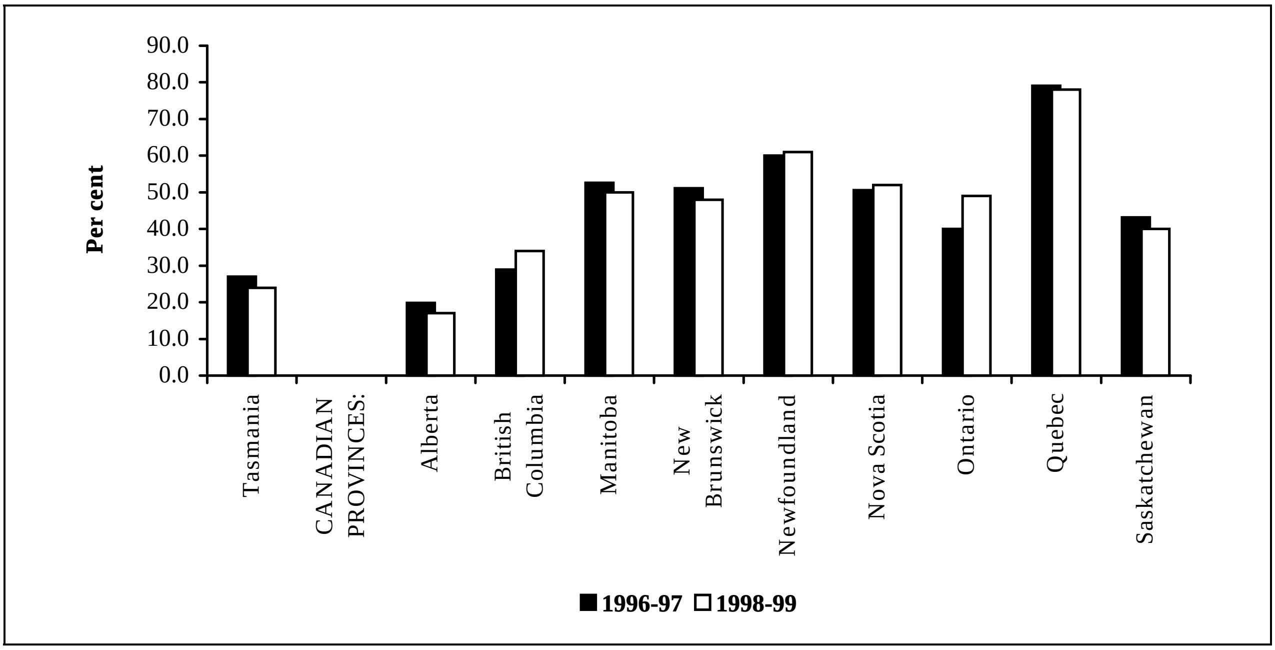
Sources: *Government Financial Estimates*, Australia 1999-2000, ABS Cat No 5501.0; *Australian National Accounts: State Accounts*, 1999-00, ABS Cat No 5220.0.

International Comparison

When undertaking a comparison of Tasmania's net debt position with international jurisdictions, it is important to select comparable jurisdictions. Comparisons with national sovereigns would not be relevant because the Tasmanian Government is not a true sovereign jurisdiction in that it has no capacity to print money. Nine Provinces within Canada have been used for an international comparison of the State's net debt position, as their structure is comparable to the State Government.

Chart 9.9 shows the Total State Government Sector Net Debt as a proportion of GSP for Tasmania and the Canadian Provinces. The chart shows that Tasmania's net debt position is lower than all the Canadian Provinces, except for Alberta. This shows that whilst Tasmania's net debt position may be high by national standards, it compares favourably with comparable other international jurisdictions.

Chart 9.9: Total State Government Sector Net Debt as a percentage of GSP



Sources: Standard and Poors; Department of Treasury and Finance.

Gross Debt

The Gross Debt for the General Government Sector as at 30 June 2000 was $1 927 million. This consisted of State Debt which is managed by Tascorp ($1 325 million), Commonwealth debt ($473 million), and other borrowings by General Government entities ($129 million).

The maturity profile is an important factor in the interest rate risk of the debt portfolio. When debt matures it is necessary to refinance the debt at prevailing market interest rates. By structuring the maturity profile over a number of years, the portfolio will be protected in the short-term from movements in market interest rates. Table 9.4 provides a breakdown of the General Government Gross Debt by year of maturity.

Table 9.4: General Government Sector Gross Debt as at 30 June 2000 by Maturity

	Tascorp Debt	Commonwealth Debt	Other Gross Debt	Total Gross Debt
	$m	$m	$m	$m
2000-01	**523**	**116**	**97**	**736**
2001-02	**341**	**36**	**3**	**380**
2002-03	**26**	**6**	**3**	**34**
2003-04	**134**	**42**	**3**	**179**
2004-05	**173**	**13**	**3**	**188**
2005-06	**50**	**13**	**21**	**83**
2006-07	**....**	**6**	**....**	**6**
2007-08	**48**	**6**	**....**	**54**
2008-09	**....**	**6**	**....**	**6**
2009-10	**....**	**7**	**....**	**7**
Beyond 2010	**31**	**223**	**....**	**254**
Total	**1 325**	**473**	**129**	**1 927**

INTEREST COSTS OF THE GOVERNMENT

The interest costs of the Government are influenced by both average interest rates and variations in the level of Net Debt.

Table 9.5 details the net interest costs paid by the General Government Sector and the net interest cost ratio (NICR). The NICR is one of the indicators adopted to measure performance against the Fiscal Strategy targets. The NICR is a measure that represents the proportion of the revenue base that is required to meet the Government's net interest cost burden. The ratio provides an indication of the Government's flexibility and ability to react to unexpected events.

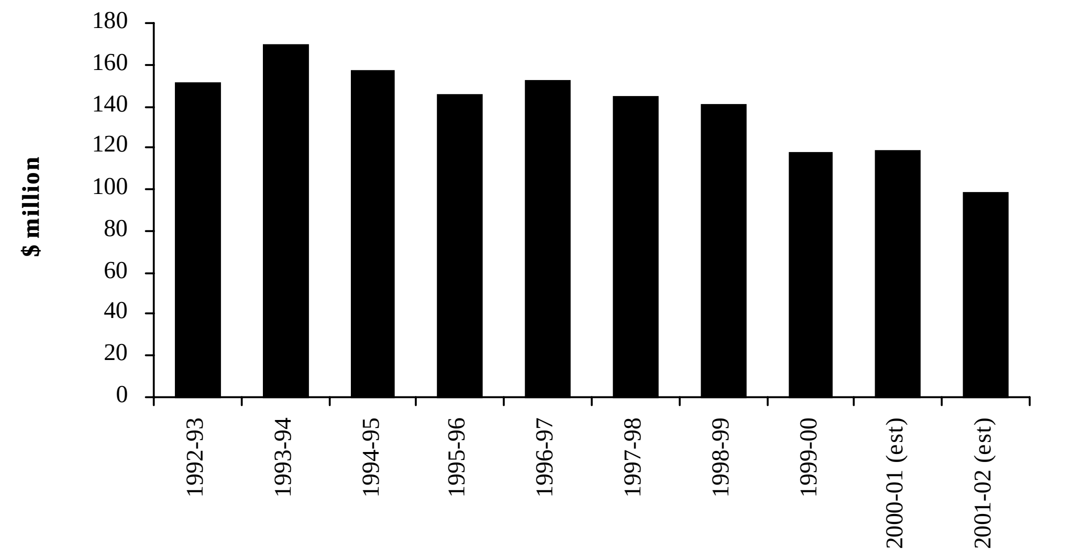
Table 9.5: Net Interest Cost Ratio - General Government Sector (as at 30 June), 1993 to 2002(est)

	1993	1994	1995	1996	1997	1998	1999	2000	2001 (est)	2002 (est)
	$m	$m	$m	$m	$m	$m	$m	$m	$m	$m
Interest Paid	274	273	242	233	212	200	185	160	148	123
Interest Received:										
from PTEs	72	71	67	55	47	40	36	27	18	12
from other enterprises	51	33	18	33	13	16	8	16	12	13
Total Interest Received	123	104	85	88	60	56	44	43	30	25
Net Interest	151	169	157	145	152	144	141	117	118	98
General Government Total Revenue less Interest Received	1 680	1 650	1 716	1 809	1 877	1 917	2 047	2 249	2 277	2 356
Net Interest Cost Ratio	9.0	10.2	9.1	8.0	8.1	7.5	6.9	5.2	5.2	4.2

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

As can be seen in Chart 9.10, net interest has steadily declined since 1994, reflecting the Fiscal Strategies pursued by successive Governments to stabilise the level of debt and reduce the share of revenue required to service that debt. In accordance with the Government's Fiscal Strategy announced in the 1998-99 Budget, the NICR is to be reduced to below five per cent by the year 2003-04. It is now estimated this target will be achieved in 2001-02.

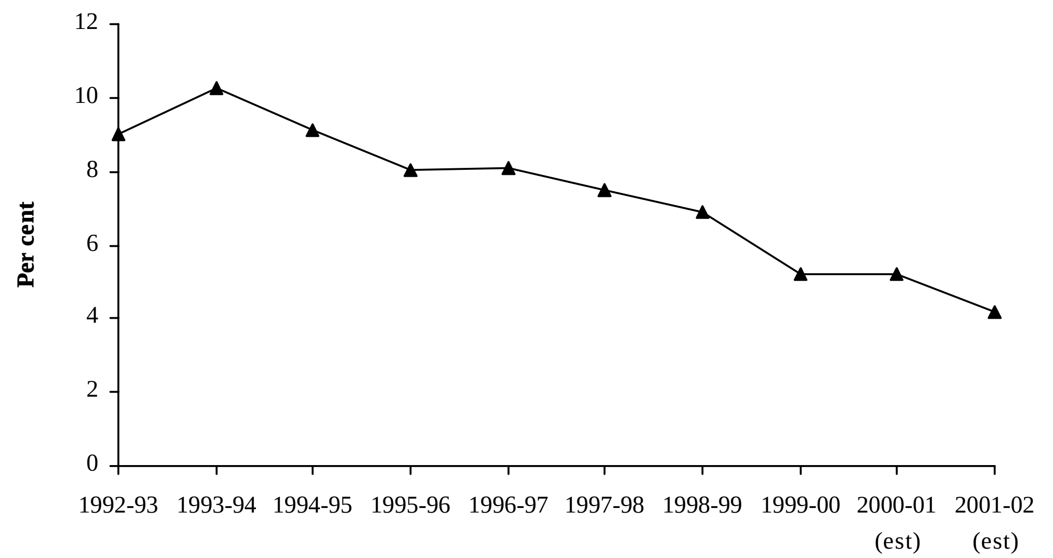
Chart 9.10: Net Interest Costs - General Government Sector, 1992-93 to 2001-02 (est)



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

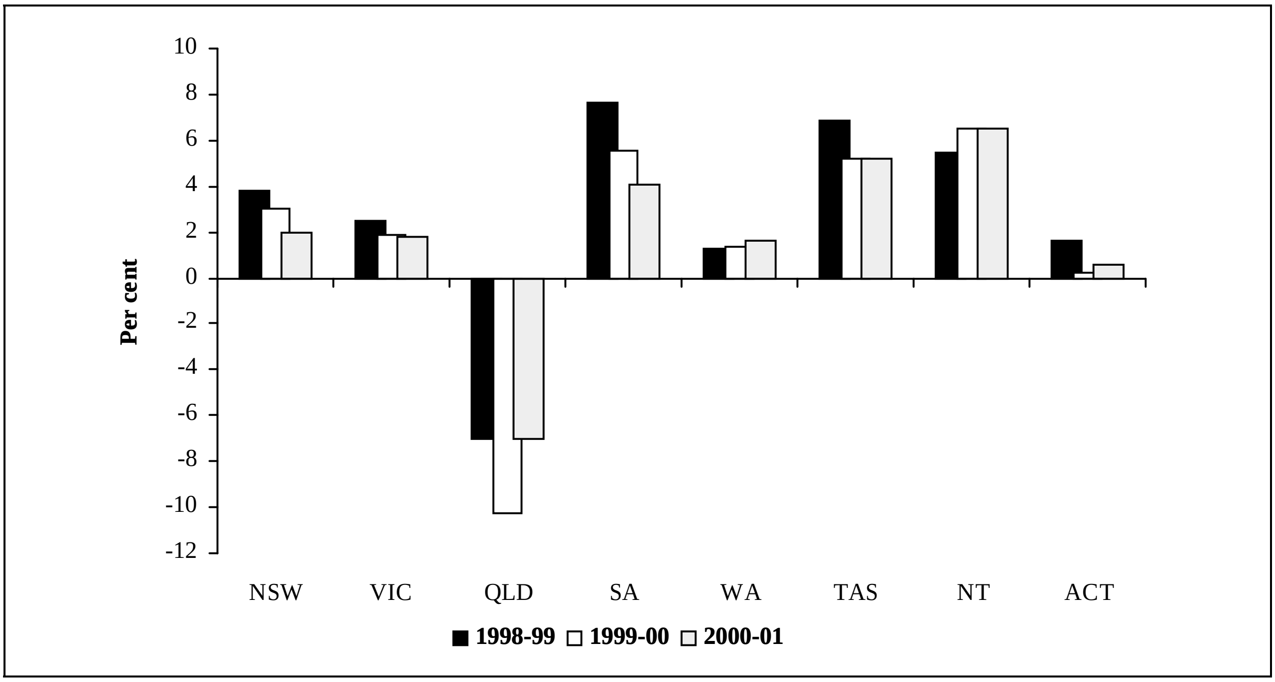
Net interest costs as a proportion of General Government recurrent receipts reached a peak of 10.2 per cent in 1993-94 and have since shown a consistent downward trend. This ratio is expected to continue to fall in 2000–01 and 2001-02, consistent with the Government's Fiscal Strategy and the current low interest rate environment. This trend is shown in Chart 9.11.

Chart 9.11: Net Interest Cost Ratio - General Government Sector, 1992-93 to 2001-02 (est)



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

Chart 9.12: General Government Sector Net Interest Cost Ratio - All Jurisdictions



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

Chart 9.12 provides a comparison across the states and territories of the debt servicing burden on General Government revenues. The chart shows that whilst Tasmania's net interest cost ratio on a GFE expand basis decreased between 1998-99 and the 2000–01 estimate, it remains at a level higher than all other states and territories except the Northern Territory.

CREDIT STATUS OF THE STATE PUBLIC SECTOR

Since the mid 1980s, as debt has been issued by the States in their own right rather than by the Commonwealth, the two major credit 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 1990. Both of the major rating agencies review the credit ratings of all States on an annual basis.

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

A secondary element of importance is the perception of Tasmania by business investors. While not directly influenced by the credit rating, the comments made by the rating agencies in issuing 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 the policies of successive Tasmanian Governments' to improve the State's financial position, particularly in relation to debt servicing costs.

The current credit ratings for long-term domestic debt of the states and the territories are detailed in Table 9.6. All states have a prime rating of P-1 / A-1+ on their short-term debt.

Table 9.6: Government Ratings

	Moody's	Standard & Poor's
New South Wales	**Aaa**	**AAA**
Queensland	**Aaa**	**AAA**
ACT	**Aaa**	**AAA**
Western Australia	**Aaa**	**AAA**
Victoria	**Aaa**	**AAA**
South Australia	**Aa2**	**AA+**
Tasmania	**Aa2**	**AA-**
Northern Territory	**Aa2**	**n.a.**

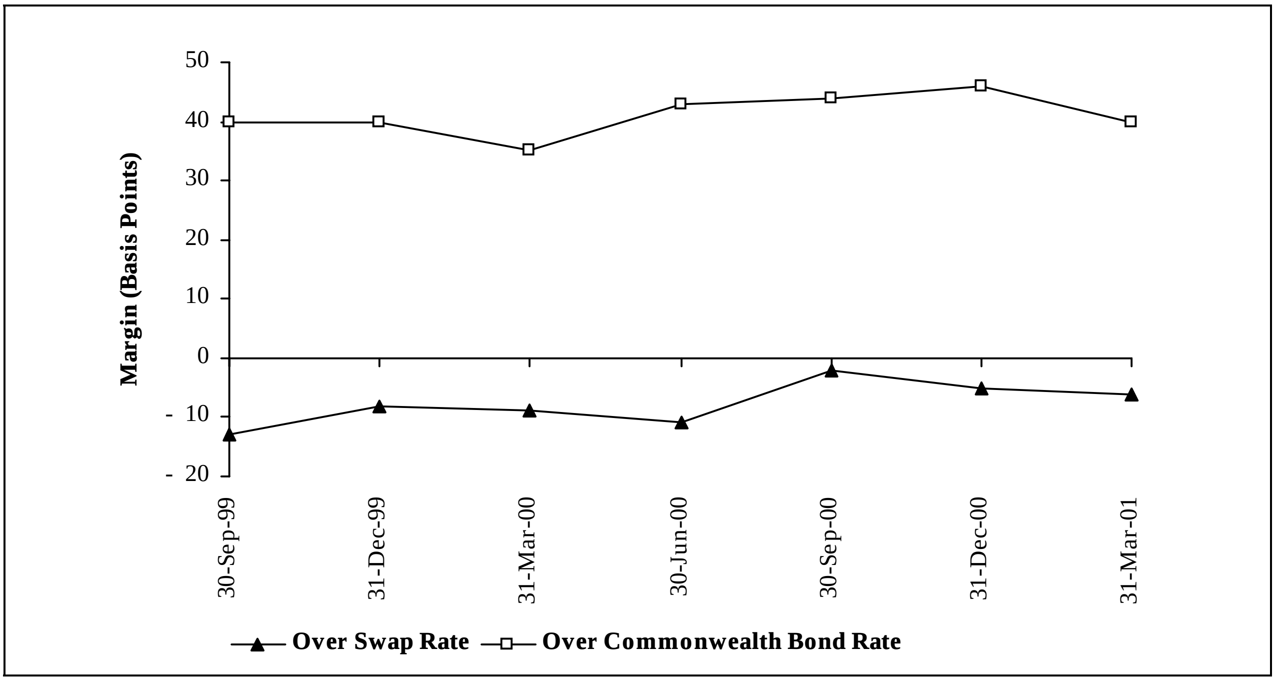
The ability of a State to manage and service its debt is reflected in the credit rating assigned to the State by the rating agencies. Rating assessments depend particularly on the level of debt relative to Gross State Product (GSP), debt servicing costs relative to revenue and the magnitude of other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

The last rating report released by Moody's was in April 2000. In this report Moody's re-affirmed its Aa2 rating for long-term debt and Prime 1 rating for commercial paper for Tasmania and the rating outlook was viewed as stable. Moody's visited Tasmania in November 2000, however an updated report is yet to be released.

S&P released its rating review in October 2000. In this report, S&P re-affirmed its AA- rating for Tasmanian Government long-term debt and A-1+ for short term local currency. The rating outlook was upgraded from stable to positive for the first time since 1991. The positive rating represents the best achievement ever for the State and moves Tasmania towards a credit upgrade. In its report, S&P observed that the positive rating reflects the State's manageable and falling debt burden, good ongoing financial position and the Government's disciplined medium-term Fiscal Strategy.

COST OF DEBT

Chart 9.13: Tascorp Margins over Commonwealth Bond Rate and the Swap Rate, 1999 to 2001



Source: Tasmanian Public Finance Corporation.

Chart 9.13 shows the cost of Tasmania's borrowing compared with that of the Commonwealth Bond and the Swap Rate. The former acts as a fixed rate benchmark for the best domestic credit in Australia while the latter is a proxy for the yield of major banks and highly rated corporates, raising fixed rate funds. Because Tascorp competes against the banks for a significant part of its lending business, the Swap Curve is considered a more relevant and liquid benchmark. The chart shows the difference in market yields over time between Tascorp's six per cent preferred stock, which matures on 15 August 2003, and the stock of an identical maturity issued by the Commonwealth and the Swap Curve.

The chart shows that over the last 18 months since the launch of the August 2003 preferred stock, the Tasmanian Government's cost of financing has ranged from between 35 and 45 basis points (based on the monthly average) greater than the Commonwealth bond rate. Conversely, borrowings by the Government have been between two and 15 basis points lower than the Swap Rate over the same period.

During the period covered by the chart, various market-driven factors, of a relatively short-term nature, have impacted on the way in which the respective Commonwealth and Swap spreads have traded to Tascorp. These factors affect all credit instruments, regardless of the fundamental strength of the individual credit, reflecting the increasing focus of investors on the close relationship between market and credit risk.

FOREIGN CURRENCY EXPOSURE

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

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

CONTINGENT AND OTHER LIABILITIES

Borrowings Guaranteed by the Government

Contingent liabilities of the Government generally arise through specific guarantees given by the Government or through legislation whereby a guarantee is given to secure borrowings. Estimates for the level of guarantees given as at 30 June 2001 are not yet available. Details on the actual level of guarantees as at 30 June 2001 will be published in the Treasurer's Financial Statements.

There has been a significant decline in the value of specific guarantees given by the Government in recent years, as shown by Table 9.7.

Table 9.7: Level of State Guarantees (as at 30 June)

Year	Contingent Liability
	$m
1990	19.76
1991	8.53
1992	6.46
1993	5.11
1994	3.64
1995	3.22
1996	2.87
1997	2.33
1998	2.52
1999	2.50
2000[1]	2.33

Note:

1. The amount for 2000 includes loans that have been advanced under the *Co-operative Housing Societies Act 1963* ($835 000), the *State Loans and Guarantees Act 1976* ($186 000), and the *Tasmanian Development Act 1983* ($1.311 million).

The Government's contingent liabilities amounted to $2.33 million as at 30 June 2000. The State also guarantees the payment of principal and interest in respect of loans raised by statutory authorities, in accordance with existing legislation. These are recorded in the accounts of statutory authorities as actual liabilities, whereas these items represent a contingent liability for the State.

Superannuation Arrangements in the Tasmanian Public Sector

Overview

A number of different superannuation arrangements operate in the Tasmanian public sector for public sector employees, members of Parliament, the judiciary and statutory legal officers. This section gives an account of those public sector superannuation arrangements that impact upon the Consolidated Fund.

Superannuation may be provided on a defined benefit basis, an accumulation basis (often referred to as a defined contribution basis) or a combination of both. A defined benefit scheme is one in which the benefits accruing on resignation, retirement or death are predetermined according to a formula established in the scheme rules or regulations. Since the end benefits are guaranteed under such a scheme, the employer's actual contribution will vary depending on such factors as the earning rate on investments, the longevity of pensioners and the salary of employees in a defined period immediately before the benefit is calculated.

By comparison, an accumulation scheme is one in which the employer's contribution is fixed according to the scheme rules. Under such a scheme, the end benefit represents the accumulation of contributions by the employer and employee (if any), together with the investment earnings on those contributions. The end benefit of employees will vary with the level of employer and employee contributions and the earning rate on investments over the period of membership of the scheme.

A superannuation fund may be unfunded, partially funded or fully funded. An unfunded scheme is one in which the employer-financed benefit component is met on an 'emerging cost' basis when the employee retires, resigns or dies, without any money being set aside in the scheme by the employer for that individual's benefit. By contrast, a funded scheme is one in which the employer makes a regular contribution to the superannuation fund reflecting the currently accruing liability in respect of employees.

Some schemes are partially funded such that there are both funded elements (usually relating to employee contributions) and unfunded elements (normally relating to employer contributions). In the past, most major public sector schemes within Australia have been unfunded in respect of employer contributions, but the pattern is now changing.

The major defined benefit schemes currently operating in the Tasmanian public sector are those established under the *Retirement Benefits Act 1993*, the *Parliamentary Superannuation Act 1973*, the *Parliamentary Retiring Benefits Act 1985* and the *Judges' Contributory Pensions Act 1968*. As discussed below, all these schemes are now closed.

The fully funded Tasmanian Accumulation Scheme (TAS) was established under the provisions of the *Public Sector Superannuation Reform Act 1999* and replaced the unfunded RBF non-contributory scheme as from 25 April 2000.

The defining characteristics of these schemes are summarised in Table 9.8, together with details of the numbers of active members and pensioners where appropriate.

Table 9.8: Tasmanian Public Sector Superannuation Schemes

Scheme established under the provisions of[1] :	Status of scheme or sub-scheme	Active members	Pensioners Primary	Pensioners Other
Retirement Benefits Act 1993				
Defined benefit scheme [2]	**closed (1999)**	**16 201**	**5 355**	**1 742**
Amalgamated scheme [2]	**closed (1971)**	**20**	**n.a.**[3]	**n.a.**[3]
Police Provident Fund [2, 6]	**closed (1963)**	**1**	**n.a.**[4]	**n.a.**[4]
Public Sector Superannuation Reform Act 1999				
Tasmanian Accumulation Scheme [2, 6, 7]	**open**	**19 982**	**n.a.**[4]	**n.a.**[4]
Parliamentary Superannuation Act 1973	**closed (1985/1999)** [9]	**7**	**21**	**10**
Parliamentary Retiring Benefits Act 1985 [7]	**closed (1999)**	**29**	**n.a.**[5]	**n.a.**[5]
Judges' Contributory Pensions Act 1968 [8]	**closed (1999)**	**6**	**6**	**5**
Solicitor-General Act 1983 [8]	**closed (1999)**	**1**	**0**	**1**
Governor of Tasmania Act 1982 [8]	**closed (1999)**	**1**	**1**	**0**

Notes:

1. All schemes are classified as Exempt Public Sector Superannuation Schemes (EPSSS), as specified in the Commonwealth's *Superannuation Industry (Supervision) Regulations 1994*.
2. Numbers for active members and pensioners (primary, reversionary and children) for the RBF schemes are as at 31 March 2001, as advised by the RBF Board.
3. Pension beneficiaries are included in the figures for the RBF defined benefit scheme.
4. The benefit is expressed as a lump sum, but may be converted by certain members to a CPI-indexed pension based on actuarially determined factors. In such cases, pensioners are included in the figures for the RBF defined benefit scheme.
5. The benefit is provided as a lump sum, although an allocated pension may be purchased from the RBF Board.
6. All schemes other than the Tasmanian Accumulation Scheme (TAS) and the Police Provident Fund (PPF) are defined benefit schemes. The level of employer support in TAS is currently eight per cent of salary (rising to nine per cent as from 1 July 2002), whereas in the closed PPF scheme it is 10.5 per cent of salary.
7. All schemes are unfunded in respect of employer contributions and untaxed, except for the Parliamentary Retiring Benefits Fund, established under the provisions of the *Parliamentary Retiring Benefits Act 1985*, and the Tasmanian Accumulation Scheme.
8. These three schemes are constitutionally protected under Schedule 14 of the Commonwealth's *Income Tax Regulations 1936*.
9. The Parliamentary Superannuation Scheme was closed in 1985 to all new parliamentary members, but former members retained the right to rejoin the scheme. The scheme was fully closed in 1999.

For the purposes of this Table, a scheme is characterised as an 'open' scheme if new employees are generally able to join that scheme. Conversely, a 'closed' scheme is one that is generally no longer open to new employees. When a new superannuation scheme is introduced, existing members are usually entitled to remain in the scheme in which they started, even if it is closed to new entrants. In such cases, these members would obtain a benefit as determined by that scheme. In other cases, a transfer option to the new arrangements may be provided, on either a voluntary or a compulsory basis.

Under the *Public Sector Superannuation Reform Act 1999*, the RBF defined benefit scheme was closed to new public sector employees on 15 May 1999 but is still open, in very limited circumstances, to certain categories of existing employees.

It should be noted that in the case of the RBF schemes (including TAS), the figures detailed in Table 9.8 represent the number of accounts. In some cases, one person may have more than one account. In TAS, the incidence of one member having more than one account is declining as a result of the steps taken by the RBF Board following the introduction of employer funding.

The information shown in Table 9.8 in relation to the RBF schemes demonstrates that over 55 per cent of Tasmanian public sector employees are members of a fully funded, and hence fully portable, superannuation scheme. In addition, with the advent of fund choice a number of public sector employees have their employer superannuation contributions paid to other complying superannuation schemes.

With the closure of the unfunded defined benefit schemes, and the option that will soon be offered for members of these schemes to transfer to accumulation schemes, this percentage will clearly increase over time.

Public Sector Superannuation Reform

The Government's decision to close all the public sector defined benefit schemes has capped the State's unfunded superannuation liability in the sense that no new employees will add to this liability. However, the liability may increase in nominal terms over the short to medium term as the past service and salaries of defined benefit scheme members increase.

TAS commenced operation on 25 April 2000. The scheme therefore covers all RBF non-contributory scheme members as at that date, together with all new permanent employees appointed after 15 May 1999. All members of the TAS scheme (around 19 982) now have a fully funded, and fully portable, superannuation benefit. The level of employer superannuation support under TAS is currently eight per cent of salary, rising to nine per cent from 1 July 2002.

Members of TAS and public sector employees appointed after 15 May 1999 have fund choice, which allows them to elect to have their employer and employee superannuation contributions (if any) paid to a complying superannuation scheme of their choice.

In addition to providing a range of benefits to members, these reforms to Tasmania's public sector superannuation arrangements were necessary to control and eventually reduce Tasmania's unfunded superannuation liability. This is a long-term strategy that will provide greater budget flexibility for future Governments over time and enable them to prioritise expenditure more effectively.

Given that the employer contributions in respect of public sector employees, members of Parliament, judges and statutory legal officers who commenced after either 15 May 1999 or 1 July 1999 are fully funded, there are no unfunded liabilities pertaining to these arrangements. The remainder of this section therefore covers those schemes for which the Government has unfunded liabilities.

Retirement Benefits Fund – Defined Benefit Scheme

Background

The RBF was established in accordance with the *Retirement Benefits Act 1970*. There were major amendments to the scheme in 1982, 1987, 1993 and in 1999. The *Retirement Benefits Act 1993* provides a framework for the closed defined benefit scheme, details of which are set out in the *Retirement Benefits Regulations 1994* and the *Retirement Benefits (Transitional) Regulations 1994*.

Funding

The RBF defined benefit scheme is an unfunded scheme. A Superannuation Provision Account (SPA) was established within the Special Deposits and Trust Fund in July 1994 to provide for superannuation liabilities of inner-Budget agencies. Agencies are currently required to pay into the SPA at a rate determined by the Treasurer. The employer share of pensions and lump sum benefits payable to employees in inner-Budget agencies are reimbursed to the RBF Board from this account. Employees are required to contribute to the RBF, generally at the rate of five per cent of salary, with such contributions invested by the RBF Board.

As at 30 April 2001, the balance accumulated in the SPA was $331.4 million. The estimated balance of the SPA as at 30 June 2001 included in the 2000-01 Budget Papers ($335.5 million) is therefore likely to be exceeded.

The Superannuation Guarantee contributions to the SPA from agencies on behalf of former non-contributory employees, including all employees appointed after 15 May 1999, ceased following the commencement of TAS. Under the reforms, these contributions are now paid directly to TAS or to a private sector superannuation scheme in cases where employees exercise the option of fund choice.

Table 9.9: Superannuation Provision Account

Superannuation Provision Account (T780)	**1999-00 Actual**	**2000-01 Estimate**	**2001-02 Estimate**	**2002-03 Estimate**	**2003-04 Estimate**	**2004-05 Estimate**
	$m	**$m**	**$m**	**$m**	**$m**	**$m**
Opening Balance	**237.0**	**287.6**	**344.5**	**421.3**	**501.1**	**585.8**
Receipts						
Agency contributions	**84.5**	**69.0**	**66.1**	**62.8**	**60.1**	**57.5**
Interest	**13.2**	**18.2**	**22.0**	**26.5**	**31.2**	**36.1**
Finance-General (R069)	**47.1**	**65.6**	**93.1**	**102.3**	**112.4**	**119.4**
Total Receipts	**144.9**	**152.7**	**181.2**	**191.6**	**203.8**	**213.0**
Expenditure						
Pensions	**55.7**	**57.1**	**58.7**	**60.4**	**62.1**	**63.9**
Lump sums	**38.6**	**38.8**	**45.7**	**51.4**	**57.0**	**65.1**
Total Expenditure	**94.3**	**95.9**	**104.4**	**111.8**	**119.1**	**129.0**
Closing Balance	**287.6**	**344.5**	**421.3**	**501.1**	**585.8**	**669.8**

Liabilities

The annual review of the state and sufficiency of the Retirement Benefits Fund as at 30 June 2000 was undertaken by the State Government actuary. The report shows that the gross superannuation liability increased by $60 million from $2 669 million to $2 729 million between 30 June 1999 and 30 June 2000. The gross liability is increasing due to factors such as the accrual of additional years of service by scheme members and salary increases for public sector employees. The Government has effectively been required to make an increased funding effort in order to ensure that the net unfunded liability remains stable. This effort is reflected in increased contributions to the SPA from the Consolidated Fund in recent years. Table 9.9 shows that the SPA balance is estimated to have grown by $57 million, from $287.6 million to $344.5 million between 30 June 2000 and 30 June 2001, primarily due to the contribution made from the Consolidated Fund, through the Finance-General Contribution (R069). Likewise, the Government is making increased contributions to the SPA during 2001-02 to continue to address the growth in the gross superannuation liability.

Advice received from the actuary shows that the net unfunded superannuation liability of the Retirement Benefits Fund as at that date was $1 224 million. This was a very marginal decrease over the estimated unfunded superannuation liability figure of $1 225 million as at 30 June 1999.

The estimated unfunded RBF superannuation liability of $1 224 million as at 30 June 2000 does not correspond to the amount shown in the early part of this Chapter. The amount shown in this section relates to the scheme as a whole and take into account provisions established by authorities, and the balance of the SPA. It also includes the liabilities associated with a small number of employees and pensioners who are or were employed by authorities that are not the responsibility of the State Government, including the three regional water boards and the University of Tasmania. A reconciliation with the unfunded RBF superannuation liability as at 30 June 2000 reported in the consolidated financial statements is shown below in Table 9.10.

Table 9.10: Reconciliation of Total State Government Sector Superannuation Liability to Unfunded RBF Superannuation Liability

	30 June 2000
	$m
Total State Government Sector Superannuation Liability	**1 879**
Less: Non RBF Scheme Liabilities	
Judges Scheme	**21**
Parliamentary Retiring Benefits Fund	**1**
Parliamentary Superannuation Fund	**11**
	33
Less: Provisions to offset RBF Superannuation Liability	
Superannuation Provision Account	**288**
Authority Provisions	**287**
ANR Credit	**47**
	622
RBF Unfunded Superannuation Liability (net of provisions)	**1 224**

In previous Budget Papers, estimates of the unfunded liability of the RBF scheme have been provided as at 30 June 1992, 1995, 1996 and 1997. These were calculated using assumptions adopted by previous actuaries.

The unfunded liabilities for 1998, 1999 and 2000 are based on revised assumptions adopted by the current actuary for the purposes of the 1998 three year review. Given the difficulties in making comparisons, only the post-1997 unfunded liabilities are reported in Table 9.11.

Table 9.11: RBF Scheme Past Service Unfunded Superannuation Liability

Year ending 30 June	**Liability**
	$m
1998	**1 191.1**
1999	**1 225.2**
2000	**1 224.1**

In its 2000 report, the actuary estimated that the past service liability associated with the RBF contributory scheme increased in the year to 30 June 2000 by $71.1 million (or 5.8 per cent). There was also an increase in the liabilities pertaining to the compulsory preservation account ($19.2 million or 13.7 per cent). The liabilities associated with current pensioners increased by $42.5 million (or 3.4 per cent). However, the backfunding of the non-contributory scheme saw a reduction in liabilities of $72.8 million. In aggregate, liabilities increased by $59.9 million in the year to 30 June 2000.

However, the assets of the scheme increased by $61 million (or 4.2 per cent). Of this increase, $50.6 million relates to the increase in the SPA balance. A further $12.1 million is accounted for by the growth in assets held by the RBF Board. There was a reduction of $1.9 million in respect of the credit attributable to former Australian National Railways (ANR) employees.

The actuary also included $47.2 million of assets as at 30 June 2000 to properly reflect the fact that the Commonwealth Government is responsible for the funding of the pension benefits payable to former ANR employees.

As outlined in Table 9.11, the net effect of these changes was that the State's past service unfunded liability for the RBF scheme as at 30 June 2000 decreased by $1.1 million in comparison with the equivalent figure as at 30 June 1999.

It should be stressed that the above aggregate liability figure represents the liability of the scheme as a whole, most of which is met from the Superannuation Provision Account. Government Business Enterprises, State-owned Companies and other revelant statutory authorities meet their liabilities on an emerging cost basis.

In some cases, the liabilities for some current or former RBF members are not those of the State Government or any State Authority. For instance, following the transfer of the Tasmanian Railways to the Commonwealth in 1975, the liabilities associated with former Tasmanian Railways employees, together with their widows or widowers, are met on an emerging cost basis by the Commonwealth Department of Finance and Administration. Similarly, the University of Tasmania is responsible for a proportion of the liabilities relating to former employees of the Tasmanian College of Advanced Education (TCAE), as a result of responsibility for the TCAE being transferred from the State to the University of Tasmania in the

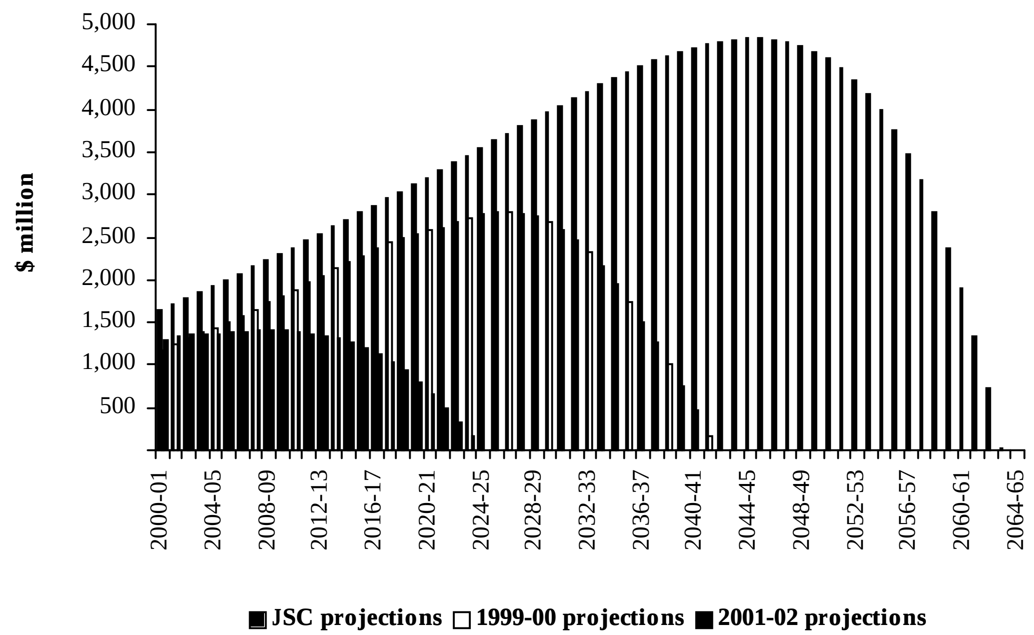
1980s. However, while the gross unfunded liability figure includes these liabilities, the net unfunded liability also includes assets held by these other organisations.

In view of the more favourable superannuation funding outlook that now exists and on the basis of revised actuarial estimates, the State's unfunded liability is expected to be eliminated by around 2025. This is demonstrated in Chart 9.14.

This chart demonstrates that the State's unfunded superannuation liabilities will be eliminated much sooner than originally estimated in 1997 by the Joint Select Committee on Superannuation (JSC). The chart shows the original JSC estimate and the estimates shown in the 1999-00 Budget Papers and the most recent estimate, which is unchanged from the estimate presented in the 2000-01 Budget Papers. The substantial improvement is largely due to a planned increase in funding effort by the present Government, as reflected in the contributions from Finance-General to the SPA account. This growth in Finance-General (R069) contributions is evident in Table 9.9.

Aside from the increased funding effort planned by the Government, the significant improvement in projected SPA balances over time also reflects the fact that the actuary's estimates of benefit payments over time are lower than were previously expected. This has largely been due to the present Government's policy of no redundancy programs for inner-Budget agencies. For example, in 1997-98, superannuation payments relating to redundancies amounted to $23.8 million, of which $10.5 million was met from the SPA. These improvements have, in part, been offset by the effects of pay rises to public sector employees, a higher number of scheme members than previously assumed, due to certain temporary employees retaining the right to join the closed scheme for a limited period, and the introduction of the Commonwealth's goods and service tax which has increased the pensioner liability. Overall lower outlays from the SPA, together with higher levels of Government contributions, produces a more rapid growth in the SPA balance over time. This largely explains the significant reduction in the length of time in which the State's unfunded superannuation liability reduces to zero.

Chart 9.14: Projected Unfunded Liability (Nominal)



It should be noted that Chart 9.14 has been prepared on the basis of estimates prepared by the actuary, taking into account expected inflows to, and outflows from, the SPA in respect of employees in the on-Budget sector (as shown in Table 9.9).

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

For this reason, the actuary is being regularly requested to review both cash flow and unfunded liability estimates. These updates of the overall funding position will form the basis on which future inflows into the SPA will be determined by the Government, having regard to revised outlay estimates and the target of eliminating the State's unfunded superannuation liability by 2025.

Parliamentary Superannuation Fund

Background

The Parliamentary Superannuation Fund is a defined benefit pension scheme established under the provisions of the *Parliamentary Superannuation Act 1973* and is the older of the two parliamentary schemes in operation. The scheme was closed to new members in 1985, but remained open to parliamentarians who, having been first elected before that date, were subsequently re-elected to Parliament after a period out of office. The 1999 reforms closed this scheme to re-elected parliamentarians and therefore allows no parliamentarians to re-enter the scheme.

Funding

The Parliamentary Superannuation Fund is an unfunded scheme, with the employer share of the benefits being met by the Government on an emerging cost basis.

Liabilities

The actuarial valuation of the scheme undertaken as at 30 June 2000 showed that the State's share of the past service liabilities as at that date was $11.3 million. As outlined in Table 9.8, these liabilities relate to seven members and 31 pensioners.

Parliamentary Retiring Benefits Fund

Background

The Parliamentary Retiring Benefits Fund (PRBF) is a defined benefit lump sum scheme established under the provisions of the *Parliamentary Retiring Benefits Act 1985*. The scheme covers those members of Parliament first elected after 12 November 1985 and before 1 July 1999. New parliamentarians elected after 1 July 1999 automatically become members of TAS unless they elect to join a private sector complying superannuation scheme.

Funding

The Government currently funds this scheme at the rate of 25.2 per cent of salary for each member of the scheme. This is above the scheme design level of 22.5 per cent of salary, and arises from the recommendation of the then actuary made as part of the 30 June 1995 review of the scheme and endorsed by the current actuary.

Liabilities

The actuarial valuation of the scheme undertaken as at 30 June 2000 showed that the past service unfunded liability as at that date was $0.8 million. These liabilities relate to the 29 members of Parliament covered by these arrangements.

Judges' Scheme

Background

Superannuation arrangements for judges appointed before 1 July 1999 are specified in the *Judges' Contributory Pensions Act 1968* (Judges' Act). There is no Judges' Superannuation Fund as such, with the member contributions (at the rate of five per cent of salary) being deposited in, and all benefits being met from, the Consolidated Fund.

The judges' scheme is a defined benefit scheme that was closed to new entrants on 1 July 1999. Prior to that date, the Solicitor-General, the Director of Public Prosecutions and the Master of the Supreme Court were also members of this scheme. Judges and statutory legal officers appointed after that date become members of TAS unless they elect to join a private sector complying superannuation scheme.

Funding

The judges' scheme is an unfunded scheme in respect of employer contributions, with all the benefits being met by the Government on an emerging cost basis.

Liabilities

The actuary has estimated that the past service unfunded liability as at 30 June 2000 was $20.9 million. These liabilities relate to the six members and 11 pensioners covered by the provisions of the Judges' Act and the one member and one pensioner covered by the provisions of the *Solicitor-General Act 1983*.

Aggregate Unfunded Liability

The Tasmanian Government's unfunded superannuation liability is an estimate of the 'indebtedness' of the State with respect to past service liabilities arising from the current and former members of the various public sector superannuation schemes. As indicated above, an actuarial review was undertaken of each of the State's superannuation schemes as at 30 June 2000. The results of these individual reviews indicate that the aggregate unfunded liability of the State in respect of public sector superannuation was $1.257 billion as at that date, of which the RBF unfunded liability comprised 97.4 per cent. The components of this amount are outlined below.

Table 9.12: Aggregate Unfunded Superannuation Liability

Scheme	30 June 2000
	$'000
Retirement Benefits Fund	**1 224 106**
Parliamentary Superannuation Fund	**11 256**
Parliamentary Retiring Benefits Fund	**758**
Judges' Scheme	**20 934**
Total aggregate unfunded liability	**1 257 054**

This figure is a contingent liability of the State and the Government's strategy has been to reduce this liability by closing the unfunded defined benefit schemes to new employees and substantially increasing their funding effort in the superannuation area.

From 1 July 2002, there will be no difference in the rate of employer superannuation support provided to all categories of new public sector employees, whether permanent or fixed term employees, parliamentarians or judges. That is, all new employees, regardless of their employment status, will receive the same level of employer superannuation support (as a percentage of salary) from that date. The differential levels of employer superannuation support, inherent in the defined benefit schemes, will therefore be eliminated for such employees.

TASMANIAN STATE SERVICE WORKERS' COMPENSATION SCHEME

Purpose of the Scheme

The purpose of the Scheme is to ensure that employees of all participating agencies who suffer illness and injury in the course of their employment are compensated and rehabilitated in accordance with the *Workers' Rehabilitation and Compensation Act 1988*.

History of the Scheme

The Scheme was established following the enactment of the *Workers' Rehabilitation and Compensation Act 1988*. All inner-Budget agencies and statutory authorities are required to participate in the Scheme. All participating agencies pay contributions based on claims experience. These contributions are paid into the State Service Workers' Compensation Account in the Special Deposits and Trust Fund administered by the Department of Treasury and Finance, with all claims being met from this Account. The Account is strategically managed by the Tasmanian State Service Workers' Compensation Committee, an inter-departmental committee with representatives from participating agencies. The services of a Fund Administration Agent are retained on a contract basis to administer claims and report on the operation of the Scheme to the Committee and participating agencies. From 1 July 2001, the Scheme will merge with the Tasmanian Risk Management Fund to form an expanded Fund.

Performance of the Scheme

Table 9.13 summarises the total contributions paid by agencies to the Scheme since its inception.

Table 9.13: Contributions Made by Participating Agencies to the Scheme, 1989-90 to 2000-01 (est)

	Total Salaries	Total Contributions	Average Rate of Salary
	$m	$m	%
1989-90	779.1	8.3	1.07
1990-91	782.7	9.7	1.24
1991-92	754.0	11.2	1.49
1992-93	804.0	12.4	1.54
1993-94	785.7	13.2	1.68
1994-95	800.0	17.5	2.20
1995-96	819.0	28.5	3.48
1996-97	826.9	39.0	4.76
1997-98	867.2	38.0	4.38
1998-99	897.3	37.0	4.12
1999-00	927.0	32.6	3.52
2000-01 (est)[1]	953.2	19.0	1.99

Note:

1. Until 1995-96, agency contributions were consistently less than the estimated total cost of claims. Consequently, it was necessary to levy an additional component in the years 1995-96 to 1999-00 to meet the unfunded cost of past claims. The Scheme became fully funded at 30 June 2000, with the result that it was not necessary to levy an additional component in 2000-01.

Two variables determine the total cost of claims made during a particular year, namely the number of claims and the average cost of each claim. Table 9.14 shows the number and average cost of claims for each year since the inception of the Scheme.

Table 9.14: Number and Average Cost of Claims Against the Scheme, 1989-90 to 2000-01

	Number of Claims[1]	Average Cost	Total Estimated Cost[2]
		$	$m
1989-90	**3 457**	**3 640**	**12.585**
1990-91	**3 590**	**4 077**	**14.637**
1991-92	**3 396**	**6 128**	**20.812**
1992-93	**3 124**	**8 501**	**26.557**
1993-94	**3 118**	**11 337**	**35.350**
1994-95	**2 771**	**10 705**	**29.664**
1995-96	**2 460**	**10 068**	**24.768**
1996-97	**2 121**	**7 834**	**16.616**
1997-98	**1 904**	**8 919**	**16.982**
1998-99	**1 793**	**10 208**	**18.303**
1999-00	**1 734**	**10 553**	**18.300**
2000-01 (est)[3]	**1 612**	**10 866**	**17.516**

Notes:

1. The number of claims is an actuarial estimate of the total number of claims that will occur during each period, regardless of when each claim will actually be reported. This estimate is based on claims information to 31 December 2000.
2. The total estimated cost is an actuarial estimate of the total cost of all claims that will occur during each period. The estimate includes a provision for the cost of claims that have occurred but have not been reported as at 31 December 2000. This estimate is also based on claims information to 31 December 2000.
3. Excluding goods and services tax (GST). It should be noted that GST applies to contributions made by agencies after 1 July 2000. However, agencies are able to claim an Input Tax Credit on contributions, provided that agencies are registered for GST purposes.

Table 9.14 indicates that since 1990-91, there has been a downward trend in the number of claims. This downward trend continued in 2000-01 with the annual number of claims now under 2 000 for the fourth successive year. Table 9.14 also shows that since the inception of the Scheme, the average cost of claims has more than doubled, although this upward trend has plateaued in recent years. This plateauing in the average cost of claims will impact not only on the average cost of claims in future years, but also on the average cost of claims occurring in the most recent financial years.

The trends in relation to the number and average cost of claims are consistent with the general Tasmanian experience.

The Scheme was established on the basis that it was to operate on a fully funded basis. However, until 1995-96, contributions made by agencies were consistently insufficient to meet the cost of claims incurred during each year. The single largest factor resulting in contributions being set at a level below claims costs was the rapid escalation of workers' compensation costs experienced in Tasmania since the commencement of the *Workers' Rehabilitation and Compensation Act 1988*. This resulted in both the public and private sectors consistently under-estimating the cost of claims.

Because contributions were, until 1995-96, consistently less than the estimated total cost of claims, the Scheme accumulated significant outstanding claims liabilities but had no reserves to meet those liabilities.

From 1994-95 to 1996-97, the contributions payable by each agency to the Scheme were increased significantly, allowing this trend to be reversed. The Scheme became fully funded at 30 June 2000, consistent with the original intention that the Scheme should operate on a fully funded basis. As a consequence, in 2000-01, it was only necessary to levy contributions to meet the estimated cost of claims resulting from injuries occurring in 2000-01, as there were no unfunded outstanding liabilities.

Measures to Reduce the Number and Cost of Claims

The Scheme has a number of measures in place to improve the management of the potential workers' compensation liability of the State Service, including:

- in 1995, the Committee decided that all agencies would be subject to a compulsory one week excess payable on weekly benefits. This arrangement is consistent with the August 1995 reforms to the *Workers' Rehabilitation and Compensation Act 1988*. Agencies were not given a reduction in their contributions as a result of having to bear this portion of claims costs. The Committee also determined that agencies would be given the option of being subject to an excess on weekly benefits greater than one week, for which a reduction in contributions would be given. Similar excess arrangements have continued to apply in following years. These arrangements require agencies to place a greater emphasis on rehabilitation and the early return to work of injured employees. This emphasis has assisted in controlling the costs associated with weekly benefits, which contribute significantly to the total cost of claims;
- the Workplace Safety Board introduced in October 1996 comprehensive license conditions and performance standards for self insurers in Tasmania. Although self insuring against its potential workers' compensation liabilities, the State Service is classified as an exempt employer and, as such, is not required to meet the license and performance standards. However, the Committee agreed in June 1997 that, notwithstanding this classification, the Scheme should comply with the performance standards. Compliance is assessed by determining whether the participating agencies and the Fund Administration Agent meet the performance standards. A program of audits by PricewaterhouseCoopers to assess the performance of a small number of agencies and the Fund Administration Agent against the performance standards has been completed and a report was finalised in July 2000. Notwithstanding that only a small number of agencies were audited, the report highlighted possible ways in which claims management could be improved across the Scheme as a whole. All agencies and the Fund Administration Agent have been advised of the key findings of the review; and
- the production of an Annual Report which includes an analysis of the actuary's report on the performance of the Scheme, and information on the number and type of claims made and the associated costs. This provides comprehensive information to agency managers on the performance of the Scheme and the development of trends in the preceding 12 months.

It is anticipated that these measures, coupled with an increasing emphasis on occupational health and safety and rehabilitation by agency managers, will lead to further reductions (or, at least, stability) in the number and cost of claims in 2001-02.

TASMANIAN RISK MANAGEMENT FUND

Purpose of the Fund

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

History of the Fund

Prior to 1999, there was no clearly defined policy or strategy for the management of risks to which agencies are exposed. Agencies provided for the costs of a relatively small number of risks through insurance with the private sector, but met the costs associated with uninsured risk as those costs were incurred. In addition, the costs associated with workers' compensation were met through the Tasmanian State Service Workers' Compensation Scheme, while cover for the Government's light passenger vehicles was purchased from the private sector.

The fact that no formal provision was made to meet the costs associated with the uninsured risks resulted from the lack of an established whole-of-government approach to risk management and insurance, rather than from a planned strategy to carry risk. Agencies were generally responsible for meeting the costs associated with the risks for which no provision was made. However, in some cases, agencies were unable to meet the costs associated with large and unexpected losses within their global allocations, with the result that it was necessary to fund those losses from the Treasurer's Reserve.

In December 1998, the Tasmanian Risk Management Fund was established to progressively provide for whole-of-government risk exposures from 1 January 1999. All inner-Budget agencies are required to participate in the Fund. Agencies pay contributions into the Tasmanian Risk Management Fund Account in the Special Deposits and Trust Fund to meet the claims costs for which the Fund is responsible, as well as administrative expenses. The Account is administered by the Department of Treasury and Finance and is strategically managed by the Tasmanian Risk Management Fund Steering Committee, an inter-departmental committee with representatives from participating agencies. The services of a Risk Management Agent are retained on a contract basis to provide advice in relation to the identification, quantification and financing of risk and the placement of insurance/reinsurance.

In order to facilitate the transition to providing for risk through the Fund, the Steering Committee has adopted a phased approach to the implementation of the Fund which consists of two elements:

- progressively expanding the range of risks for which agencies must purchase whole-of-government cover through the Fund; and
- identifying and quantifying risks to which agencies are exposed with a view to the Fund self-insuring those risks.

In 1999-00, whole-of-government cover was purchased for public/products/professional liability, motor vehicle, marine hull and personal accident/travel. In addition, a number of agencies purchased selective cover for risks not provided for through the whole-of-government covers. In 2000-01, whole-of-government cover was purchased for all risk except property and business interruption and medical malpractice.

A number of agencies also purchased selective cover for property and business interruption. In both 1999-00 and 2000-01, the Fund placed the whole of each risk with the private sector.

From 1 July 2001, the Fund will merge with the Tasmanian State Service Workers' Compensation Scheme. The Scheme operates on a fully funded basis and the reserves accumulated to meet workers' compensation liabilities will be transferred to the Fund. The expanded Fund will meet the costs associated with all risk, including property and business interruption and medical negligence, through a mixture of insurance and self-insurance. A tender has been conducted to appoint a single Fund Administration Agent, incorporating the services previously sourced from the Fund Administration Agent for the Scheme and the Risk Management Agent for the Fund. The new Fund Administration Agent will commence providing services from 1 July 2001.

Performance of the Fund

Table 9.15 summarises the total contributions paid by agencies to the Scheme since its inception.

Table 9.15: Contributions Made by Participating Agencies to the Fund, 1999-00 to 2001-02 (est)

	Total Contributions
	$m
1999-00	**2.2**
2000-01	**3.3**
2001-02 (est)	**31.9**

The increase in agency contributions from 1999-00 to 2000-01 reflects the fact that the range of risks for which agencies must purchase whole-of-government cover through the Fund increased, as noted above. The increase in agency contributions from 2000-01 to 2001-02 reflects the facts that, for 2001–02:

- general risk management contributions will total $15.0 million as the Fund will provide cover for property and business interruption and medical negligence in addition to the cover provided in 2000-01; and
- workers compensation contributions to the Fund will amount to $16.9 million to provide cover previously provided by the Tasmanian State Service Workers' Compensation Scheme.

10 GOVERNMENT BUSINESSES AND AUTHORITIES

Features

- In 2001-02, financial returns to the State from government businesses are expected to total $155.7 million, higher than budgeted returns of $112.1 million in 2000-01. A major factor for the improved returns is significant increases in profitability for Aurora Energy Pty Ltd (Aurora) and Hydro Tasmania. The Ralph tax reforms and debt restructuring by both businesses have contributed to this result.
- Financial returns from the State's three electricity businesses (Hydro Tasmania, Aurora and Transend Networks Pty Ltd) are estimated to amount to $140.0 million in 2001-02, or 90 per cent of total returns.

INTRODUCTION

This chapter provides summary information on the State's government businesses, which comprise Government Business Enterprises (GBEs) and State-owned Companies (SOCs). The chapter also reports on certain statutory authorities. Information is provided in relation to:

- the level of financial returns paid to the State by government businesses (Table 10.1);
- the State and Commonwealth reform environment; and
- profiles of Government Business Enterprises, State-owned Companies and statutory authorities.

The State Government owns a diverse portfolio of businesses, comprising 14 GBEs and nine SOCs. The businesses operate in many commercial markets including various primary industries, port operations, transport, financial services, construction, forestry and public utilities.

GBEs undertake commercial trading activities and are subject to the provisions of the *Government Business Enterprises Act 1995*, and to provisions contained in their enabling legislation.

SOCs operate on a fully competitive basis and, while established by enabling legislation, are also subject to the requirements of the Corporations Law.

A summary of the performance of each GBE and SOC is shown in Table 10.2. Full details on the operations and performance of each GBE, SOC and most statutory authorities for 2000-01 will be available in their respective annual reports, which are required to be tabled in Parliament by 30 November 2001.

PERFORMANCE OF GOVERNMENT BUSINESSES

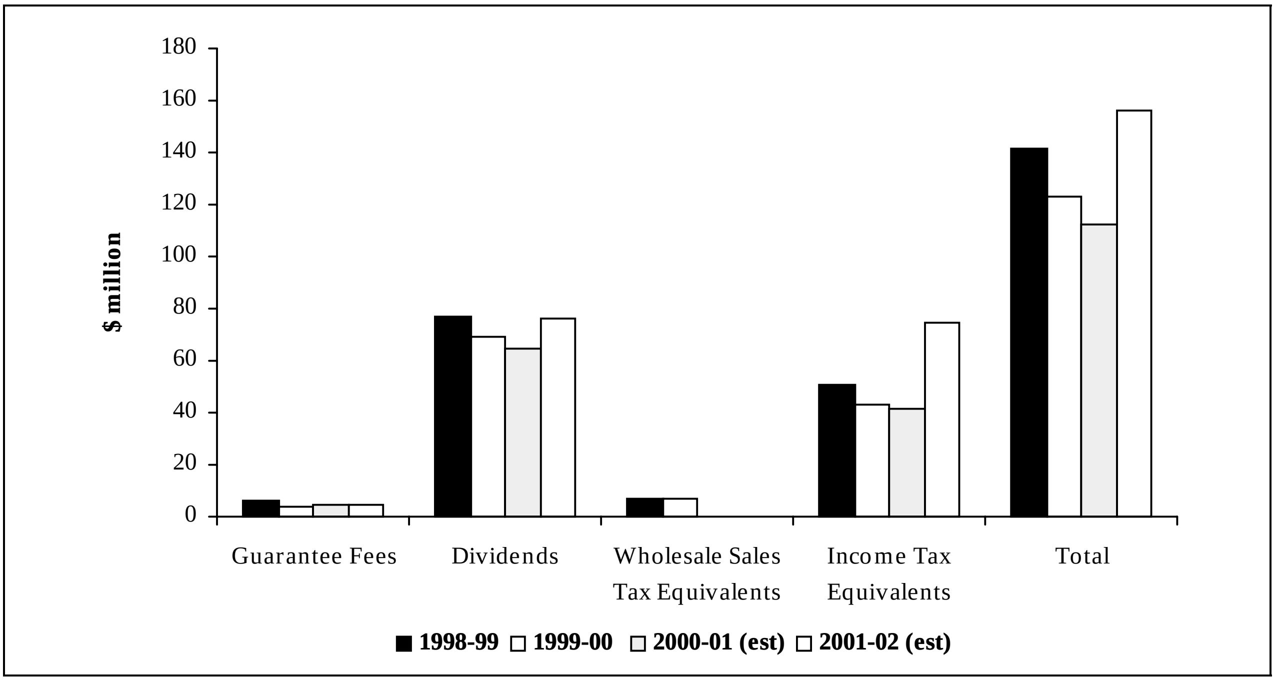
In 2001-02, financial returns to the State from government businesses are expected to total $155.7 million, higher than budgeted returns of $112.1 million in 2000-01. A major factor for the improved returns is significant increases in profitability for Aurora and Hydro Tasmania. The Ralph tax reforms and debt restructuring by both businesses have contributed to this result. Table 10.1 and Chart 10.1 show the financial returns anticipated from government businesses, in relation to guarantee fees, tax equivalents and dividends for 1998-99, 1990-00, 2000-01 and 2001-02. A breakdown of estimated financial returns from individual government businesses during 2001-02 is shown in Table 4.4 in Chapter 4 of this Budget Paper.

Table 10.1: Financial Returns from Government Businesses

	1998-99 Actual	1999-00 Actual	2000-01 Budget	2001-02 Budget
	$'000	$'000	$'000	$'000
Guarantee Fees	5 516	4 459	4 620	5 273
Dividends	77 428	68 871	65 328	75 723
Wholesale Sales Tax Equivalents[1]	7 283	6 670	250	....
Income Tax Equivalents	51 057	43 020	41 855	74 712
Total	141 284	123 020	112 053	155 708

Note:
1. On 1 July 2000, the Commonwealth Government abolished wholesale sales tax as part of its National Tax Reforms. Accordingly, wholesale tax equivalents were abolished on and from that date.

Chart 10.1: Financial Returns from Government Businesses



Note:
1. On 1 July 2000, the Commonwealth Government abolished wholesale sales tax as part of its national tax reforms. Accordingly, wholesale tax equivalents were abolished on and from that date.

MAJOR DEVELOPMENTS

During 2000-01, the program of reform to improve the financial performance and commercial focus of government businesses continued.

This section discusses the major developments relating to government businesses in Tasmania, which were initiated or completed during 2000-01 and those proposed for 2001-02.

STATE REFORMS

Government Business Enterprises

Performance Monitoring and Reporting

In terms of the ongoing administration of the *Government Business Enterprises Act 1995* (GBE Act), draft corporate plans, covering a three year horizon, and setting out planning strategies and performance targets were required to be submitted by GBEs by the end of March 2001. The draft plans are subject to review by the relevant Portfolio Minister and the Stakeholder Minister (the Treasurer).

In addition, GBEs are also required to provide a quarterly report to the Government on any tender and contract undertaken of a value in excess of $50 000. The intention of procurement reporting is to monitor the level of assistance to Tasmanian businesses from the provision of goods and services by the Government.

The Department of Treasury and Finance continued to monitor the quarterly financial performance of GBEs against planned performance targets set by GBEs. This performance management approach is part of the risk management strategy and accountability arrangements implemented by the Government as owners on behalf of the Tasmanian community. To enhance public accountability, the published annual reports of GBEs also include a Statement of Corporate Intent that details any proposed major changes in corporate strategy or objectives.

Community Service Obligations

As part of the 1999-2000 State Budget, the Treasurer was assigned the role of Purchasing Minister for The Public Trustee and Bass Strait Islands Community Service Obligations (CSO).

The Public Trustee CSO contract expired on 30 June 2000 and a new contract has been developed for three years commencing 1 July 2000. The contract provides a number of new elements, including:

- the development of a number of performance indicators for each individual category of CSO;
- the development of agreed benchmarks for each performance indicator; and
- the development of a more commercial CSO arrangement whereby a performance bonus is payable, subject to the satisfactory achievement of agreed performance benchmarks for the delivery of the CSO.

The Bass Strait Islands CSO provides for the subsidised supply by Hydro Tasmania of electricity to Bass Strait Islands customers.

Review of the Government Business Enterprises Act

The Government Business Enterprises Act (GBE Act) was introduced in 1995 to place the State's major government businesses on a more commercial footing. As umbrella legislation, overarching the portfolio Act establishing each GBE, it has provided the framework for continued improvement in the efficiency, effectiveness and accountability of the State's GBEs.

The GBE Act is wholly consistent with the five generally accepted principles underpinning corporatisation, namely:

- the setting of clear and non-conflicting objectives;
- providing for managerial responsibility, authority and autonomy;
- the existence of effective performance monitoring by the owner government;
- effective rewards and sanctions related to performance; and
- competitive neutrality relative to the private sector.

During 1999, a review of the GBE Act commenced to ensure that the Act reflects current best practice. To this end, a Review Group was established in September 1999 to identify, analyse and make recommendations for improvements to the existing GBE Act. Membership of the Review Group was drawn from GBEs and Departments.

The GBE Act is being reviewed with consideration to the following:

- the Government's Fiscal Strategy;
- the efficiency and effectiveness of the current arrangements;
- conflicts of interest between the roles of purchaser, regulator and owner;
- developments in the Corporations Law and the Australian Stock Exchange listing rules since 1995; and
- improvements in corporate governance practices in other areas.

The Review Group will submit its findings to the Government during 2001. Wider consultation with all relevant government agencies and GBEs is anticipated to occur by late 2001.

State-owned Companies

The Tasmanian Government owns a diverse range of State-owned Companies (SOCs) covering the following sectors:

- electricity (generation, transmission and distribution / retail);
- urban public transport;
- port operations;
- shipping; and
- wagering.

The Government is the sole shareholder in each SOC on behalf of the Tasmanian community. The broad governance framework for SOCs is set out in the portfolio legislation for each SOC, the Corporations Law and the constitution of each SOC.

Review of Memorandum and Articles of SOCs

The Government finalised a review of the memorandum and articles of SOCs during 2000-01. The review was undertaken to clarify some of the existing memorandum and articles of SOCs. The review also addressed changes arising from the Commonwealth Government's *Corporate Law Economic Reform Act 1999* (CLERP Act).

Principal recommendations arising from the review were:

- the inclusion of a shareholder power of direction in the articles of all SOCs;
- the requirement for each SOC to hold an annual general meeting;
- the appointment of Directors on a rolling basis to provide continuity of Board membership;
- standardisation of the dividend determination process for all SOCs; and
- the amendment of the articles of each SOC to reflect changes arising from the CLERP Act.

The recommendations of the review will be reflected in the articles of each SOC by the end of 2000-01.

TOTE Tasmania Pty Ltd

Following a review of ownership options for the Totalizator Agency Board, trading as TOTE Tasmania in July 2000, the Government approved the corporatisation of TOTE Tasmania as the basis for achieving further efficiency gains. Legislation to move TOTE Tasmania from a Government Business Enterprise (GBE) to a State-owned Company (SOC) was proclaimed on 19 December 2000.

Corporatisation of TOTE Tasmania:

- reduces constraints on the commercial behaviour of TOTE Tasmania by removing the requirement for the distribution of its total operating surplus to the racing industry which prevents the retention of capital funds for expansion into other gambling markets;

- improves certainty and commercial incentive for the racing industry due to a reduction in volatility of the revenue stream; and
- provides a more competitive tax structure. TOTE Tasmania will also be subject to an income tax equivalents, guarantee fee and dividend regime.

Electricity Companies Amendment Act 2001

Legislation to amend the *Electricity Companies Act 1997* was passed by the Parliament in April 2001 and proclaimed on 26 April 2001. The *Electricity Companies Amendment Act 2001* allows the shareholders of the electricity companies to vote to permit the electricity companies to form or acquire, or participate in the formation or acquisition of, an incorporated subsidiary in which less than 100 per cent of the shares in the subsidiary are to be owned or acquired by the company.

Prior to the amendment, the *Electricity Companies Act 1997* prevented electricity companies participating in incorporated subsidiaries in which less than 100 per cent of the shares in the subsidiary are owned or acquired by the company.

The amendments will enable a wider range of business structures to be considered by the shareholders of Aurora and Transend Networks Pty Ltd (Transend) when establishing new businesses.

NATIONAL REFORMS

The Tasmanian reform agenda continues to be implemented consistently with National Competition Policy (NCP) requirements and reforms to public sector activity.

The Commonwealth has agreed to provide financial assistance to the states and territories, subject to the implementation of NCP and related reforms within specified time frames. Successful implementation of the NCP Agreements will see the State receive competition payments from the Commonwealth Government. The quantum of these payments has been reduced with effect from 1 July 2000 as a consequence of national tax reform. Further information in relation to National Competition Policy payments is provided in Chapter 7 of Budget Paper No 1 *Budget Overview 2001-02*. For a full discussion of progress with NCP implementation in Tasmania, refer to the paper *National Competition Policy Progress Report: 2001*, published in May 2001.

The areas of NCP which have the most direct impact upon government businesses include the competitive neutrality principles, and the associated complaints procedures, structural reform of public monopolies and monopoly prices oversight.

In July 1999, all state and territory governments and the Commonwealth Government signed the *Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations* (IGA), which was aimed at reforming Commonwealth-State Relations. The reforms in the IGA, which are discussed in more detail in Chapter 7, include the introduction of the goods and services tax and implementation of a National Tax Equivalent Regime for government businesses.

National Tax Equivalent Regime (NTER)

As part of the IGA, Heads of Government agreed to introduce a National Taxation Equivalent Regime (NTER) for income tax equivalent payments by state and territory government business enterprises and Local Government Joint Authorities. The NTER will replace existing State Taxation Equivalent Regimes (TER) and will be administered by the Australian Taxation Office (ATO) from 1 July 2001. The income tax equivalent revenue will continue to be paid to the states and territories in which it was collected. The ATO will be paid a fee by each jurisdiction for its administration of the NTER.

The Tasmanian TER is very similar to the framework provided by the *Income Tax Assessment Act 1936* and *1997* (ITAA). State and territory government businesses are not subject to the ITAA for constitutional reasons, but for competitive neutrality reasons pay income tax under state and territory TERs. The NTER will provide a uniform national income tax equivalent framework that will apply in all states and territories. It is intended that all Tasmanian government businesses and Local Government Joint Authorities operating under the State TER, with the exception of the Tasmanian Public Finance Corporation, will be included in the NTER.

The NTER Working Party, comprising representatives of the Commonwealth and all states and territories, prepared three documents:

- Final Report to Heads of Treasury of the Working Party on the National Taxation Equivalent Regime (Final Report);

- National Taxation Equivalent Regime Memorandum of Understanding (MOU); and
- *Manual of the National Tax Equivalent Regime* (the Manual).

The Final Report outlines the principles of the NTER. The MOU is between the Commonwealth, the Commissioner of Taxation and the states and territories and covers the administration of the NTER. The Manual specifies the administration and technical operating features of the NTER.

The Final Report and the MOU were endorsed at the Ministerial Council meeting in March 2001. Heads of Treasury will endorse the Manual out of session. The MOU will be executed by Heads of Treasury and the Commissioner of Taxation in May 2001, enabling the NTER to commence from 1 July 2001.

Prices Oversight of Monopoly GBEs

NCP requires Governments to consider the introduction of prices oversight arrangements for government businesses with significant monopoly power. The State had already introduced prices oversight legislation in 1994-95, independently of NCP negotiations occurring at that time. As a result, the Government Prices Oversight Commission (GPOC) was established on 1 January 1996 to investigate and report on the pricing policies of both GBEs and government agencies that are monopoly, or near monopoly, suppliers of goods and services. The *Government Prices Oversight Commission Act 1995* (GPOC Act) was subsequently amended to also include local government businesses with monopoly power. Responsibility for the investigation of electricity pricing was transferred from GPOC to the Office of the Tasmanian Electricity Regulator (OTTER) from 1 July 1998.

A review of the pricing arrangements for Metro Tasmania Pty Ltd was completed in June 2000 with the release of GPOC's final report, entitled *Investigations of Metro Pricing Policies, Final Report 2000*. The Report noted that:

- Metro has made substantial progress in lowering its unit costs over the past six years; and
- GPOC's estimate of total allowable cost is approximately equal to Metro's current total revenue (fares plus payments under the Government contract), but that Metro does not currently provide a commercial return on the $27 million of capital employed in the business.

GPOC recommended:

- that a maximum revenue of $26.1 million per annum be set, including fare-box receipts and the payment from Government. This amount is expressed in 1999-2000 terms and takes into account the impact of the Commonwealth's New Tax Package; and
- that there may be opportunities for cost reductions by improving utilisation of buses and drivers and negotiation of changes in services with the Government. The patronage trends indicate a need for a radical reassessment of public transport services.

A review of the pricing arrangements for the Motor Accidents Insurance Board (MAIB) was completed in August 2000 with the release of GPOC's final report entitled, *Investigation into the Pricing Policies of the Motor Accidents Insurance Board.* GPOC recommended:

- capping of the awards for common law economic loss claims at $2 000 net of tax per week;
- a cap on the scheduled disability benefit, consistent with the recommended cap on award for economic loss for common law damages, of $2 000 net of tax per week;

- an increase in maximum annual and half-yearly premiums for all vehicle classes covering the period 1 December 2000 to 30 November 2003;
- a phase in of premium increases for Classes 3, 6, 7 and 16 over three years;
- a reclassification of some vehicles to more appropriately reflect the insurance risk; and
- where pensioner discounts are applied, these should only be available for a single registration per eligible pensioner.

Details of both reviews are available in the *National Competition Progress Report 2001* under the section entitled Monopoly Prices Oversight.

PROFILES OF MAJOR GOVERNMENT BUSINESSES

The Government owns a diverse portfolio of businesses ranging in size from Hydro Tasmania, with net assets of $1.8 billion, to the Tasmanian International Velodrome Management Authority with net assets of $244 000. These businesses represent a substantial proportion of the State Government Sector and many undertake a major role in the Tasmanian economy.

Combined, GBEs and SOCs employ approximately 3 550 full time employees (FTEs), have net assets of $3.5 billion and annual operating revenues of approximately $1.8 billion. Table 10.2 lists the State's GBEs and SOCs and provides summary financial information as at 30 June 2000 and estimated financial returns to the Government for 2000-01.

The following section profiles the State's major government businesses in terms of financial performance and direction. For other government businesses and certain non-commercial statutory authorities, background information describing the function and future direction of the entity is provided.

Table 10:2 Summary Profile of Government Businesses

	Number of Employees 30 June 2000	Operating Revenue 1999-00	Profit after Tax 1999-00[1]	Returns to the State 2000-01 (est)[2]
	FTEs	$'000	$'000	$'000
Government Business Enterprises				
Civil Construction Corporation	100	20 427	192	....
Egg Marketing Board	5	722	(54)	6
Forestry Tasmania	559	117 324	13 429	4 007
Hydro Tasmania	667	323 435	7 223	67 131
Motor Accidents Insurance Board	36	119 846	3 066	1 216
Port Arthur Historic Site Management Authority	74	5 974	1 016	....
Printing Authority of Tasmania	66	7 968	251	....
Rivers and Water Supply Commission	6	1 753	(1 589)	80
Southern Regional Cemetery Trust	16	1 683	160	313
Stanley Cool Stores Board	2	634	186	206
Tasmanian Dairy Industry Authority	1	29 845	333	....
Tasmanian Grain Elevators Board	8	5 769	172	61
Tasmanian International Velodrome Management Authority	3	301	(23)	....
Tasmanian Public Finance Corporation	13	378 705	4 223	4 691
TOTE Tasmania Pty Ltd	98	28 174	157	19
The Public Trustee	49	3 260	(9)	....
State-owned Companies				
Aurora Energy Pty Ltd	841	551 174	20 103	12 554
Burnie Port Corporation Pty Ltd	49	14 098	(2 584)	113
Hobart Ports Corporation Pty Ltd	76	15 777	727	556
Metro Tasmania Pty Ltd	392	29 233	763	40
Port of Devonport Corporation Pty Ltd	42	10 407	1 221	774
Port of Launceston Pty Ltd	37	8 115	1 174	360
Transend Networks Pty Ltd	53	67 995	22 399	19 926
TT-Line Company Pty Ltd	350	77 481	236	....
TOTAL	3 543	1 820 100	72 772	112 053

Source: Auditor–General's Report No 2 Government Departments and Public Bodies, November 2000.
Notes:
1. Profit after tax is shown after abnormal items and deficit funding (if applicable).
2. Includes guarantee fee, dividend, income tax equivalent and wholesale sales tax equivalent payments.

Table 10.2: Summary Profile of Government Businesses (continued)

	Total Assets 30 June 2000[1]	Total Liabilities 30 June 2000	Net Assets 30 June 2000	Return on Equity 1999-00[2]
	$'000	$'000	$'000	%
Government Business Enterprises				
Civil Construction Corporation	11 984	3 759	8 225	2.1
Egg Marketing Board	460	123	337	(14.8)
Forestry Tasmania	841 885	83 166	758 719	2.1
Hydro Tasmania	3 249 638	1 448 206	1 801 432	0.4
Motor Accidents Insurance Board	548 908	492 331	56 577	5.5
Port Arthur Historic Site Management Authority[3]	12 574	2 429	10 145	....
Printing Authority of Tasmania	3 315	2 136	1 179	22.5
Rivers and Water Supply Commission	38 305	17 903	20 402	(8.0)
Southern Regional Cemetery Trust	8 555	1 384	7 171	2.2
Stanley Cool Stores Board	1 409	104	1 305	10.5
Tasmanian Dairy Industry Authority	6 482	6 255	227	40.1
Tasmanian Grain Elevators Board	4 765	1 692	3 073	5.8
Tasmanian International Velodrome Management Authority	333	89	244	(9.0)
Tasmanian Public Finance Corporation	5 128 467	5 118 467	10 000	42.2
TOTE Tasmania Pty Ltd[3]	25 061	9 558	15 503	....
The Public Trustee	5 460	4 518	942	(1.0)
State-owned Companies				
Aurora Energy Pty Ltd	764 666	526 583	238 083	8.6
Burnie Port Corporation Pty Ltd	41 167	22 319	18 848	(12.8)
Hobart Ports Corporation Pty Ltd	64 103	16 077	48 026	1.6
Metro Tasmania Pty Ltd	34 730	18 822	15 908	4.8
Port of Devonport Corporation Pty Ltd	45 531	11 421	34 110	3.6
Port of Launceston Pty Ltd	44 561	18 236	26 325	4.6
Transend Networks Pty Ltd	436 852	62 945	373 907	6.2
TT-Line Company Pty Ltd	115 307	58 392	56 915	0.4
TOTAL	11 434 518	7 926 915	3 507 603	....

Notes:

1. The assets of the Tasmanian Public Finance Corporation consist of advances made to Public Sector entities, including Government Business Enterprises and State-owned Companies, which are classified as liabilities for each individual entity.
2. Return on Equity is calculated as operating profit after income tax expense (excluding abnormal items) as a percentage of average net assets.
3. Return on Equity has not been calculated for these government businesses as they are either in receipt of grants or not subject to a tax regime (which distorts this measure).

GOVERNMENT BUSINESS ENTERPRISES

Civil Construction Corporation

The Civil Construction Services Corporation, trading as the Civil Construction Corporation (CCC), was established on 19 April 1995 as a civil construction business focusing on core areas of expertise in road and bridge maintenance and construction. It has expanded its core business to include civil asset management services, associated business process management and training services. CCC promotes a total asset management philosophy.

The corporate goal of CCC is to achieve sustainable excellence in civil asset maintenance, construction, operation and management in Australia and select overseas markets.

The key factors affecting the operating environment of CCC are the economic environment and the highly competitive civil construction industry.

The major strategic directions of CCC are to:

- tender aggressively for all work that complements corporate objectives;
- provide a total civil asset maintenance and management service to clients;
- provide exceptional customer service;
- develop strategic alliances/partnerships with complementary specialised organisations to promote the growth of both enterprises;
- be an industry leader in civil maintenance, construction and associated operations training and assessment; and
- retain and expand Quality, Environmental and Safety Management Certification.

Egg Marketing Board

The Egg Marketing Board (EMB) has the role of ensuring that egg producers generate an adequate supply of eggs to meet demand all year round. Major functions associated with this objective include egg supply management through a hen quota scheme, receipt of surplus eggs for processing into egg products for sale to the bakery/catering market, obtaining eggs for producers in short supply, promotion and quality assurance.

Since the introduction of the *Mutual Recognition (Tasmania) Act 1993*, the EMB has competed in an open national egg market, with no barriers to entry into Tasmania for interstate producers.

The Egg Marketing Board ceased its commercial operations on 30 April 2001. A major egg producer has taken up the processing of surplus eggs and the supply of packaging previously undertaken by the Egg Marketing Board. The Egg Marketing Board will continue to have responsibility for hen quota and egg quality pending changes to the *Egg Industry Act 1988*.

Forestry Tasmania

Forestry Tasmania is a GBE established under the *Forestry Act 1920*. Its main business is the sustainable production and delivery of forest products and services for optimum community benefit.

The key factors affecting the operating environment of Forestry Tasmania are:

- national and international markets for wood fibre and solid wood products; and
- environmental requirements to meet sustainable management.

Forestry Tasmania is continuing to work towards achieving the objectives of the Forestry Growth Plan which is a twenty year plan to take Tasmanian forestry and forest based industries to a world competitive level in resources, harvesting, processing and technology.

To assist in achieving the Forestry Growth Plan, Forestry Tasmania has recently entered into an agreement with an investment prospectus company, Norgard Clohessey Equity (NCE), to establish 9 000 hectares of hardwood plantations over the next three years. Forestry Tasmania will provide forest management services for these plantations.

Southwood Resources has also been initiated under the Forestry Growth Plan. It is proposed that Southwood Resources will have two integrated wood processing sites within the State based in the Huon and at Circular Head. It is intended that both sites will have a central merchandising yard from which a range of products will be distributed to customers and increased value will be added to forest products.

The key business directions for Forestry Tasmania for 2001-02 are to:

- expand hardwood resources through the Intensive Forest Management Program;
- diversify sales of wood fibre and solid wood products to national and new international markets;
- develop improved forest harvesting, transport and processing systems;
- investigate and promote development opportunities for investment in downstream processing;
- continuously improve forest management based on ecologically sustainable forest management principles set out in the Regional Forest Agreement; and
- market recreational and tourism potential and related investment opportunities within State forests.

Hydro Tasmania

The Hydro-Electric Corporation, trading as Hydro Tasmania, is a GBE operating in commercial markets. Its principal purpose is to undertake the following activities:

- generation and trading of electricity;
- provision of consulting and other services in hydro power, environment and water management and associated services and technologies; and
- scientific and commercial research associated with the above.

Hydro Tasmania's vision is to be Tasmania's world renowned renewable energy business.

Through its operations in the energy, asset and water management sectors, Hydro Tasmania will continue to add value to Tasmania, strengthening areas of the business that will enhance its market position. Hydro Tasmania also provides a Community Service Obligation (CSO) on behalf of the Government through the provision of electricity to residents of the Bass Strait Islands. Funding of $6.17 million is allocated to the Department of Treasury and Finance in 2001-02, for purchase of this CSO from Hydro Tasmania.

The increasing levels of competition in the energy market, growing the business and responding to electricity supply industry reform are the dominant factors facing Hydro Tasmania. At the same time, Hydro Tasmania will continue to focus on improving efficiency and effective risk management.

The major strategic direction for Hydro Tasmania over the next three years is to prepare the business for the increasing levels of competition in the energy market and to do so in conjunction with a planned phase of expansion into renewable energy and related markets in Australasia. The development of Basslink will complement Hydro Tasmania's strategic objective of optimising Tasmania's hydro capability.

Motor Accidents Insurance Board

The Motor Accidents Insurance Board (MAIB), established under the *Motor Accidents (Liabilities and Compensation) Act 1973*, provides a combined no fault and common law insurance coverage to persons injured in motor vehicle accidents in Tasmania. Premiums are levied according to vehicle class and are paid at the time of registration.

The MAIB is proactive in the prevention of road accidents by way of contributions to road safety programs and in rehabilitation and future care. The funding of these activities results in beneficial outcomes to all road users and people injured in road accidents and serves to reduce the cost of claims and maintain premiums at reasonable levels.

The key factors affecting the operating environment of the Board include:

- maximum premium capture through increases in motor vehicle registrations;
- the volatility of investment markets;
- the effectiveness of road safety programs;
- future care costs;
- the level of court awards; and

- the availability and costs of re-insurance.

The key business directions for the MAIB for 2001-02 are to:

- have in place 'best practice' solutions to meet the challenges created in providing no fault insurance services;
- ensure that an appropriate balance exists between premium income, the cost of claims and the MAIB's prudential requirements so as to achieve a sustainable return to the Government;
- reduce serious casualty claims through contributions to road safety programs;
- continually improve the service to claimants;
- effectively manage and fund the Injury Prevention and Management Foundation;
- advance the rehabilitation process with the aim of achieving acceptable outcomes for persons suffering injuries in motor vehicle accidents; and
- recognise the contribution made by the Board's staff and continue training and professional development on an ongoing basis.

Port Arthur Historic Site Management Authority

The Port Arthur Historic Site Management Authority (PAHSMA) is responsible for the conservation of the Port Arthur Historic Site and its interpretation and presentation to visitors. This means PAHSMA largely operates within the tourism industry with the principal customers being visitors to the State. To achieve its objectives, PAHSMA is organised into the following main business units:

- conservation;
- visitor services;
- commercial operations (retailing and catering); and
- finance and administration.

In the 2000 State Budget, the Tasmanian Government announced a five year funding allocation to conserve the cultural heritage at the Port Arthur Historic Site The PAHSMA Board is using the funding to implement the Port Arthur Historic Site Conservation Plan adopted in April 2000. The immediate challenges facing PAHSMA now are to:

- prioritise the funding program in the most effective manner to meet the requirements of site visitors, the State Government and to conserve the cultural significance of the Site;
- improve the financial returns from tourism activities thus generating revenue for the future conservation needs of the Port Arthur Historic Site;
- finalise the recommendations made to the Minister on the most appropriate legislative operating structure for PAHSMA;
- build on the progress made during Port Arthur Region Marketing Ltd's initial year of operation;
- more accurately reflect the commercial/tourism business at PAHSMA; and
- identify funding sources for conservation beyond 2005.

The key business directions for PAHSMA for 2001-02 are to:

- implement the Port Arthur Historic Site Conservation Plan;
- increase visitor numbers to the Site;
- increase revenue and reduce costs to make commercial activities more profitable;
- develop programs to attract Tasmanian resident visitors;
- establish a conservation fund that will enable PAHSMA to source funding from outside the State Government program;
- develop and promote PAHSMA as a centre of excellence in conservation methodology; and
- work towards securing world heritage status.

Printing Authority of Tasmania

The core business and main undertaking of the Printing Authority of Tasmania (PAT) is to provide a production facility for the Tasmanian Government and associated authorities and departments for commercially viable, quality, printed and electronically generated communications. Under its legislation, the PAT is restricted from competing in the Tasmanian open market for private work except in specific circumstances.

The PAT aims to provide the best quality product for its target market utilising the latest appropriate technology and cost effective innovations available to the printing industry.

The current business direction for 2001-02 is to improve the performance of the PAT in a secure, sustainable and socially responsible manner by supplying goods and services that meet customer requirements.

A Review Group was established by the Government in March 2000 to examine issues currently facing the PAT and its ability to meet its objectives according to its enabling legislation. The Review Group has submitted its report to the Government recommending the removal of the existing legislative barriers to allow the PAT to compete in the open market as a State-owned Company. The Government is currently considering the Review Group's recommendations.

Rivers and Water Supply Commission

The Rivers and Water Supply Commission is responsible for management of the following commercial activities throughout the State:

- South East Irrigation Scheme;
- Winnaleah Irrigation Scheme;
- Cressy-Longford Irrigation Scheme;
- Prosser River Water Supply Scheme;
- Togari Water Supply Scheme;
- Welcome River Improvement Scheme;

- Montagu River Improvement Scheme;
- Furneaux Drainage Scheme;
- Lobster Rivulet River Improvement Scheme; and
- Meander Valley Irrigation Scheme (not proclaimed).

The Commission is also responsible for ensuring that the management of its commercial operations is conducted on a sustainable and ecologically sound basis, whilst recognising the needs of industry, agriculture and the Tasmanian community.

The strategic directions for the 2001-02 financial year include:

- continuing the implementation within Tasmania of the water reforms agreed by the Council of Australian Governments (COAG) as part of National Competition Policy and maintaining the debt reduction program;
- maintaining good liaison with customers and being responsive to their needs;
- meeting all statutory requirements and implementing environmental best practices; and
- achieving the maximum economic life from assets at the required level of service.

Southern Regional Cemetery Trust

The Southern Regional Cemetery Trust is responsible for the control and management of cemeteries and crematoria vested in, or acquired by, the Trust for the burial or cremation of persons who resided in the southern area of the State, and for ensuring that adequate cemeteries and crematoria are available to meet future requirements.

The annual rate of sales of grave sites at Cornelian Bay now reflects market forces, following significant revenue in the initial year of release of new sites in 1996-97. The Trust intends to provide a complete range of options for burial and memorialisation areas and investigate the feasibility of new developments at the facilities operated by the Trust and the subsequent promotion of the same.

Stanley Cool Stores Board

The core business of the Stanley Cool Stores Board (SCSB) is the operation of a cool storage facility located at the port of Stanley. The key factor affecting the operating environment of the SCSB has been the renewal of a long-term lease with its sole customer, McCain Food (Aust) Pty Ltd.

The Board's principal strategic directions include:

- ensuring that the facility is used to its fullest extent;
- operating the cool stores in a profitable manner; and
- considering future options for the cool store facility.

The strategic direction for the 2001-02 financial year will be to maintain the present value and profitability and to continue a capital expenditure program to ensure the facility meets international best practice standard.

Tasmanian Dairy Industry Authority

The Tasmanian Dairy Industry Authority (TDIA) ceased operating as a GBE on 30 June 2000 following national deregulation of the dairy industry. The Herd Improvement Division of the TDIA has been taken over by the Warrnambool Co-operative Society Ltd in partnership with dairy farmers, forming a new entity called Tasherd. The *Dairy Industry Amendment Act 2000* provided for the balance of the TDIA to remain as a statutory authority responsible for licensing and quality assurance functions for the dairy industry. It continues to be self funding from the proceeds of licence and application fees.

Tasmanian Grain Elevators Board

The Tasmanian Grain Elevators Board (TGEB) is responsible for the receipt and distribution of Tasmania's grain requirements and maintaining sufficient grain reserves to meet demand. The business of the TGEB is the storage and handling of wheat supplied by the Australian Wheat Board, the accumulation of locally grown cereals and the trading of other imported grains and legumes.

The TGEB is the major supplier of wheat to the Tasmanian flour milling and intensive animal industries and is the key supplier of stock feed during adverse climatic conditions.

The TGEB operates in a highly variable environment typical of the agricultural sector. The grain market is driven by climatic conditions, which causes significant fluctuations in the supply of and demand for, grain products.

There are several factors affecting the operations of the TGEB. These are:

- the declining market for wheat. Traded tonnage of wheat has been declining over the past five years due to a number of grain consuming businesses withdrawing from the Tasmanian market;
- the Tasmanian Wheat Freight Subsidy Scheme (TWFSS). The Commonwealth has advised that it is committed to the present funding of the TWFSS until 30 June 2003. Abolition of the scheme would have a serious impact on the TGEB's trade; and
- ongoing deregulation of agricultural industries could have an impact on volumes of grain required for supplementary feeding.

To reduce future operating risks, the TGEB will pursue an expanded range of commercial activities within the grain industry.

Tasmanian International Velodrome Management Authority

The Tasmanian International Velodrome Management Authority (the Authority) is responsible for the management and promotion of the velodrome and indoor sports, entertainment, exhibition and convention facilities known as the 'Silverdome' situated at the Kate Reed State Recreation Area near Launceston.

The Silverdome provides high quality entertainment, sport, exhibition and meeting facilities for the people of Tasmania.

The strategic directions for the Authority during 2001-02 are to:

- increase the variety of competitive sports, with particular emphasis on cycling and indoor sports;
- facilitate commercial sports, entertainment and business use of the Silverdome to improve the Silverdome's financial viability;
- develop efficient and effective use of Silverdome facilities; and
- develop community use of the Silverdome facility.

Tasmanian Public Finance Corporation

The Tasmanian Public Finance Corporation (Tascorp), established under the *Tasmanian Public Finance Corporation Act 1985*, is the Government's central borrowing authority. Its responsibilities include the development and implementation of borrowing and investment programs for the benefit of the State public sector. Tascorp also offers financial advisory services to State and local government authorities and government businesses.

The key factors affecting the operating environment of Tascorp are:

- new initiatives to improve the return on its own-account investment activities;
- the introduction of new asset management products; and
- a trend decline in Tascorp's core lending to the State public sector.

The key business directions for Tascorp for 2001-02 are:

- to meet the identified funding needs of clients, at the Tascorp yield curve, in a timely manner;
- to provide clients with a rate of return in excess of a relevant market benchmark;
- to identify and provide other high quality financial services to the Tasmanian public sector; and
- to achieve a reasonable return on net assets, while operating within appropriate levels of financial risk.

The Public Trustee

The Public Trustee is empowered to act as executor, administrator or trustee under a will or settlement, as an attorney under a power of attorney, including an enduring power of attorney, and in a number of other capacities. The Public Trustee is also appointed as financial administrator by the Guardianship and Administration Board to act on behalf of and protect the financial interests of individuals with a disability.

The strategic direction of The Public Trustee for the 2001-02 year will focus on continuing to develop The Public Trustee as a specialist provider of trust and financial administration services, and in conducting an analysis of core business processes in order to identify opportunities for business process improvements

The Public Trustee administers a number of non-commercial matters as Community Service Obligations. The funding of the net avoidable costs incurred in the provision of these services is the subject of a three year agreement that has been negotiated with the Government, represented by the Treasurer as the Purchasing Minister. The agreement is effective from 1 July 2000.

TOTE Tasmania Pty Ltd

The Totalizator Agency Board, trading as TOTE Tasmania, became a State-owned Company, TOTE Tasmania Pty Ltd, on 5 March 2001.

STATE-OWNED COMPANIES

Aurora Energy Pty Ltd

Aurora Energy Pty Ltd (Aurora) is responsible for the distribution and retailing of electricity throughout Tasmania. Aurora's goal is to be a world class services company, building new business from Aurora's strong Tasmanian distribution and retail base.

In delivering this vision, Aurora recognises the need to develop strategies that focus on:

- its core business (electricity distribution and retailing);
- the competitive impacts (threats and opportunities) which will be imposed by Tasmania's impending entry to the national electricity market and by the introduction of natural gas; and
- the growth of Aurora's business base through new business opportunities.

Aurora's mission and objectives are represented in a balanced scorecard system that drives its development and implementation of corporate strategies. Underpinning these objectives, however, is the key driver, which for Aurora is to increase total business value, involving one or more of:

- improving the operational efficiency and effectiveness of delivery of current services;
- expanding assets under management;
- increasing product offerings to existing retail customers;
- utilising existing Aurora competencies and services to deliver new ventures; and
- broadening Aurora's potential customer base, and increasing its operational scale to defray fixed costs.

Aurora also provides pensioner concessions as a Community Service Activity (CSA) on behalf of the Department of Health and Human Services. The amount of funding provided is approximately $9.852 million in 2001-02.

Burnie Port Corporation Pty Ltd

The Burnie Port Corporation Pty Ltd (BPC) is responsible for the planning, development and operation of the seaport at Burnie and the Burnie Airport.

The BPC will continue to develop and maintain the seaport and airport infrastructure. It will deliver essential services that are not provided by other parties and will, wherever considered appropriate, compete with other service providers within the port.

The key factors affecting the operating environment of the BPC are State, national and international economic activity.

Hobart Ports Corporation Pty Ltd

The primary function of the Hobart Ports Corporation Pty Ltd (HPC) is to manage overall port operations covering the movement of vessels and the provision of cargo-handling facilities.

Diversification into, principally, port-related property has occurred in more recent years to obtain improved returns from assets not fully utilised for shipping activities. The HPC also holds a shareholding in Hobart International Airport Pty Ltd. The King Island Ports Corporation Pty Ltd is a wholly owned subsidiary of the HPC.

The vision of the HPC is to be a globally competitive provider of integrated trade and transport services for Tasmania. The new structure will enable it to compete effectively and efficiently in a competitive environment for the benefit of Tasmania.

The key factors affecting the operating environment of the HPC are:

- export production in Southern Tasmania; and
- the level of activity in the Hobart property market.

The key business directions for the HPC for 2001-02 are:

- consolidation of core activities to improve profitability; and
- development of cargo and stevedoring services.

Metro Tasmania Pty Ltd

Metro Tasmania Pty Ltd (Metro) was established under the *Metro Tasmania Act 1997* as a State-owned Company, which provides a public urban road transport service in the metropolitan areas of Hobart, Launceston and Burnie.

In May 1999, Metro formed a subsidiary company, Hobart Coaches (Tas) Pty Ltd, to operate bus passenger services purchased by Metro from Hobart to Kingston/Blackmans Bay, the Channel, Richmond and New Norfolk.

The current Community Service Activity contract for the provision of public urban transport services expires on 30 June 2001. The terms of a new three year contract are still under negotiation. However, funding of $19.8 million has been budgeted by the Department of Infrastructure, Energy and Resources for 2001-02.

The key factor affecting the operating environment of Metro is the level of economic activity, which impacts on Metro's patronage and fares revenue.

Metro's strategic directions for the next three years are to focus on meeting its commercial obligations to the Government and its customers by:

- minimising the total cost of delivering the agreed level and quality of services; and
- structuring Metro's financial, operational and customer activities so as to successfully meet future passenger transport service demands.

Metro is also required to have regard to the Government's obligations under the Council of Australian Governments' agreement on future policies, procedures and practices concerning the transport industry.

The key business directions for Metro for 2001-02 are to:

- implement a bus vehicle replacement program to maintain a modern fleet and meet its undertakings under its Disability Action Plan;
- implement measures to halt the decline of patronage by providing services more tailored to the public's needs, based on the outcome of research;
- reduce operating costs by introducing changes to work practices and through enterprise bargaining agreements that improve efficiency and productivity; and
- increase revenue from non-core activities, including advertising and bus charter.

Port of Devonport Corporation Pty Ltd

The Port of Devonport Corporation Pty Ltd (PDC) owns and operates the sea and air ports at Devonport.

The PDC's mission is to provide, maintain and manage port and airport facilities and services in accordance with sound commercial practice so as to facilitate the efficient, reliable and safe movement of ships, aircraft, cargo and passengers through the port and airport for the benefit of the region and the State.

The principal objectives of the PDC are:

- to facilitate trade for the benefit of Tasmania; and
- to operate its activity in accordance with sound commercial practice.

The key factors affecting the operating environment of the PDC are:

- regional, national and international economic conditions and trade opportunities; and
- the competitive nature of the Tasmanian ports system.

The key business directions for the PDC for 2001-02 are to:

- build on the existing cargo mix and to diversify these cargoes; and
- provide improved facilities and services.

Port of Launceston Pty Ltd

The Port of Launceston Pty Ltd (POL) was incorporated on 30 July 1997. A wholly owned subsidiary, the Flinders Island Ports Corporation Pty Ltd, was also established at this time.

The POL provides, maintains, operates and manages port facilities and services in the Tamar area.

The principal objectives of the POL are to facilitate trade for the benefit of Tasmania and to operate its activity in accordance with sound commercial practice.

The key factors affecting the operating environment of the POL are:

- commodity prices;
- the Tasmanian economy;
- exchange rates;

- competitors' policies; and
- productivity of neighbouring industries.

The policy objectives of the POL include:

- to be responsive to customer requirements;
- to ensure the provision of appropriate facilities and essential operational services from its own resources, or by other businesses; and
- to ensure the long-term commercial strength of the corporation, given its move towards full private enterprise operating principles.

The key business direction for POL for 2001-02 is to continue to expand its trade base.

TOTE Tasmania Pty Ltd

TOTE Tasmania Pty Ltd (the TOTE) conducts totalizator betting in Tasmania in accordance with the *Racing and Gaming Act 1952*. The TOTE sells wagering products to consumers with the majority of these products being pool based such that the return to the TOTE is known and fixed for each event. The exception to this are the fixed odds bets – Triwin and Sportsbet. A fully owned subsidiary, Tasradio Pty Ltd, provides a radio service for the racing industry.

TOTE Tasmania became a State-owned Company (SOC) on 5 March 2001 under the provisions of the *TOTE Tasmania Act 2000*. Since 1 August 2000, a new financial arrangement between the TOTE, the Government and the racing industry, consistent with other jurisdictions, has been in place. The requirement for the TOTE to pay a turnover-based commission to the State Government and the Tasmanian racing industry has been replaced with the requirement to pay a licence fee and product fee respectively. Consistent with other SOCs, the TOTE is liable to pay income tax equivalents and dividends to the Government. The racing industry will also receive from the TOTE an incentive payment based upon a share of the TOTE's earnings before interest, tax and depreciation.

The key factors affecting the operating environment of the TOTE are:

- the potential loss of income through technology and globalisation of the market. Technological advances (such as the Internet) and more aggressive marketing by privatised TABs and other suppliers will see gambling products increasingly offered on a national and international basis; and
- the need to expand the wagering system to include the development of new product ranges to counteract competition from other forms of gambling.

The key business directions for the TOTE for 2001-02 are:

- to continue to work with the local racing industry to further develop the relationship as one of joint cooperation on issues of common interest;
- to expand the product range, improve the standard of customer service and improve the availability, appearance and level of comfort in outlets so as to facilitate and add value to the wagering experience;
- identify and exploit sources of revenue through diversification of the business and/or partnering with other participants in the entertainment and gaming industry;

- to continue market research in order to be able to respond to the needs of existing and potential customers in a market where a trend towards wagering and gaming in a total entertainment environment is evident; and
- to expand the corporate image program, designed to increase community awareness and acceptance of the recreational opportunities offered by the TOTE.

Transend Networks Pty Ltd

Transend Networks Pty Ltd (Transend) owns and operates the electricity transmission system in Tasmania, the link between power stations and the local electricity distribution network. The company's mission is to provide a reliable and secure electricity transmission service to consumers at a cost commensurate with appropriate and sustainable returns to its shareholders.

Key issues for Transend during 2001-02 include:

- continuing to manage the impact of the Tasmanian Electricity Regulator's determination on electricity prices;
- continuing a capital upgrade program with the goal of improving the reliability and security of the transmission system; and
- expanding the business to accommodate the additional responsibilities of network system controller.

The main objectives of Transend's capital upgrade program are to improve the reliability of Tasmania's transmission system and to reduce the risk of interruptions to the power supply. The upgrades will also improve operational efficiency and mitigate environmental risks.

The State Government, in July 2000, transferred the electricity network operations and related functions from Hydro Tasmania to Transend. The statutory role of System Controller has also transferred to Transend. The decision creates an environment for competition in electricity generation within Tasmania. The impact for Transend is that its responsibilities will expand during 2001-02 as a result of the transfer.

TT-Line Company Pty Ltd

TT-Line Company Pty Ltd (TT-Line) will operate two ferries between Tasmania and Victoria during 2001-02. These are the *Spirit of Tasmania* and the *Devil Cat*.

The *Spirit of Tasmania,* a roll on / roll off vessel, which carries freight, or twenty foot equivalent units (TEUs), in addition to passengers and passenger vehicles, is operated between Devonport and Melbourne.

For 2000-01, it is estimated that a total of 321 800 passengers will be carried on the *Spirit of Tasmania* and the *Devil Cat,* representing a decrease of approximately 1 400 from 1999-00. In addition, it is estimated that 19 300 TEUs and 119 000 vehicles will be carried during 2000-01.

The *Devil Cat is* chartered for a further summer period with the charter expiring in April 2002. The service operates between George Town and Melbourne carrying passengers and vehicles.

TT-Line's strategic directions for the next five years include:

- to improve the financial performance of the Company;

- to improve levels of service to all areas of the customer base; and
- to further strengthen the Company's human resource management and industrial relations capability.

The key business directions for TT-Line for 2001-02 are to determine the future direction of ferry services beyond April 2002, maximise the carriage of passengers and their vehicles and to provide an acceptable rate of return to the Government as shareholder.

STATUTORY AUTHORITIES

Private Forests Tasmania

Private Forests Tasmania is a statutory authority established by the *Private Forests Act 1994* to promote, foster and assist the private forest sector to sustainably manage native forests and encourage the expansion of plantations on private land.

The Act provides Private Forests Tasmania with clear governance responsibilities that recognise the economic and environmental importance of Tasmania's private forests and the significant contribution and potential they have for the overall industry.

The core roles of Private Forests Tasmania are to develop and advocate strategic and policy advice to the Minister for Infrastructure, Energy and Resources and forestry partners on all matters relating to private forestry in Tasmania and to work in partnership with growers, managers, investors and industry to develop and manage Tasmania's private forests and to initiate extended or new market opportunities.

Retirement Benefits Fund Board

The Retirement Benefits Fund Board (the Board) manages Tasmania's major public sector superannuation fund (the RBF).

The sub-fund structure of the RBF includes:

- a RBF Contributory Scheme which was closed to new members on 15 May 1999;
- a Tasmanian Accumulation Scheme for employer superannuation guarantee contributions for new public sector employees from 25 April 2000 and for members of the closed Non Contributory Scheme;
- an investment account comprising member voluntary savings, spouse accounts and certain preserved benefits;
- life pensions payable to former RBF members; and
- allocated pensions.

The main business objective of the RBF is to provide retirement benefits for Tasmanian public sector employees and their families through prudent management and investment of approximately $1.35 billion of members' contributions and interest. A range of flexible benefit, contribution and investment options are available to members.

The major strategic directions of the RBF Board for the 2001-02 financial year are to:

- be the Fund of Choice in a competitive superannuation environment;
- retain and attract members by providing quality products, excellent service and good investment returns;
- assist with maximising the retirement savings to members by balancing costs and rates of return;
- communicate effectively with members and assist them with their retirement planning;

- continue to adapt its culture and processes to give maximum value to members; and
- provide members with easy access to information electronically.

State Fire Commission

The State Fire Commission's primary role is to minimise the social, economic and environmental impact of fire on the Tasmanian community. This is pursued through provision of a rapid and effective response to emergencies and through the delivery of a broad range of fire safety and prevention programs.

The Commission is also responsible for managing unplanned incidents involving hazardous materials.

The State Fire Commission delivers all of its services through its operational arm, the Tasmania Fire Service.

The major strategic directions for the 2001-02 financial year are:

- delivery of efficient and effective response to fires and hazardous material incidents;
- promotion, coordination and delivery of fire safety education to the community; and
- positioning the Tasmania Fire Service as a productive and safe workplace where members are able and willing to contribute towards the achievement of the strategic objectives of the organisation.

11 UNIFORM GOVERNMENT REPORTING

Features

- Financial performance information has been prepared in accordance with the Uniform Presentation Framework (UPF) for the development of cash based Government Financial Estimates (GFE) agreed to by the Australian Loan Council in March 1997. The Chapter also compares the recent financial performance of state and territory governments and includes a section on Loan Council arrangements together with the Loan Council Allocation (LCA).
- The estimated GFE outcome for 2000–01 is a surplus of $112 million for the General Government Sector, a surplus of $37 million for the Public Trading Enterprises (PTE) Sector and a surplus of $147 million for the Total Non-Financial Public Sector.
- The budgeted GFE outcome for 2001-02 is a surplus of $83 million for the General Government Sector, a surplus of $12 million for the PTE Sector and a surplus of $95 million for the Total Non-Financial Public Sector.
- Between 2000-01 and 2001-02, General Government Net Debt is forecast to decrease from $828 million to $745 million, Public Trading Enterprise Net Debt to decrease from $1 666 million to $1 654 million, and Total Non-Financial Public Sector Net Debt to decrease from $2 494 million to $2 399 million.
- Tasmania's nominated LCA for 2001-02 is $48 million.

INTRODUCTION

The financial performance information in this Chapter has been prepared in accordance with the Uniform Presentation Framework (UPF) applying to Governments preparing 'early' Budgets using the cash based Government Finance Estimates (GFE) framework. This UPF was agreed to by the Australian Loan Council in March 1997.

In December 1999, all jurisdictions agreed to adopt an accrual based UPF. The revised UPF was adopted as a result of the increased focus on accrual reporting in the public sector and the adoption of an accrual based GFS reporting framework by the Australian Bureau of Statistics (ABS) as published in *Government Financial Estimates, Australia 1999–00*, ABS Cat No 5501.0. Accrual based UPF information will be included for the first time in the 2002-03 Budget documents. As a result, the information in this Chapter may not compare with that presented by the ABS or other jurisdictions.

This Chapter provides 1999-00 outcomes, 2000-01 revised estimates and 2001-02 estimates for outlays, revenues, financing transactions and Net Debt for the Tasmanian General Government, Public Trading Enterprise (PTE) and Total Non-Financial Public Sectors only. In accordance with the UPF, more detailed and updated information on the actual end of year results will be released in the *Loan Council Outcomes Report 2000-01*. The report will be publicly released by no later than 31 October 2001.

Jurisdictions are not required to report Budget or forward estimates for the Public Financial Enterprises (PFE) Sector. Consequently, information on the PFE Sector and the Total State Government Sector is no longer included in this Chapter. Under the terms of the UPF, this information is reported in the Loan Council Outcomes Report. Jurisdictions are required to include three year forward estimates of General Government outlays, revenue, financing transactions, deficit/(surplus) and Net Debt in Budget presentations.

GFEs are prepared by all states and territories and the Commonwealth on the basis of common concepts and classifications to facilitate inter-jurisdictional comparisons. Some comparisons with other states and territories are provided later in the Chapter. Details of the concepts and classifications used in the preparation of GFE statistics are provided in an appendix to this Chapter.

The purpose of this Chapter is therefore to:

- report on Tasmania's recent financial performance;
- provide a comparison with other state and territory Governments' recent financial performance;
- present information on Loan Council arrangements and the Loan Council Allocation (LCA), which is primarily based on GFE aggregates; and
- satisfy information requirements under the UPF.

Although Financial Assets and Liabilities (FALs) data is no longer included in this Chapter, the revised UPF still requires jurisdictions with early Budgets to provide a Net Debt forecast for 30 June 2001. This estimate is based on Net Debt as at 30 June 2000, adjusted for the expected 2000-01 deficit or surplus. The Net Debt forecast for 30 June 2002 uses the Net Debt forecast for 30 June 2001 adjusted for the expected 2001-02 deficit or surplus. Forward estimates of General Government Net Debt in Table 11.4 have been made on the same basis. The Net Debt estimates presented in Tables 11.1, 11.2, 11.3 and 11.4 replace full FALs information reporting for those jurisdictions preparing early Budgets. Further information regarding

Net Debt is provided in Chapter 9. Full FALs information will be provided in the Loan Council Outcomes Report.

The information published in this Chapter is consistent with the cashflow information published by the ABS on GFEs. However, it differs from information provided elsewhere in the Budget Papers. Differences arise for the following reasons:

- GFEs present a consolidated view of the transactions of the non-financial activities of the State Government, whereas the Budget concentrates on the transactions which impact on the Public Account. A broader range of activities is therefore captured by the GFE statistics;
- the classification and coverage of agencies used for GFE purposes differs from that used elsewhere in the Budget Papers; and
- the definition or valuation of transactions may vary elsewhere in the Budget Papers.

Greater explanation of the differences between GFE statistics and those used elsewhere in the Budget Papers is provided in an appendix to this Chapter.

There are two important concepts regarding the deficit/(surplus) which are used in this Chapter:

- the ABS concept of a total deficit/(surplus) which, for the General Government Sector, is the difference between receipts and outlays; and
- the underlying deficit/(surplus), which is the total deficit/(surplus) adjusted for extraordinary transactions.

It should be noted that the ABS concept of a deficit/(surplus) does not include major asset sales and the repayment of advances. These items can have a major impact in any given year. The ABS classifies these transactions as Financing Transactions which have no impact on the calculation of the deficit/(surplus).

The total deficit/(surplus) can also be affected by extraordinary transactions in any particular year. Adjusting for these extraordinary transactions provides an indication of the underlying deficit/(surplus). This is the deficit/(surplus) most likely to persist unless policy changes are made. The underlying deficit/(surplus), however, is not an ABS concept and is therefore not reported in the GFE tables in this Chapter. It is, however, referred to in the commentary in order to aid an understanding of financial trends.

The data in this Chapter has been classified according to the General Government Sector, the PTE Sector and the Total Non-Financial Public Sector.

Charts 11.1 to 11.5 cover a 10 year period for the non-financial activities of the Tasmanian Government. During this period, the ABS has reclassified the Tasmanian Public Finance Corporation from the General Government Sector to the PFE Sector, and Forestry Tasmania and Private Forests Tasmania from the General Government Sector to the PTE Sector. Historical information reflecting these reclassifications is only available back to 1993-94. Information prior to this period has been based on ABS historical GFS data based on the original classification of these entities.

GOVERNMENT FINANCIAL ESTIMATES

Tables 11.1, 11.2 and 11.3 provide details of outlays, revenue, financing transactions and Net Debt for the General Government, PTE and Total Non-Financial Public Sectors respectively. In these tables, payments received from the Commonwealth under the *Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations*, funded from GST collections, are treated as grants from the Commonwealth. The amounts in the tables are rounded to the nearest million dollars. As a consequence, rounded figures may not add to the totals.

Table 11.1: General Government - Outlays, Revenue, Financing Transactions and Net Debt

	1999-00 Actual	2000-01 Revised Estimate	2001-02 Budget Estimate
	$m	$m	$m
Current Outlays			
Gross current expenditure	1 750	1 841	1 859
less Sale of goods and services	231	226	240
equals Final consumption expenditure	1 518	1 614	1 619
Interest payments			
to Commonwealth Government	45	28	19
other	114	119	103
Total interest payments	160	148	123
Subsidies paid			
to public trading enterprises	92	78	76
to other enterprises	46	56	81
Total subsidies paid	138	134	157
Personal benefit payments	4	34	23
Current grants			
to non-profit institutions	156	128	177
to local governments	45	46	46
Total current grants	201	174	223
Other current outlays	5	3	2
Total current outlays	2 025	2 106	2 146
Capital outlays			
Gross fixed capital expenditure			
on new fixed assets	126	91	89
on secondhand fixed assets (net)	(33)	(19)	(14)
Total gross fixed capital expenditure	93	72	75
Expenditure on land and intangible assets (net)	2	....	1
Capital Grants			
to State public trading enterprises	16	17	14
to local government	....	....	....
to other sectors	8	....	61
Total capital grants	24	17	75
Total capital outlays	120	91	153
Total outlays	2 145	2 196	2 298

Table 11.1: General Government - Outlays, Revenue, Financing Transactions and Net Debt (continued)

	1999-00 Actual	2000-01 Revised Estimate	2001-02 Budget Estimate
	$m	$m	$m
Revenue and grants received			
Taxes	**701**	**524**	**475**
Property income and other revenue			
Income from State public trading enterprises	**158**	**124**	**143**
Income from State public financial enterprises	**3**	**6**	**7**
Interest received			
from public trading enterprises	**27**	**18**	**12**
from other sectors	**16**	**12**	**13**
Other property income and other revenue	**37**	**25**	**29**
Total property income and other revenue	**242**	**185**	**204**
Grants received from Commonwealth Government	**1 349**	**1 599**	**1 701**
Total revenue and grants received	**2 292**	**2 307**	**2 381**
Financing transactions			
Net advances received	**(107)**	**(116)**	**(36)**
Net borrowing	**(110)**	**(3)**	**(9)**
Other financing transactions	**(24)**	**(5)**	**(26)**
less Advances paid (net)			
to State public trading enterprises	**(79)**	**(20)**	**(14)**
to local government	**(1)**	**....**	**....**
to other sectors	**(13)**	**9**	**27**
Total advances paid	**(93)**	**(12)**	**12**
Total financing transactions	**(147)**	**(112)**	**(83)**
less increase in provisions	**....**	**....**	**....**
equals Deficit/(Surplus)	**(147)**	**(112)**	**(83)**
Net Debt	**940**	**828**	**745**

Source: Department of Treasury and Finance.

Table 11.2: Public Trading Enterprises - Outlays, Revenue, Financing Transactions and Net Debt

	1999-00 Actual	2000-01 Revised Estimate	2001-02 Budget Estimate
	$m	$m	$m
Current Outlays			
Required current transfer payments			
Interest payments			
to State general government	27	18	15
to other sectors	163	120	129
Income transferred to general government	155	124	143
Total requited current transfer payments	344	262	287
Other current outlays	1	1	1
Total current outlays	346	263	288
Capital outlays			
Gross fixed capital expenditure			
Expenditure on new fixed assets	153	190	250
Expenditure on secondhand fixed assets (net)	(10)	(12)	(26)
Total gross fixed capital expenditure	143	178	224
Increase in stocks	....	....	....
Expenditure on land and intangible assets (net)	(51)	....	4
Capital Grants	....	....	....
Total capital outlays	92	178	227
Total outlays	437	440	515
Revenue and grants received			
Net operating surpluses			
Operating revenue			
Subsidies received	58	59	71
Other operating revenue	925	902	1 019
less Operating expenditure			
Depreciation charge	173	180	186
Other operating expenditure	576	525	602
Total net operating surpluses	234	255	302
Property income and other revenue			
Interest received	13	4	4
Other property income and other revenue	....	7	5
Total property income and other revenue	13	11	9
Grants received	33	19	17
Total revenue and grants received	279	286	329

Table 11.2: Public Trading Enterprises - Outlays, Revenue, Financing Transactions and Net Debt (continued)

	1999-00 Actual	2000-01 Revised Estimate	2001-02 Budget Estimate
	$m	$m	$m
Financing transactions			
Net advances received	(79)	(19)	(14)
Net borrowing	6	(6)	38
Increase in provisions	179	190	198
Less Net advances paid	....	....	....
Other financing transactions	52	(11)	(36)
Total financing transactions	158	154	186
less increase in provisions	179	190	198
equals Deficit/(Surplus)	(22)	(37)	(12)
Net Debt	1 703	1 666	1 654

Source: Department of Treasury and Finance.

Table 11.2: Total Non-Financial Public Sector - Outlays, Revenue, Financing Transactions and Net Debt

	1999-00 Actual	2000-01 Revised Estimate	2001-02 Budget Estimate
	$m	$m	$m
Current Outlays			
Final consumption expenditure	**1 518**	**1 614**	**1 619**
Requited current transfer payments			
Interest payments			
to Commonwealth Government	**45**	**28**	**19**
other	**276**	**239**	**232**
Total requited transfer payments	**321**	**266**	**251**
Unrequited current transfer payments			
Subsidies paid	**138**	**134**	**157**
Personal benefit payments	**4**	**34**	**23**
Current grants			
to non-profit institutions	**157**	**128**	**177**
to local governments	**45**	**46**	**46**
Other current transfer payments	**5**	**1**	**3**
Total Unrequited current transfer payments	**348**	**343**	**405**
Other current outlays	**....**	**....**	**....**
Total current outlays	**2 187**	**2 223**	**2 275**
Capital outlays			
Gross fixed capital expenditure			
Expenditure on new fixed assets	**294**	**281**	**339**
Expenditure on secondhand fixed assets (net)	**(58)**	**(32)**	**(40)**
Total gross fixed capital expenditure	**236**	**250**	**300**
Increase in stocks	**....**	**....**	**....**
Expenditure on land and intangible assets (net)	**(49)**	**....**	**4**
Capital Grants			
to local government	**....**	**....**	**....**
to other sectors	**8**	**2**	**61**
Total capital grants	**8**	**2**	**61**
Total capital outlays	**195**	**252**	**364**
Total outlays	**2 383**	**2 476**	**2 639**

Table 11.3: Total Non-Financial Public Sector - Outlays, Revenue, Financing Transactions and Net Debt (continued)

	1999-00 Actual	2000-01 Revised Estimate	2001-02 Budget Estimate
	$m	$m	$m
Revenue and grants received			
Taxes	701	524	475
Net operating surpluses of public trading enterprises	234	255	302
Property income and other revenue			
Income from State Public Financial Enterprises	5	6	7
Interest received	28	16	13
Other property income and other revenue	38	32	34
Total property income and other revenue	72	54	55
Grants received from Commonwealth Government	1 363	1 599	1 703
Total revenue and grants received	2 370	2 431	2 536
Financing transactions			
Net advances received	(109)	(116)	(36)
Net borrowing	(104)	(9)	29
Increase in provisions	179	191	198
Less Advances paid (net)	(13)	9	27
Other financing transactions	34	(14)	(61)
Total financing transactions	13	44	103
less increase in provisions	179	191	198
equals Deficit/(Surplus)	(167)	(147)	(95)
Net Debt	2 643	2 494	2 399

Source: Department of Treasury and Finance.

GFE Forward Estimates

The revised Uniform Presentation Framework, agreed by the Australian Loan Council in March 1997, requires jurisdictions to provide three year forward estimates of General Government Sector outlays, revenue, financing transactions and deficit/(surplus). Each jurisdiction is also required to include three year forward estimates of Net Debt.

Table 11.4 presents the required forward estimates for the three year period from 2002-03 to 2004-05 inclusive.

Table 11.4: General Government Sector - Forward Estimates of Outlays, Revenue, Financing Transactions and Net Debt

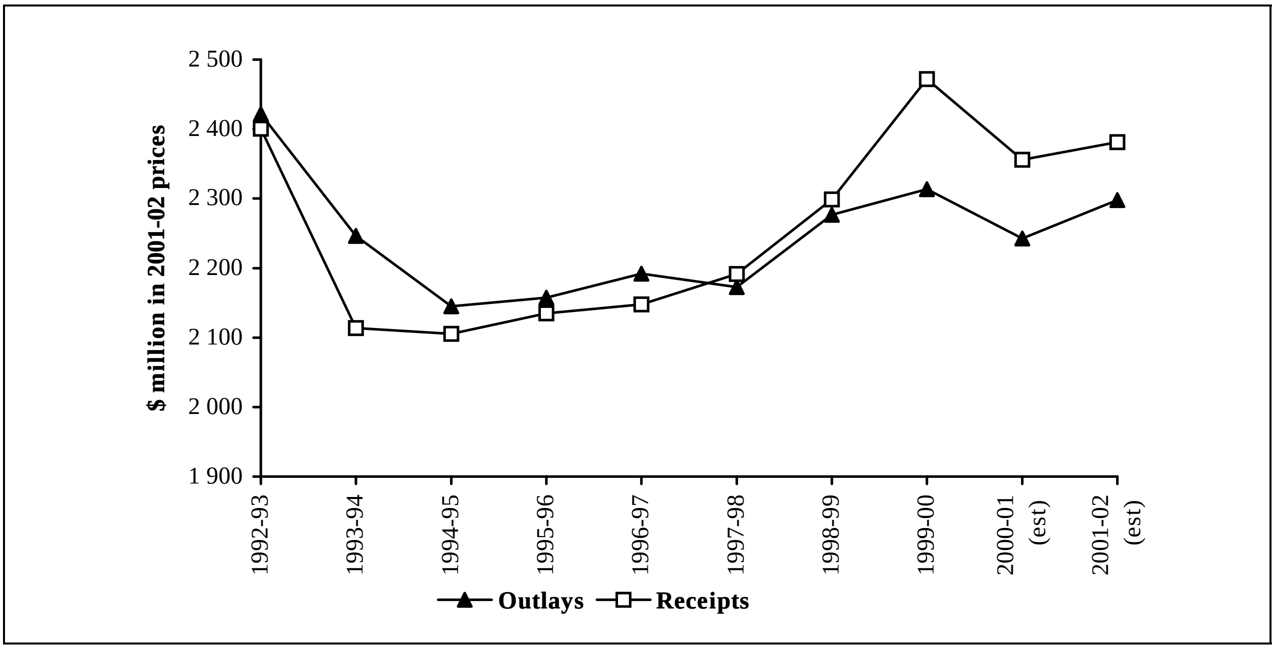
	2001-02 Budget Estimate	2002-03 Forward Estimate	2003-04 Forward Estimate	2004-05 Forward Estimate
	$m	$m	$m	$m
Current Outlays				
Final consumption expenditure	1 619	1 696	1 770	1 820
Interest payments	123	110	97	85
Subsidies paid to PTEs and other enterprises	157	151	126	125
Current grants	246	222	224	224
Other current outlays	2	5	5	5
Total current outlays	2 146	2 183	2 221	2 258
Capital outlays				
Gross fixed capital expenditure				
on new fixed assets	89	86	78	80
on secondhand fixed assets (net)	(14)	(13)	(13)	(13)
Total Gross fixed capital expenditure	75	73	65	67
Capital grants	75	17	19	18
Other capital outlays	1	....	....	....
Total capital outlays	153	90	84	85
Total outlays	2 298	2 273	2 305	2 343
Revenue and grants received				
Taxes	475	496	505	510
Interest received	25	27	30	33
Grants received	1 701	1 682	1 707	1 749
Dividends received from PTEs and PFEs	150	154	171	179
Other revenue	29	29	28	28
Total revenue and grants received	2 381	2 388	2 441	2 499
Deficit and Financing transactions				
Net advances received	(36)	(6)	(42)	(13)
Net borrowing	(9)	(7)	(8)	(9)
Other financing transactions	(26)	(117)	(96)	(138)
less Advances paid (net)	12	(15)	(10)	(4)
Total financing transactions	(83)	(115)	(136)	(157)
less increase in provisions (net)	....	....	....	....
equals Deficit/(Surplus)	(83)	(115)	(136)	(157)
Net Debt	745	630	494	337

Source: Department of Treasury and Finance.

Trends in GFEs for Tasmania

Chart 11.1 compares, for the General Government Sector, trends in total receipts and total outlays for the ten years to 2001-02, in real 2001-02 dollars.

Chart 11.1: Real General Government Receipts and Outlays



Sources: *Government Finance Statistics*, Australia, ABS Cat No 5512.0; *Government Financial Estimates*, Australia 2000–01, ABS Cat No 5501.0; Department of Treasury and Finance.

Chart 11.1 shows that prior to 1997-98, outlays were greater than receipts in the General Government Sector. In 1990-91, the first Fiscal Strategy was established, which was followed by the second Strategy introduced in 1994-95. These strategies closed the gap between outlays and receipts through a combination of real terms outlays restraint and increases in revenue raising effort. These strategies were to some extent aided by a period of relative stability in the receipt of Commonwealth grants. In 1992–93, net advances were included in capital outlays and this is another reason why outlays are shown as higher than receipts for that year.

In 1993-94, outlays were significantly higher than receipts. This outcome was to some extent a result of a capital contribution to TT-Line Company Pty Ltd but was partly offset by the sales of the TGIO and the TDA housing loans portfolio (which are treated in GFEs as offsets to outlays). From 1993-94 to 1996-97, receipts continued to be lower than outlays, although the results are affected by the change in ABS classification, whereby Tascorp and Forestry Tasmania were reclassified from the General Government Sector to the PFE and PTE Sectors respectively. As a result of this change, the GFE series was revised back to 1993-94. Both Tascorp and Forestry Tasmania had higher receipts than outlays for 1992-93. The first year that General Government receipts were in excess of outlays was 1997-98 and a greater level of receipts over outlays is expected for 2001-02.

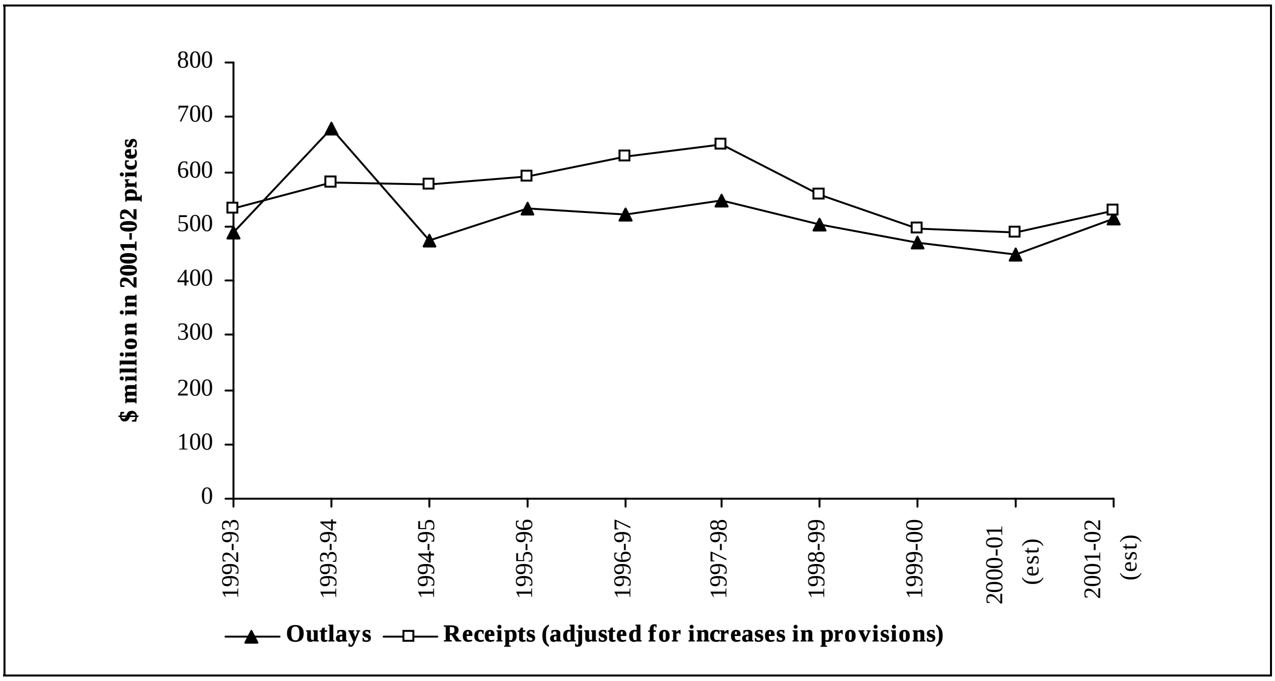
In 1999-00 receipts were significantly greater than outlays. This was primarily due to a number of significant one-off factors such as the special dividend of $40 million received from Forestry Tasmania following the sale of the softwood forests joint venture.

During 1999-00, proceeds amounting to $144.3 million was received from the sale of the Trust Bank. Only $5.2 million of these proceeds have contributed to the 1999-00 surplus, as the remaining funds have been classified as an equity disposal which is reported as a Financing Transaction and not included in the surplus calculation.

Chart 11.2 shows that PTE Sector receipts have generally been greater than outlays. The exception was in 1993-94 when there was a significant capital outlay for the purchase of the *Spirit of Tasmania.*

It should be noted Charts 11.2 and 11.3 show receipts that have been adjusted to add back the increase in provisions. The gap between outlays and receipts will reflect the real terms surplus for the sector. As a result, receipts shown in Charts 11.2 and 11.3 are not directly comparable to that shown in Tables 11.2 and 11.3.

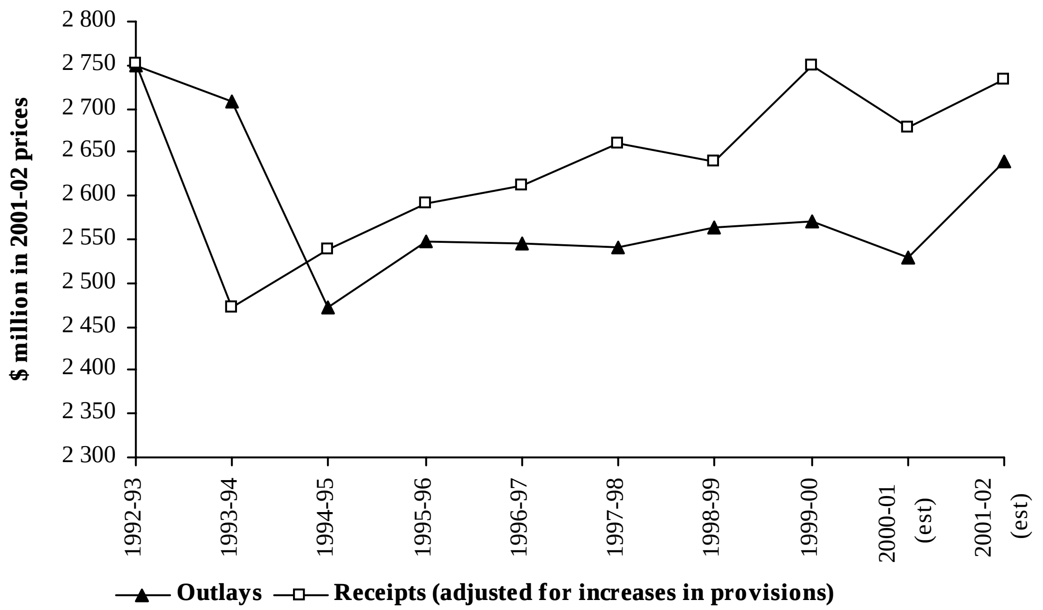
Chart 11.2: Real PTE Receipts and Outlays



Sources: *Government Finance Statistics,* Australia, ABS Cat No 5512.0; *Government Financial Estimates,* Australia 2000–01, ABS Cat No 5501.0; Department of Treasury and Finance.

Chart 11.3 presents, over the same ten year period, outlays adjusted receipts for the Total Non-Financial Public Sector in 2001-02 values.

Chart 11.3: Real Total Non-Financial Public Sector Receipts and Outlays[1]



Sources: *Government Finance Statistics,* Australia, ABS Cat No 5512.0; *Government Financial Estimates,* Australia 2000-01, ABS Cat No 5501.0; Department of Treasury and Finance.

Note:

1. Prior to 1993-94, Total State Government Sector figures are used as a proxy for Total Non-Financial Public Sector figures because the latter are not produced by the ABS. Thus, Tascorp is included in the series prior to 1993-94 (in the PFE Sector from 1994-95). This does not significantly affect the trend.

Table 11.5 provides details of Total Non-Financial Public Sector outlays by purpose for the financial years 1999-00 to 2001-02.

Table 11.5: Total Non-Financial Public Sector - Outlays by Purpose

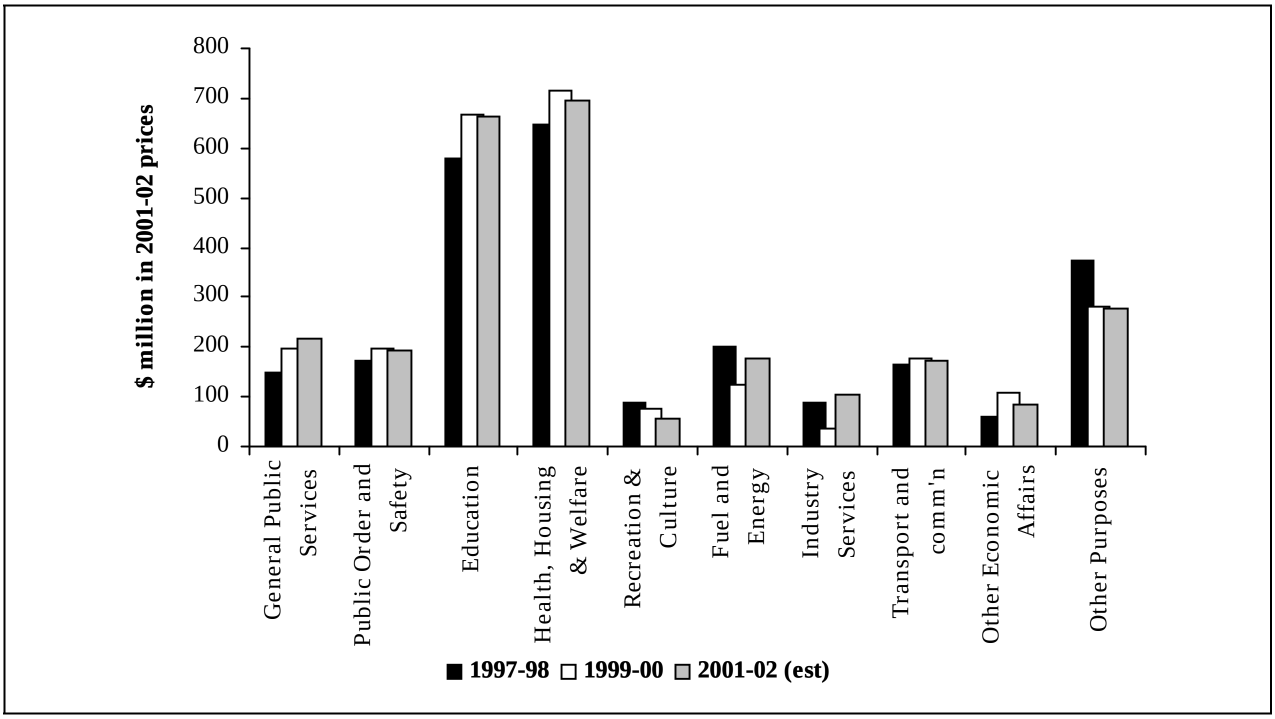
	1999-00 Actual	2000-01 Revised Estimate	2001-02 Budget Estimate
	$m	$m	$m
General public services			
Current	**192**	**147**	**155**
Capital	**9**	**2**	**61**
Total	**201**	**149**	**216**
Public order and safety			
Current	**177**	**180**	**189**
Capital	**4**	**4**	**5**
Total	**181**	**184**	**194**
Education			
Current	**582**	**604**	**635**
Capital	**35**	**18**	**29**
Total	**617**	**622**	**664**
Health			
Current	**485**	**462**	**489**
Capital	**14**	**10**	**4**
Total	**499**	**472**	**493**
Social security and welfare			
Current	**120**	**122**	**130**
Capital	**....**	**3**	**....**
Total	**120**	**125**	**130**
Housing and community amenities			
Current	**34**	**56**	**61**
Capital	**12**	**12**	**10**
Total	**46**	**68**	**71**
Recreation and culture			
Current	**68**	**55**	**50**
Capital	**2**	**(3)**	**6**
Total	**70**	**52**	**56**

Table 11.5: Total Non-Financial Public Sector - Outlays by Purpose (continued)

	1999-00 Actual	2000-01 Revised Estimate	2001-02 Budget Estimate
	$m	$m	$m
Fuel and energy			
Current	1	1	1
Capital	114	145	176
Total	115	146	177
Agriculture, forestry, fishing and hunting			
Current	70	69	91
Capital	(42)	4	11
Total	28	74	103
Mining and mineral resources other than fuels, manufacturing and construction			
Current	7	4	2
Capital	....	....	....
Total	7	4	2
Transport and communications			
Current	114	96	113
Capital	50	52	59
Total	164	148	172
Other economic affairs			
Current	101	89	80
Capital	(2)	5	2
Total	99	95	83
Other purposes			
Current	240	336	276
Capital	....	....	....
Total	240	336	276
Total Outlays	2 383	2 476	2 639

Source: Department of Treasury and Finance.

Chart 11.4: Real Total Non-Financial Public Sector Outlays by Purpose



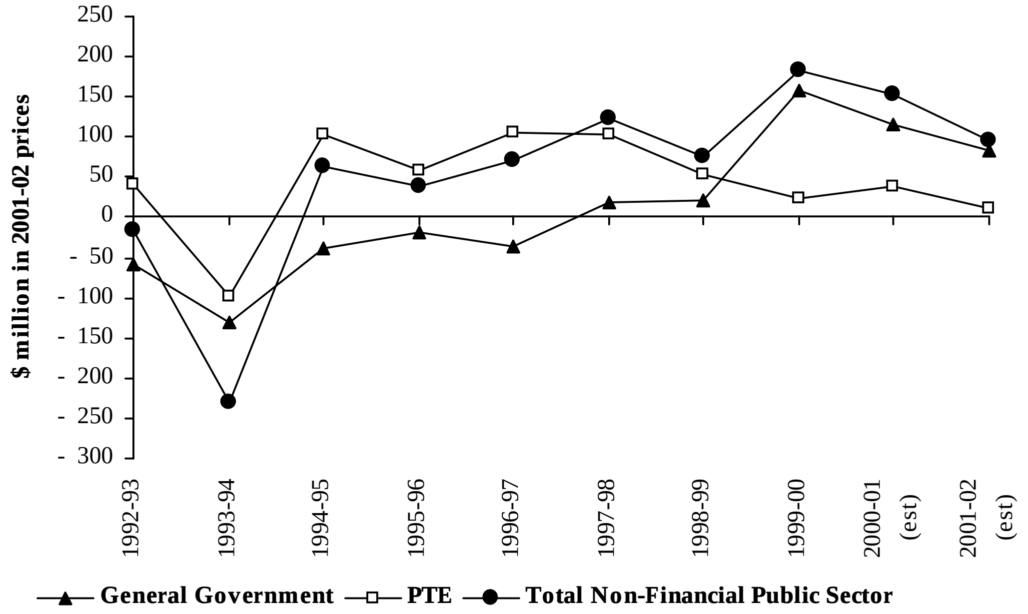
Sources: *Government Financial Estimates*, Australia 2000–01, ABS Cat No 5501.0; Department of Treasury and Finance.

Chart 11.4 shows that the dominant priorities for government spending are education, health, housing and welfare and other purposes. The other purposes category primarily reflects payments of interest on government debt.

Over the five year period depicted in Chart 11.4, outlays on other purposes have consistently decreased, while outlays on general public services, education and health, housing and welfare have generally increased. The level of outlays for the other categories have remained relatively stable.

The General Government Sector has recorded a surplus result since 1997-98 and is expected to be in surplus in 2001-02 following recorded deficits from 1992-93 to 1996-97 (see Charts 11.5 and 11.6). The PTE Sector recorded surpluses from 1992-93 onwards, except in 1993-94, and is expected to be in surplus in 2001-02. The deficit/(surplus) shown in these charts includes an adjustment to remove the effect of increases in provisions.

Chart 11.5: Real General Government, PTE and Total Non-Financial Public Sector Surplus/(Deficit)[1]



Sources: *Government Finance Statistics*, Australia, ABS Cat No 5512.0; *Government Financial Estimates*, Australia 2000-01, ABS Cat No 5501.0; Department of Treasury and Finance.

Note:

1. Prior to 1993-94, Total State Government Sector figures are used as a proxy for Total Non-Financial Public Sector figures because the latter are not produced by the ABS. Thus, Tascorp is included in the series prior to 1993-94 (in the PFE Sector from 1994-95). This does not significantly affect the trend.

Chart 11.5 compares real term trends in the surplus/(deficit) for the General Government, PTE and the Total Non-Financial Public Sector, demonstrating the reductions in deficits achieved in each sector. With respect to the General Government Sector, an estimated surplus of $102 million is expected for 2000–01 and $83 million is the expected surplus for 2001-02. The improvement over time has been mainly achieved by containing expenditure increases, increased recoveries from the PTE sector and increases in Commonwealth Grants Commission relativities.

When interpreting the above results, the impacts of the following transactions should be considered:

- the 27th pay period that occurred in 1992-93;
- the recalculation of superannuation benefits paid in 1993-94 in accordance with the changed scheme arrangements;
- the provision of capital to the TT-Line Company Pty Ltd in 1993-94;
- early receipt of Commonwealth grants in 1999-00 where the associated outlays will be incurred in future years; and
- sale proceeds from the softwood forest joint venture in 1999-00.

A more detailed discussion on the issues associated with each of these special factors is contained in the Budget Papers for the financial years identified above.

Table 11.6 shows tax estimates for the period 1999-00 to 2001-02 for the total State Government.

Table 11.6: State Government Taxes

	1999-00 Actual	2000-01 Revised Estimate	2001-02 Budget Estimate
	$m	$m	$m
Employers' Payroll Taxes	155	154	148
Taxes on property			
Taxes on immovable property			
Land tax	28	27	29
Property owners contributions to fire brigade	18	19	20
Total taxes on immovable property	46	46	49
Taxes on financial and capital transactions	114	117	87
Total taxes on property	160	163	136
Taxes on the provision of goods and services			
Levies on statutory corporations	14	16	2
Taxes on gambling			
Taxes on private lotteries	22	20	20
Casino taxes	47	37	44
Race betting taxes	7	5	....
Taxes on gambling nec[1]	1	1	1
Total taxes on gambling	77	62	65
Taxes on insurance			
Insurance companies' contributions to fire brigade	7	7	8
Third party insurance taxes	2	2	2
Taxes on insurance nec[1]	20	20	21
Total taxes on insurance	29	29	31
Total taxes on the provision of goods and services	120	107	98
Taxes on use of goods and performance of activities			
Motor vehicle taxes			
Vehicle registration fees and taxes	64	68	62
Stamp duties on vehicle registration	28	31	32
Road transport and maintenance taxes	....	....	....
Total motor vehicle taxes	92	98	94

Table 11.6: State Government Taxes (continued)

	1999-00 Actual	2000-01 Revised Estimate	2001-02 Budget Estimate
Safety Net Revenues[2]	**174**	**2**	**....**
Total taxes on use of goods and performance of activities	**266**	**100**	**94**
Total Taxes	**701**	**524**	**475**

Source: Department of Treasury and Finance.

Notes:

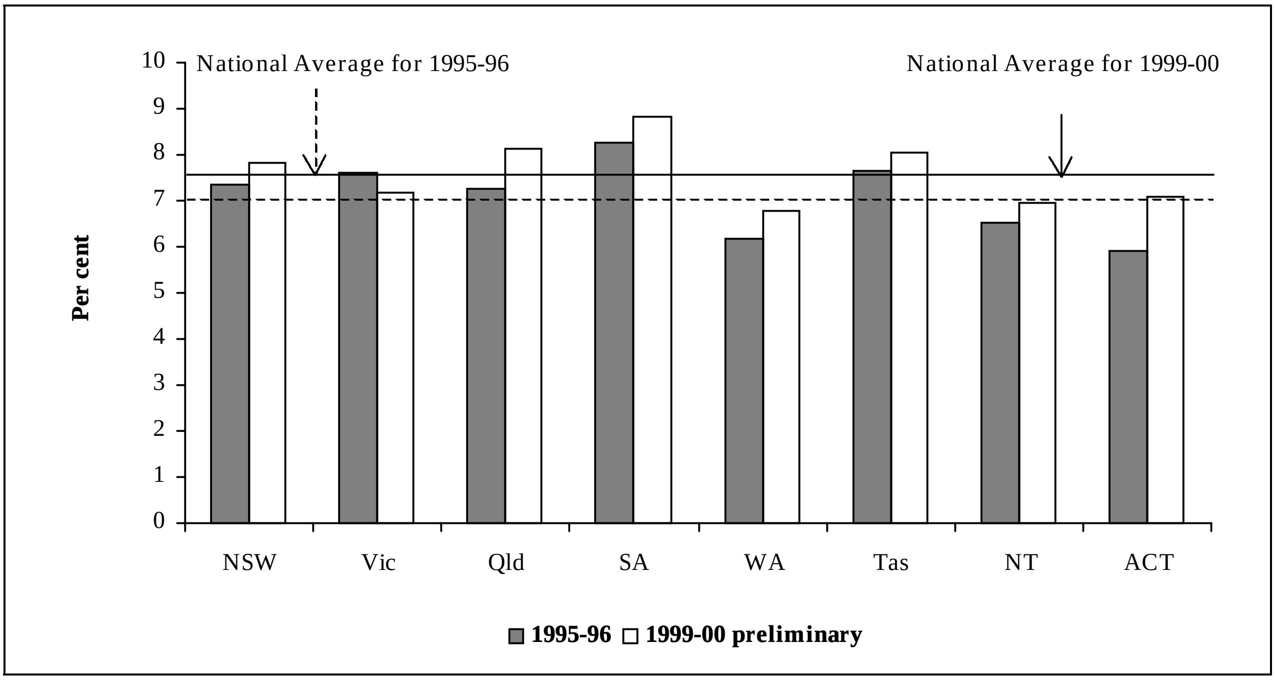
1. Not elsewhere classified (nec).
2. Grants received from the Commonwealth to replace franchise fee revenues net of associated subsidies paid to petroleum wholesalers and for some liquor sales. The decrease in 2000-01 is as a result of the cessation of Commonwealth funding under the 'Safety Net' arrangements as at 30 June 2000 as part of the national tax reform package. Historically, these payments have been treated as State own-source revenue although, more correctly, they were grants received from the Commonwealth.

Interstate Comparison of Government Financial Estimates

Comparisons of the relative financial positions and performance of states and territories can be made using GFE data. It should be noted that due to the transition of the majority of states and the ACT to accrual GFS reporting, it is only possible to provide information on the movement in deficit/(surplus) for the Total Non-Financial Public Sector. It should also be noted that data for 1999-00 is preliminary.

Chart 11.6 depicts the relative levels of own-source revenue as a proportion of Gross State Product (GSP) for each state and territory in 1995-96 and 1999-00 for the General Government Sector. The chart shows that, over the period 1995-96 to 1999-00, Tasmania, along with NSW, Queensland and South Australia, raised marginally more own source revenue as a proportion of GSP compared to the national average. The national average for 1995-95 and 1999-00 is 7.1 per cent and 7.6 per cent respectively.

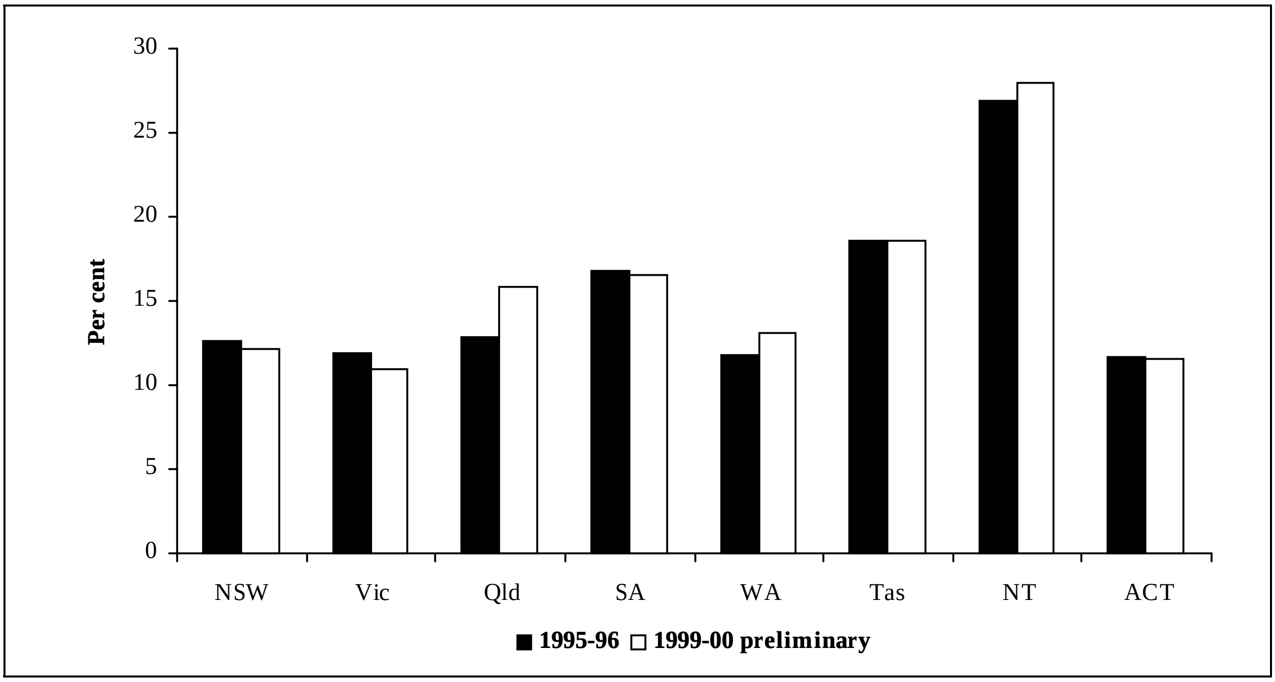
Chart 11.6: General Government Own Source Revenue as a percentage of GSP



Sources: *Government Financial Estimates*, Australia 2000-01, ABS Cat No 5501.0; Department of Treasury and Finance.

Chart 11.7 shows changes in the level of outlays as a proportion of GSP between 1995-96 and 1999-00 for the General Government Sector. Tasmania's ratio of outlays to GSP has remained constant over this period, reflecting the impact of successive Tasmanian Fiscal Strategies.

Chart 11.7: General Government Outlays as a percentage of GSP

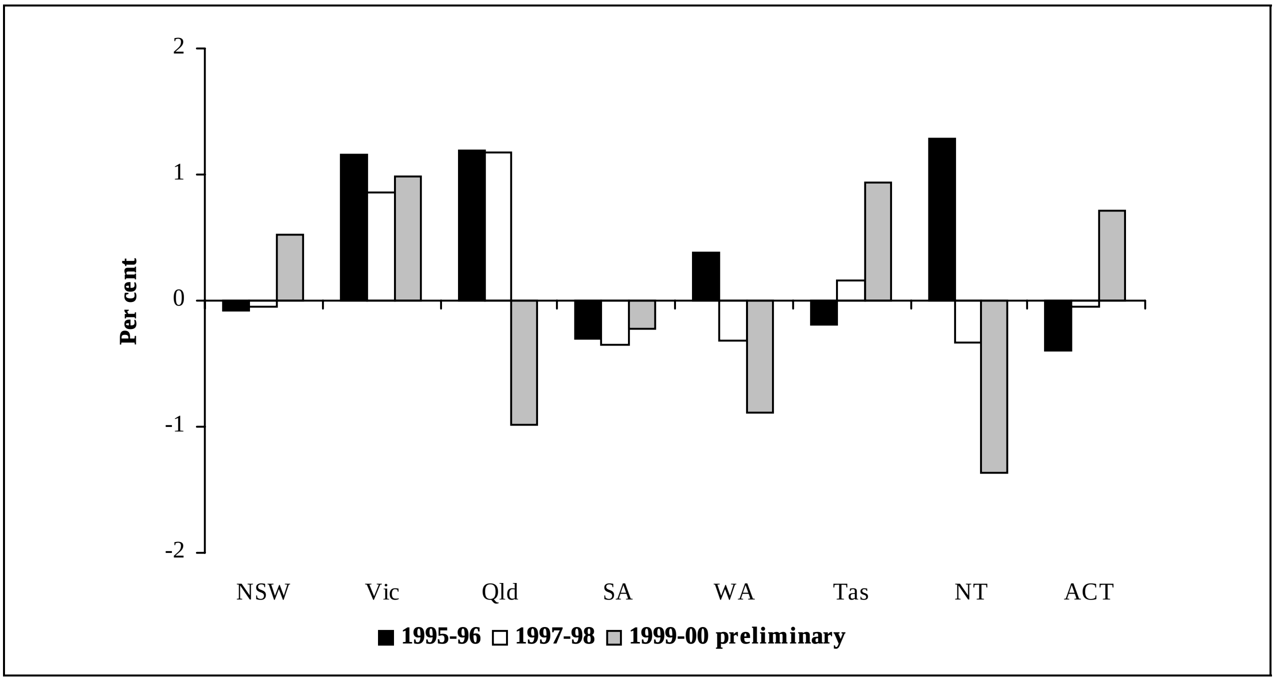


Sources: *Government Financial Estimates*, Australia 2000-01, ABS Cat No 5501.0; Department of Treasury and Finance.

Charts 11.8 and 11.9 compare movements in surplus/deficit as a proportion of GSP for the General Government Sector and Total Non-Financial Public Sector across all jurisdictions. Chart 11.9 clearly shows the strong improvement in Tasmania's surplus over this period. In 1999-00 Tasmania reported the second largest surplus as a proportion of GSP of all states and territories and is well above the national average.

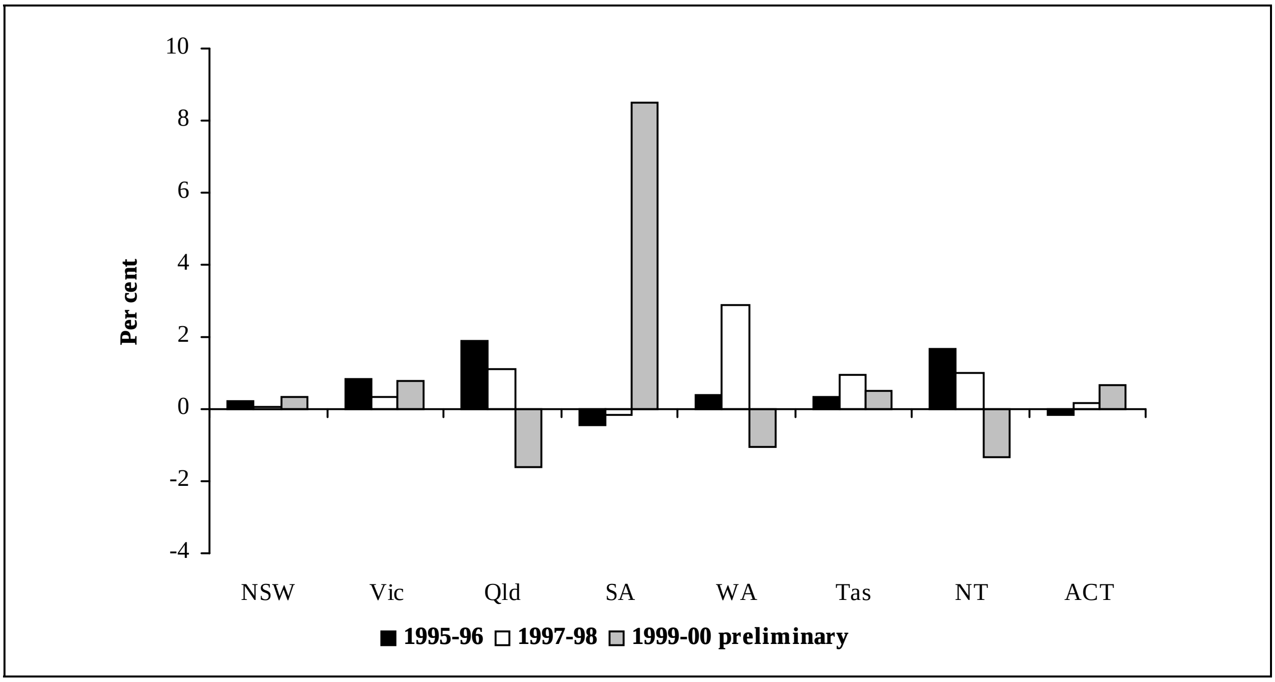
Chart 11.9 shows an improvement in Tasmania's total surplus on a Total Non-Financial Public Sector basis over the same period, bringing Tasmania's total surplus to levels comparable with the average of other states and territories.

Chart 11.8: General Government Surplus/(Deficit) as a percentage of GSP



Sources: *Government Financial Estimates*, Australia 2000-01, ABS Cat No 5501.0; *Australian National Accounts: State Accounts*, 1999-00, ABS Cat No 5220.0.

Chart 11.9: Total Non-Financial Public Sector Surplus/(Deficit) as a percentage of GSP



Sources: *Government Financial Estimates*, Australia 2000-01, ABS Cat No 5501.0; *Australian National Accounts: State Accounts*, 1999-00, ABS Cat No 5220.0.

LOAN COUNCIL

Loan Council Arrangements

Loan Council arrangements provide for each state and territory to nominate a Loan Council Allocation (LCA) based on the estimated combined underlying General Government and Public Trading Enterprises (PTE) Sector deficit/(surplus), plus certain memorandum items. Memorandum items are other financing transactions which, for Loan Council purposes, are treated as analogous to borrowings. This measure of the level of financing, therefore, focuses on the call of the public sector on national savings.

The Loan Council considers the appropriateness of LCA nominations from the perspective of consistency of the aggregate LCA with national macro-economic policy, each jurisdiction's current budgetary position and the expected medium-term outlook in cases where a state or territory's fiscal position is of concern.

New Loan Council arrangements, which were introduced in 1993-94 and published in a 1993 report entitled *Future Arrangements for Loan Council Monitoring and Reporting*, use the GFE deficit or surplus as the primary element of the LCA. Since that time, revised Loan Council reporting arrangements have been introduced and published in a March 1997 report entitled *Uniform Presentation Framework*. These arrangements are designed to reduce the complexity and duplication involved in Loan Council reporting by facilitating a framework that will integrate the Loan Council reporting arrangements into the Uniform Presentation Agreement first reached at the May 1991 Premiers' Conference.

Loan Council Allocations

The LCAs nominated for 2001-02 are listed in Table 11.7. Loan Council at its meeting of 31 March 2001, considered that the aggregate of 2001-02 LCA nominations was consistent with current macroeconomic policy objectives and endorsed each jurisdiction's nomination without change.

Table 11.7: Approved LCAs for 2001-02[1]

	NSW	Vic	Qld	SA	WA	Tas	NT	ACT	C/W
	$m	$m	$m	$m	$m	$m	$m	$m	$m
Nominated LCA[2]	**(849)**	**(22)**	**(110)**	**(103)**	**379**	**(32)**	**28**	**(201)**	**(12 573)**

Notes:
1. The LCA is a deficit concept. A negative LCA represents a surplus.
2. Tasmania's and the Northern Territory's LCAs are not strictly comparable with other jurisdictions as they continue to report on a cash basis, while other jurisdictions report on an accrual basis. For example, the General Government Sector cash deficit/(surplus) used in the accrual presentation is not calculated in the same manner as the General Government Sector underlying deficit/(surplus) used in the cash presentation. However, the difference is minimal.

The nomination has been compiled from forward estimates of the General Government Sector deficit/(surplus), information provided by the PTE Sector and an assessment of the magnitude of the borrowing program of local government councils.

After combining the underlying surplus and net advances paid for the Total Non-Financial Public Sector with the memorandum item for local government borrowing, the result is a surplus LCA nomination for Tasmania of $32.0 million for 2001-02. This compares with the surplus LCA nomination in 2000-01 of $43.0.

A two per cent tolerance band (calculated on non-financial public sector revenue) applies between the budgeted LCA and the LCA outcome.

Table 11.8 compares the budgeted LCA for 2001-02 with the LCA approved by the Loan Council in March 2001. A two per cent tolerance limit also applies between the LCA approved by the Loan Council and the budgeted LCA. In Tasmania's case, the tolerance limit applicable to Tasmania's LCA for 2001-02 is $51.0 million.

Table 11.8 shows that Tasmania's budgeted LCA for 2001-02 of $48 million is within the tolerance limit.

Table 11.8: Comparison of Budgeted Loan Council Allocation and the LCA Approved Nomination for 2001–02

	2001-02 Loan Council Allocation	2001-02 Budget Estimate
	$m	$m
General Government underlying Deficit / (Surplus)	**(66)**	**(83)**
PTE Deficit / (Surplus)	**14**	**(12)**
Total Non-Financial Public sector underlying Deficit / (Surplus)	**(52)**	**(95)**
Total Non-Financial Public Sector Net Advances Paid	**….**	**27**
Memo Items		
Local Government	**20**	**20**
Other	**….**	**….**
TOTAL LCA	**(32)**	**(48)**

APPENDIX

Classification Basis of Government Financial Estimates

The GFEs are prepared on the basis of concepts and classifications used by the ABS in the preparation of public finance statistics. These, in turn, are based on international standards set out in the International Monetary Fund's *A Manual of Government Finance Statistics* and the United Nations' *A System of National Accounts.*

The transaction classifications used in the preparation of the GFEs are:

- the Economic Transactions Framework, which categorises outlays, revenue, grants received and financing transactions according to their effect on the rest of the economy;
- the Government Purpose Classification, which groups outlays on similar functions; and
- the Taxes Classification, which gives detailed dissection of these revenue sources.

Given that the State Budget classifies transactions according to Ministerial portfolio, Output, recurrent services, and works and services accounts, the GFEs presented in Chapter 11 are not directly comparable with estimates presented elsewhere in the Budget Papers, but are nonetheless fully consistent with Budget estimates.

Agencies are classified in the GFEs into either the General Government, Public Trading Enterprise (PTE) or Public Financial Enterprise (PFE) Sectors. General Government agencies are departments, bodies or offices that provide services free of charge or at prices substantially below their cost of production. PTEs, on the other hand, aim to cover the bulk of their expenses by revenues from the sales of goods and services. The PFE Sector comprises those entities that perform central bank functions, or have the authority to incur financial liabilities and acquire financial assets in the market on their own account.

Given that the classification of agencies in the GFEs differs from the classification of agencies for Budget purposes, Table 11.9 compares the classification and coverage of agencies for GFEs purposes with that used for the Budget.

The GFEs provide a comprehensive record of State Government financial transactions. Other information presented elsewhere in this and other Budget Papers provides only partial information on particular aspects of the State's finances. The GFEs cover transactions made by the Tasmanian Public Finance Corporation (Tascorp) and other statutory authorities. The GFEs also cover payments to some authorities, such as the University of Tasmania, which do not impact in any way on the State Budget.

As GFEs are based on common concepts and classifications, they can be compared across state and territory governments. In doing so, however, care must be exercised as the varying structures of government administrations and functions may cause groups of transactions that serve similar functions in various jurisdictions to be classified differently.

Consolidation of Transactions

The GFEs present a consolidated view of the financial transactions of the General Government and PTE Sectors. The Total Non-Financial Public Sector is the consolidated total of the General Government and PTE Sectors. This enables the overall impact of State Government non-financial activity and its two component sectors of the Tasmanian economy to be illustrated.

To compile statistics about the financial activities of the whole State Government sector, or its components, the receipts and payments for certain types of transactions between units within the chosen grouping have to be matched and eliminated to avoid double counting. This process is known as consolidation.

For instance, in the case of GFEs, transactions between the Department of Treasury and Finance and the Department of Primary Industries, Water and Environment are netted out as both agencies are classified as General Government. Transactions between the Department of Treasury and Finance and Hydro Tasmania are not netted out in the General Government and PTE tables as the former agency is classified as General Government while the latter is a PTE. However, such transactions are netted out for the purposes of the Total Non-Financial Public Sector table.

Table 11.9: Classification of Public Sector Entities

Name	Administrative Sector	Institutional Sector
Education	**Budget**	**General Government**
Health and Human Services excluding Housing Division	**Budget**	**General Government**
House of Assembly	**Budget**	**General Government**
Infrastructure, Energy and Resources	**Budget**	**General Government**
Justice and Industrial Relations	**Budget**	**General Government**
Legislative Council	**Budget**	**General Government**
Legislature-General	**Budget**	**General Government**
Office of the Governor	**Budget**	**General Government**
Police and Public Safety	**Budget**	**General Government**
Premier and Cabinet	**Budget**	**General Government**
Primary Industries, Water and Environment	**Budget**	**General Government**
State Development	**Budget**	**General Government**
Tasmanian Audit Office	**Budget**	**General Government**
Treasury and Finance	**Budget**	**General Government**
Housing Division	**Budget**	**PTE**
Civil Construction Service Corporation	**Non-Budget**	**General Government**
Inland Fisheries Commission	**Non-Budget**	**General Government**
Marine *and* Safety Tasmania	**Non-Budget**	**General Government**
Royal Tasmanian Botanical Gardens	**Non-Budget**	**General Government**
State Fire Commission	**Non-Budget**	**General Government**
Tasmanian Public Finance Corporation	**Non-Budget**	**PFE**
Motor Accidents Insurance Board	**Non-Budget**	**PFE**
Burnie Port Corporation Pty Ltd	**Non-Budget**	**PTE**
Egg Marketing Board	**Non-Budget**	**PTE**
Hydro Tasmania	**Non-Budget**	**PTE**
Aurora Energy Pty Ltd	**Non-Budget**	**PTE**
Transend Networks Pty Ltd	**Non-Budget**	**PTE**
Forestry Tasmania	**Non-Budget**	**PTE**
Flinders Island Port Company Pty Ltd	**Non-Budget**	**PTE**
Hobart Ports Corporation Pty Ltd	**Non-Budget**	**PTE**
King Island Ports Corporation	**Non-Budget**	**PTE**
Metro Tasmania Pty Ltd	**Non-Budget**	**PTE**
Port Arthur Historic Site Management Authority	**Non-Budget**	**PTE**
Port of Devonport Corporation Pty Ltd	**Non-Budget**	**PTE**
Port of Launceston Pty Ltd	**Non-Budget**	**PTE**
Printing Authority of Tasmania	**Non-Budget**	**PTE**

Table 11.9: Classification of Public Sector Entities (continued)

Name	Administrative Sector	Institutional Sector
Private Forests Tasmania	**Non-Budget**	**PTE**
Rivers and Water Supply Commission	**Non-Budget**	**PTE**
Southern Regional Cemetery Trust	**Non-Budget**	**PTE**
Stanley Cool Stores Board	**Non-Budget**	**PTE**
Tasmanian Grain Elevators Board	**Non-Budget**	**PTE**
Tasmanian International Velodrome Management Authority	**Non-Budget**	**PTE**
The Public Trustee	**Non-Budget**	**PTE**
TOTE Tasmania Pty Ltd	**Non-Budget**	**PTE**
TT-Line Company Pty Ltd	**Non-Budget**	**PTE**

12 ACCRUAL ESTIMATES

Features

- As part of the Financial Management Reform Strategy, an accrual budget and financial management reform process has been initiated for the General Government Sector.
- Accrual budget and financial management reform is part of the ongoing process of improving the financial management of State resources through the implementation and utilisation of a contemporary financial management framework.
- An accrual budgeting framework is being developed by Treasury, in conjunction with agencies, to be adopted for the 2003-04 Budget.
- The purpose of this Chapter is to present accrual estimates for the General Government Sector (on-Budget entities only) for 2001-02. The Government has reported its financial transactions on an accrual basis since 1996-97. However, the development and presentation of consolidated accrual estimates is a first for Tasmania and represents the presentation of Budget information comparable to other Australian jurisdictions already operating under an accrual budgeting framework.
- The operating result for 2001-02 for the General Government Sector (on-Budget entities) is estimated to be a surplus of $29.9 million.
- The net asset position as at 30 June 2002 is estimated to be $3 026 million.

OVERVIEW

Governments in Australia, and internationally, are moving toward budgeting and financial management based on generally accepted accounting principles, resulting in fundamental changes to Budget management practices with an emphasis on total resource management and contemporary measures of Budget performance.

In 1996, Treasury commenced the implementation of a Financial Management Reform Strategy which, amongst other things, set the path for significant refocus in the way public resources are managed. Three tiers of financial management reform were introduced:

- accrual reporting;
- accrual accounting; and
- accrual financial management.

To further enhance the move towards improved accountability and the provision of better value for money in the delivery of services, the Financial Management Reform Strategy included the adoption of the Output Methodology, which aimed to focus on the delivery of services rather than the cost of inputs. Budget presentation is now based on Outputs designed to achieve the Government's Outcomes. Bringing the full accrual cost of Outputs into the Budget process assists in managing the financial resources consumed in the delivery of Outputs.

In 1996-97, agencies commenced reporting on an accrual basis, and in 1997-98 accrual accounting was introduced. The first consolidated financial statements, based on generally accepted accounting principles, were produced for Tasmania for the 1998-99 financial year.

Implementation of Accrual Budgeting

To provide a link between budgeting, accounting and reporting, an accrual Budget and financial management reform process has been initiated for the General Government Sector.

The reform process will be implemented through a three year phased approach.

Phase 1 (2001-02 Budget)

In Phase 1, agencies have prepared accrual estimates for the purpose of preparing a consolidated accrual Budget for the General Government Sector (on-Budget entities) for 2001-02. This Chapter reports the achievement of Phase 1 of the accrual budget and financial management reform process. The presentation of consolidated accrual Budget estimates is a first for Tasmania, signifying a move toward contemporary methods of budgeting in government and the adoption of budgeting practices used by other Australian jurisdictions.

Phase 2 (2002-03 Budget)

Phase 2 will involve the development of an accrual budgeting framework which includes accrual concepts, processes, procedures, business support systems amendments and an education and training program.

Consolidated accrual Budget estimates for the General Government Sector will again be presented in Budget Paper No 1 for the 2002-03 Budget.

Phase 3 (2003-04 Budget)

In Phase 3 it is proposed to implement full accrual budgeting. Phase 3 will involve the implementation of an accrual budgeting framework, which will represent a fundamental shift towards contemporary methods of budgeting and financial management in the General Government Sector. For the 2003-04 Budget it is proposed to present agency budgets on an accrual basis in addition to consolidated accrual Budget estimates for the General Government Sector.

Accrual Budgeting Principles

A Framework for Improved Management of State Resources

Cash budgeting does not recognise all costs incurred in the delivery of goods and services (Outputs). Accrual budgeting focuses on the complete set of resource costs incurred in the delivery of Outputs, not just cash costs.

The implementation of accrual budgeting will provide a framework for improved financial management by providing more complete information for determining and managing the financial position of the State.

Improved Comparability, Transparency and Accountability

The presentation of the Budget in accordance with accrual principles will:

- enable the Budget to be comparable to audited financial statements, thus providing a clearer picture of the achievement of the planned Budget result;
- increase the transparency of the State Budget by focusing on total resources, not just cash receipts and payments through the Consolidated Fund;
- improve the communication of financial information, providing a basis for the Government to more effectively assess agency accountability for the management of resources and service delivery;
- enable the Government and the community to more thoroughly review the quality and level of services provided by agencies in meeting Government Outcomes;
- through the provision of enhanced financial and non-financial information, enable Budget information to be more effectively communicated to readers familiar with contemporary financial management principles; and
- provide Budget information more comparable with other jurisdictions, assisting rating agencies and other commentators to review and assess the State's relative financial position.

Improved Skills and Opportunities

As the public sector more closely aligns with contemporary budgeting, accounting and reporting principles, there will be improved opportunity and access to skills currently available in the private sector.

The introduction of accrual budgeting and associated reforms will require improvements to the level of competency in financial management generally across the public sector, leading to improvements in the management of financial resources.

Accrual Budgeting Progress in Other Australian Jurisdictions

All other Australian jurisdictions, apart from the Northern Territory, now present their Budgets in accordance with generally accepted accounting principles, in particular Australian Accounting Standards and/or the accrual Uniform Presentation Framework. The Commonwealth Government presented its Budget on an accrual basis for the first time with the 1999-00 Budget.

Table 12.1: Accrual Budget Presentation in Australia

Jurisdiction	First Presentation of Accrual Estimates
Australian Capital Territory	**1996-97**
Victoria	**1998-99**
Western Australia	**1998-99**
South Australia	**1998-99**
New South Wales	**1998-99**
Queensland	**1999-00**
Commonwealth	**1999-00**
Tasmania	**2001-02**
Northern Territory	**Planned for 2002-03**

ACCRUAL ESTIMATES

This section presents the aggregated accrual estimates for the General Government Sector (on-Budget entities). The estimates were compiled by consolidating agency accrual budget information. The estimates are provided in the form of a:

- Statement of Financial Performance;
- Statement of Financial Position; and
- Statement of Cash Flows.

The estimates have been prepared in accordance with generally accepted accounting principles, in particular Australian Accounting Standard AAS31 *Financial Reporting by Governments*. This method is consistent with that used for preparing the Consolidated Financial Statements for the State of Tasmania. However, the scope of entities consolidated for the accrual estimates is different to that used to prepare Consolidated Financial Statements for the General Government Sector. Accrual estimates are compiled for on-Budget entities, which comprise Government agencies, whereas the General Government Sector also includes some statutory authorities, such as the State Fire Commission. A table detailing the classification of entities is provided in Chapter 11 (Table 11.9). Supporting information regarding the basis of presentation and consolidation of the accrual estimates is provided at the end of this Chapter.

Estimated Operating Result

The operating result for 2001-02 is estimated to be a surplus of $29.9 million. Table 12.2 presents the estimated Statement of Financial Performance and the operating result for 2001-02 for the General Government Sector (on-Budget entities). Total revenues for 2001-02 are estimated to be $2 615 million. Total expenses for 2001-02 are estimated to be $2 585 million.

Table 12.2: Statement of Financial Performance

	2001-02 Estimate $'000
Revenues	
Taxation	**446 582**
Fines and Regulatory Fees	**69 224**
Investment Income	**196 486**
Grants	**1 701 309**
Sales of Goods and Services	**201 186**
Net Revenues from Disposal of Physical Assets	**355**
Total Revenues	**2 615 142**
Expenses	
Employee Entitlements	**1 056 275**
Superannuation	**198 385**
Depreciation and Amortisation	**128 669**
Borrowing Costs	**136 171**
Grants and Transfer Payments	**516 162**
Supplies and Consumables	**549 562**
Total Expenses	**2 585 224**
Operating Surplus/(Deficit)	**29 918**

Reconciliation of the Operating Result with the Consolidated Fund Surplus

The Consolidated Fund Surplus (CFS) represents the difference between Consolidated Fund receipts and payments (net of loan repayments). Further information on the CFS, including the estimate for 2001-02, is provided in Chapter 4.

The CFS represents the sum of cash based transactions through the Consolidated Fund whilst the estimated operating result represents the consolidation of all accrual based transactions for on-Budget entities and encompasses both the Consolidated Fund and the Special Deposits and Trust Fund (SDTF). The major differences relate to:

- timing between cash and accrual transactions (eg movements in payables and receivables);
- transfers of money from the Consolidated Fund to the SDTF; and
- transactions conducted solely through the SDTF.

Table 12.3 presents a reconciliation of the Consolidated Fund Surplus to the estimated operating result for 2001-02.

Table 12.3: Reconciliation of the Consolidated Fund Surplus to the Estimated Operating Result

	2001-02 Budget
	$'000
Consolidated Fund Surplus (CFS)	**4 150**
Add Transfers from Consolidated Fund to Special Deposits and Trust Fund	
Superannuation Contribution	**94 020**
Employment Rationalisation Program and 27th Pay Contribution	**11 000**
Infrastructure Fund	**20 000**
	125 020
Add Capitalised Consolidated Fund Expenditure	**91 677**
Add Movement in Assets and Liabilities	**3 888**
Subtract Depreciation and Amortisation	**(128 669)**
Subtract Superannuation Liability Revaluation	**(66 148)**
	(99 252)
Estimated Operating Surplus/(Deficit)	**29 918**

Estimated Net Assets

At 30 June 2002, it is estimated that the net asset position of the General Government Sector (on-Budget entities) will be $3 026 million. Total assets are estimated to reach $6 989 million and total liabilities $3 963 million. The estimated Statement of Financial Position, including the estimated net asset position for 2001-02, is shown in Table 12.4.

Table 12.4: Statement of Financial Position

	2001-02 Estimate
	$'000
Assets	
Current assets	
Cash	568 931
Receivables	55 887
Investments	51 753
Equity Investments	625
Prepayments	1 566
Accrued Revenue	6 228
Other	10 860
Total Current Assets	695 850
Non-Current assets	
Receivables	260
Investments	144 422
Equity Investments	873 175
Land and Buildings	2 382 959
Plant and Equipment	89 263
Infrastructure	2 784 296
Other	18 593
Total Non-Current Assets	6 292 968
Total Assets	6 988 818
Liabilities	
Current Liabilities	
Payables	32 644
Interest Bearing Liabilities	333 324
Employee Entitlements	139 071
Superannuation	116 679
Accrued Expenses	61 326
Other	11 942
Total Current Liabilities	694 986

Table 12.4: Statement of Financial Position (continued)

	2001-02 Estimate
	$'000
Non-Current Liabilities	
Interest Bearing Liabilities	1 449 108
Employee Entitlements	117 220
Superannuation	1 659 657
Other	42 070
Total Non-Current Liabilities	3 268 055
Total Liabilities	3 963 041
Net Assets	3 025 777

Estimated Cash Position

The estimated Statement of Cash Flows for the General Government Sector (on-Budget) entities for 2001-02 is shown in Table 12.5. The Statement of Cash Flows details estimated cash inflows and outflows from the Public Account for 2001-02. For 2001-02, the estimated cash at the beginning of the reporting period is $579 million. It is estimated that the cash at the end of the reporting period will be $569 million.

Table 12.5: Statement of Cash Flows

	2001-02 Estimate
	$'000
Cash Flow from Operating Activities	
Receipts	
Taxation	**446 582**
Fines and Regulatory Fees	**69 224**
Interest Received	**15 253**
Grants	**1 701 309**
Sales of Goods and Services	**415 136**
Total Receipts	**2 647 504**
Payments	
Employee Entitlements	**1 052 858**
Superannuation	**132 128**
Interest Paid	**135 457**
Grants and Transfer Payments	**510 224**
Supplies and Consumables	**637 640**
Total Payments	**2 468 307**
Net Cash From/(Used) in Operating Activities	**179 197**

Table 12.5: Statement of Cash Flows (continued)

	2001-02 Estimate
	$'000
Cash Flows from Investing Activities	
Sale of Fixed Assets	28 325
Purchase of Fixed Assets	(164 965)
Net Purchase of Investments	9 945
Net Cash From/(Used) in Investing Activities	(126 695)
Net Cash Flows from Financing Activities	
Net Borrowings	(62 512)
Net Cash Flows From/(Used) in Financing Activities	(62 512)
Net Increase/(Decrease) in Cash Held	(10 010)
Cash at Beginning of Reporting period	578 941
Cash Held at End of Year	568 931

Supporting Information and Notes

Basis of Presentation

Accrual Budget estimates are prepared in accordance with the concepts of generally accepted accounting principles, in particular Australian Accounting Standard AAS31 *Financial Reporting by Governments*, AAS29 *Financial Reporting by Government Departments* and other Australian Accounting Standards where relevant. This is consistent with the concepts used for the preparation of the Consolidated Financial Statements for the State of Tasmania, as outlined in the Notes to those Statements.

Basis of Consolidation

Consolidated accrual Budget estimates are based on approved Budget allocations for 2001-02 for General Government Sector (on-Budget entities). In the process of consolidating agency accrual budget information, all material transactions and balances between agencies are eliminated.

Entity Classification

On-Budget entities include all those entities where transactions are recorded through the Public Account. This includes the majority of entities classified as General Government for financial reporting purposes. A full description of entities classified as on-Budget is provided in *The Tasmanian Government Financial System* document which is released with the Budget Papers.

Statement of Financial Performance

The Statement of Financial Performance (Operating Statement), presented in accordance with AAS1 *Statement of Financial Performance*, details the estimated revenues and expenses and the estimated Operating Surplus/Deficit (Operating Result) for the Budget year. Under accrual principles, items are brought to account as they are earned or incurred (not as money is received or paid). The Statement of Financial Performance is, therefore, based on estimated revenues and expenses for which cash may or may not be received in the same Budget year. Non-cash items such as depreciation and revaluations of superannuation liability are also included in the Statement of Financial Performance.

Statement of Financial Position

The Statement of Financial Position, presented in accordance with AAS36 *Statement of Financial Position*, details estimated assets and liabilities to arrive at an estimated net asset position at the end of the Budget year. Assets and liabilities are classified into current and non-current. Current assets and liabilities are those which are expected to be used or discharged within the following 12 months. Non-current assets and liabilities are those which are expected to be held for more than one year, or not discharged in the following 12 months.

Statement of Cash Flows

The Statement of Cash Flows, presented in accordance with AAS28 *Statement of Cash Flows*, details estimated cash inflows and outflows from the Public Account for the Budget year. Cash flows are classified into operating, investing and financing activities. Cash flows from operating activities include all estimated cash payments and cash receipts relating to normal operations. Payments from operating activities exclude depreciation and other non-cash expenditure. Cash flows from investing activities are those activities that relate to the expected acquisition and disposal of property, plant and equipment and other capital items. Cash flows from financing activities detail the estimated repayment of borrowings in the Budget year.

13 LOCAL GOVERNMENT

Features

- Partnership Agreements with Circular Head, Launceston City, Flinders and Glenorchy City Councils have been negotiated. The first regional Partnership Agreement is also being negotiated with the Northern Tasmanian Municipal Organisation. Negotiations for Partnership Agreements with Derwent Valley Council, Break O'Day Council and the Cradle Coast Authority are to commence shortly.
- The Premier's Local Government Council has been established to consider issues of statewide importance. Among other things, the Council has agreed a timetable within which a comprehensive review of State-local financial relations is to be undertaken.
- The financial position of the local government sector has been reported on an accrual accounting basis. This has resulted in significant revisions to Government Finance Statistics (GFS) data reported in this Chapter.
- Sales of goods and services, including water, sewerage and garbage components of rates, were the major local government revenue sources, accounting for 41.6 per cent of total GFS revenue in 1998-99. Taxes (the general rate component) was 35.1 per cent of total GFS revenue and total grants and subsidies made up 17.4 per cent.
- In 1998-99 the largest expense area was housing and community amenities at 34.7 per cent of total GFS expenses, while interest comprises only 3.5 per cent of the total, reflecting the low debt level of the local government sector.

INTRODUCTION

This Chapter provides information on:

- the development and role of the local government sector in the Tasmanian economy;
- the financial relationship local government has with both the State Government and the Commonwealth Government;
- the implications of current economic reform initiatives for local government;
- the financial position of local government in general; and
- the local government key performance indicator project currently under development.

DEVELOPMENT OF THE LOCAL GOVERNMENT SECTOR AND ITS ROLE IN THE ECONOMY

Development of the Local Government Sector

Local government originated in the early years of European settlement in Tasmania and existed in a variety of forms including municipal districts, cities, rural municipalities, town boards and road trusts, until the *Local Government Act 1906* provided for their replacement with municipalities which administered all local government functions. A total of 52 municipalities (including the cities of Hobart and Launceston) were formed.

Under the *Local Government Act 1962* (1962 Act) another four cities were proclaimed: Glenorchy, Devonport, Clarence and Burnie. By this time there were 46 local government authorities (LGAs) in total. The 1962 Act was very prescriptive about how local government could function.

In 1992, the then State Government and local government agreed to a reform and modernisation program that involved reviewing:

- local government boundaries in Tasmania;
- the 1962 Act;
- council management, administration and procedures, with a view to meeting the contemporary needs of a changing local government structure; and
- the roles and functions of local government and the revenue bases required to fund them.

The latest *Local Government Act 1993* provides for a high level of general competence powers for councils to carry out their responsibilities, which has changed the focus of local government accountability from the State to the communities that they serve. This contrasts with the more detailed and prescriptive approach taken in the previous legislation.

In April 1993, the number of LGAs in Tasmania was reduced from 46 to 29.

An independent review of roles and functions between the State and local levels of government commenced early in 1994 and was completed in July 1996. It recommended, among other things:

- simplifying the financial relationship between the State Government and local government to improve the financial autonomy and independence of local government, make transparent the level of government that is responsible for taxation and expenditure decisions and allow for more economically efficient decision making by the two levels of government through the use of market-based prices and charges;
- that as a long-term objective, all water and sewerage bulk supply, treatment and reticulation services should be provided by three integrated regional enterprises owned by local government and operated under expert independent Boards, but with the State Government retaining regulatory responsibility; and
- that three formally constituted regional bodies be established to develop strategies for promoting waste management practices which meet contemporary standards in the most effective manner. These bodies should represent the entire region and include a mix of local government and external expertise. Final accountability will remain with the councils that form the regional body.

With respect to water reform, this has been progressed through the transfer of the Hobart Regional Water Board (HRWB) to the southern councils on 1 January 1997. The North Esk Regional and West Tamar Water Supply Schemes operated by the Rivers and Water Supply Commission were transferred to the northern councils on 1 July 1997 and together with Launceston City Council's water supply scheme, re-established under the Local Government Act as a joint authority which operates as the Esk Water Authority (EWA). The North West Regional Water Authority (NWRWA) was transferred to local government on 10 August 1999.

Regarding the reform of State and local government financial relations, the Government wrote to the Local Government Association of Tasmania (LGAT) on 14 April 1999 suggesting that subsequent work on State and local government financial reforms be held in abeyance pending the outcome of national taxation reform. Now that the 1 July 2000 national taxation reform milestone has been met, it is appropriate that the project to reform State and local government financial relations recommence. At the Premier's Local Government Council meeting on 1 March 2001, it was agreed that the project to reform State and local government financial relations would be included on the Council's work program for 2001, given that the project is a matter that affects local government as a whole.

Role in the Economy

Local government produces public services that are generally suited to delivery at the community or local/regional level. Functions of councils are prescribed under section 20 of the Local Government Act. Broadly, these aim to:

- provide for the health, safety and welfare of the community;
- facilitate and encourage proper planning and development;
- represent and promote the interests of the community;
- provide for peace, order and good government; and

- formulate, implement and monitor policies, plans and programs for the provision of appropriate services and facilities to meet the present and future needs of the community.

Local government functions include the provision of: water reticulation and sewerage services; local roads; garbage collection and disposal; and community recreational amenities. Expenditure is funded from:

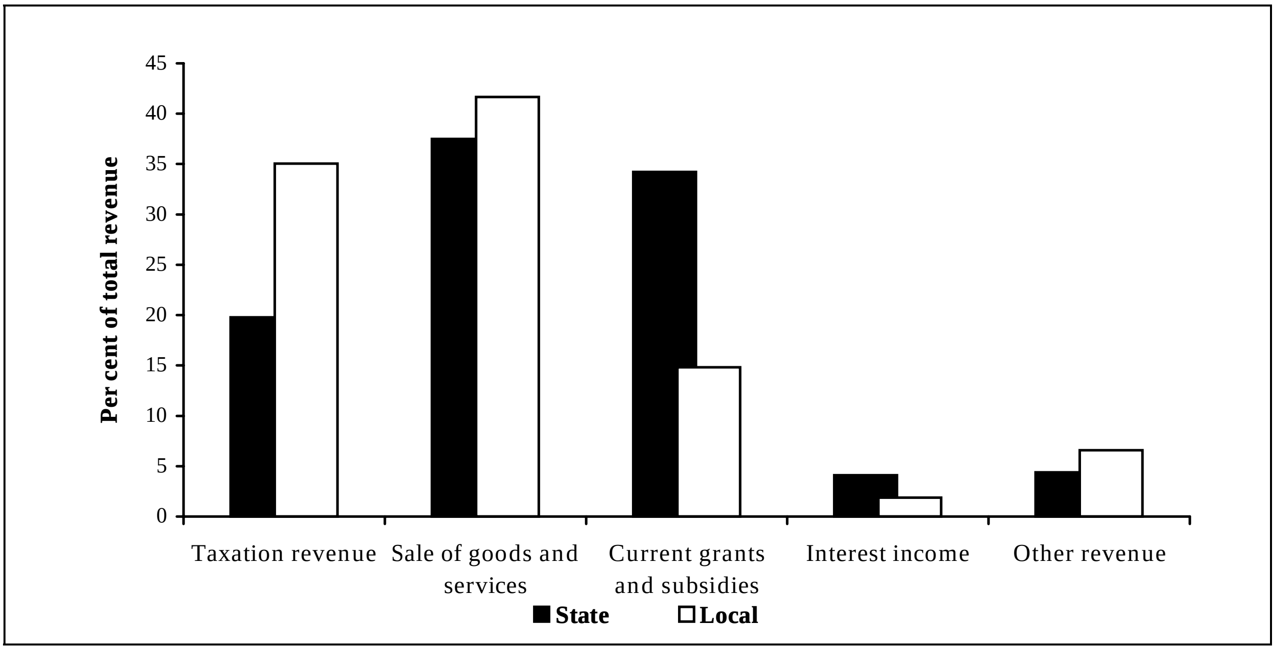
- rates, fees, fines and charges;
- Commonwealth Government and State Government grants; and
- borrowing.

Local government activities have a significant impact on, and role within, the State economy. For example, water and sewerage represent significant inputs for many key industry sectors. The development, planning approval and control functions of local government also have a fundamental economic impact.

In 1998-99, sales of goods and services, including water, sewerage and garbage components of rates, were the major local government revenue sources, accounting for 41.6 per cent of total GFS revenue. Tax revenues (the general rate component) constituted 35.1 per cent of total GFS revenue. Current grants and subsidies made up 14.8 per cent of total revenue. It should be noted that total grants and subsidies made up 17.4 per cent of total GFS revenue in 1998-99. By comparison, the majority of State Government revenue stems from Commonwealth transfers.

Chart 13.1 shows the sources of revenue of the State and local levels of government in Tasmania during 1998-99.

Chart 13.1: State and Local Government Revenue Sources, 1998-99



Source: *Government Finance Statistics*, Australia 1998-99, ABS Cat No 5512.0.

It is important for the promotion of economic growth that both the State and local levels of government participate, through genuine improvements in efficiency, in reducing the costs that they impose on business and the community. Local government can assist economic reform by keeping the burden of rates and charges to the minimum level necessary. This can be achieved by local government continuing to improve the efficiency of its service delivery and by focusing expenditure on core activities.

Local government financial management is also important with regard to external monitoring of the State Government's financial position. Rating agencies and the Australian Loan Council include local government in their assessments of State Government finances. The opinions of rating agencies have a direct impact on the cost of servicing the State's debt. The State Government must also manage the annual financial performance of the State public sector (including local government borrowing) within the constraints set by the Australian Loan Council. These constraints seek to ensure that the demands placed on financial markets by the public sector, including local government, are at a level that will not significantly impact on the availability of capital to the private sector. The constraints also ensure that the various jurisdictions within the public sector are adopting appropriate long-term fiscal strategies.

RELATIONSHIP WITH OTHER LEVELS OF GOVERNMENT

There is a relatively complex financial relationship between local government, the State Government and the Commonwealth Government. The complexity in this relationship arises both from the nature of the institutional arrangements in Australia referred to in Chapter 7, and because of the blurred division of the respective roles and responsibilities of the three levels of government, despite the constitutional division of powers. Whilst respective taxing powers are relatively well differentiated, the exact role of local government as distinct from other levels of government is not always clear. As with the situation between the Commonwealth and State, this leads to some duplication and overlap and an array of financial transfers between governments.

The financial transfers involving local government can be categorised as follows:

- grants from the Commonwealth Government;
- grants from the State Government;
- State Government subsidies of local government costs;
- local government exemptions from State taxes and charges and State exemptions from council general rates;
- levies and charges paid by councils to the State Government; and
- charges paid by councils for the use of State Government services.

Commonwealth Grants

The Commonwealth Government provides both general purpose and specific purpose funding for local government. General purpose assistance has been paid to LGAs since 1974-75. General purpose funding comprises base grants and identified local road funds (ILRFs), both of which are distributed in accordance with the Commonwealth's *Local Government (Financial Assistance) Act 1995*. Although local road funds are still identified as a separate component, councils have total discretion over how they are used.

The Local Government (Financial Assistance) Act is currently being reviewed for the Commonwealth by the Commonwealth Grants Commission. On 19 June 2000, the Minister for Regional Services, Territories and Local Government announced the terms of reference for the Review. The Review is to examine and report on:

- the effectiveness of the current arrangements under the Local Government (Financial Assistance) Act to achieve the purposes of the Act and the goals in providing the grants that are referred to in section 3 of the Act;
- the appropriateness of the current National Principles and, in particular, the retention of or variations of the minimum grant for the general purpose component in section 6 of the Act; and
- the consistency with the National Principles of the methodology and policies used by each of the State and Territory Grants Commissions in distributing funds to councils.

As required by section 17 of the Local Government (Financial Assistance) Act, the Review shall also examine and report on:

- the effectiveness of the arrangements under this Act in relation to ensuring that the allocation of funds for local government purposes is made on a full horizontal equalisation basis;
- the impact of the Act on the raising of revenue by local governing bodies and on the assistance provided by the States to local governing bodies;
- the implications of any changes in the functions or responsibilities of local government bodies; and
- the eligibility for assistance under this Act of bodies declared by the Minister under section 4 to be local government bodies.

The Review will not address the interstate distribution of the general purpose and local road grants or the quantum of funds available under the Act. The State Grants Commission made a preliminary submission to the Review in response to the initial discussion paper prepared by the Commonwealth Grants Commission. It also participated in a forum discussion with the Commonwealth Grants Commission held in Hobart on 17 July 2000, at which aspects of its methodology were discussed, along with many issues pertinent to the terms of reference. A final report is due to be released at the end of June 2001.

Prior to 2000-01, escalation in the national pool of local government financial assistance was partly determined by underlying movements in Financial Assistance Grants (FAGs) to the states and territories. With the reform of Commonwealth-State financial arrangements stemming from the introduction of the Commonwealth's *A New Tax System*, FAGs were abolished from 1 July 2000, and replaced by revenues collected from the goods and services tax. This brought to an end the nexus between State and local government grants and, accordingly, it became necessary to amend the Local Government (Financial Assistance) Act to recognise this fact.

From 2000-01 onwards, the national quantum of local government general purpose financial assistance will be linked to annual changes in both the Australian population and the consumer price index, so that the pool is maintained in 'real per capita' terms. The final year for which the previous arrangements existed, which was 1999-00, becomes the base for determining the size of the local government grant pool in each subsequent year. These arrangements will, in effect, leave local government no worse off financially in terms of general purpose Commonwealth funding than had the previous arrangements continued. In fact, real per capita maintenance of Commonwealth general purpose grants to local government is now guaranteed under legislation, whereas this was not previously the case.

The Commonwealth's Local Government (Financial Assistance) Act specifies that the distribution of the base grant (ie not including road funds) between states and territories will be on a per capita basis. ILRFs are not distributed between states and territories on a per capita basis, but rather on the basis of historical shares between states and territories as defined in the Commonwealth's *Australian Land Transport Development Act 1988*. In total, Tasmania receives 3.3 per cent of the total general purpose payments made available nationally to local government by the Commonwealth. Total Commonwealth general purpose payments to Tasmania's LGAs are estimated to be $44.1 million in 2000-01, a real terms decrease of 1.7 per cent over the total payments for 1999-00 of $42.5 million.

Estimated total Commonwealth general purpose payments in 2000-01 to local government in each state and territory for base grants and ILRFs are shown in the following table.

Table 13.1: Commonwealth General Purpose Grants to Local Government, 2000-01

State/Territory	Base Grants	Identified Local Road Funds	Total Grants	% of Total
	$m	$m	$m	%
New South Wales	**309.7**	**117.9**	**427.7**	**32.3**
Victoria	**227.6**	**83.8**	**311.4**	**23.5**
Queensland	**170.0**	**76.2**	**246.2**	**18.6**
Western Australia	**90.0**	**62.1**	**152.1**	**11.5**
South Australia	**71.9**	**22.3**	**94.2**	**7.1**
Tasmania	**22.6**	**21.5**	**44.1**	**3.3**
Northern Territory	**9.3**	**9.5**	**18.9**	**1.4**
Australian Capital Territory	**14.9**	**13.0**	**28.0**	**2.1**
TOTAL[1]	**916.0**	**406.5**	**1 322.5**	**100.0**

Source: *Statement of Estimated Payments*, Commonwealth Treasury, April 2001.
Note:
1. These figures represent estimates of the cash payments to be made in 2000-01 which consist of the estimated entitlement for 2000-01 adjusted for underpayments made in 1999-00, which are added to the quarterly instalments paid by the Commonwealth over the 2000-01 financial year.

The Commonwealth has determined that there will be a positive adjustment as the estimated inflation figure of 2.95 per cent used to determine last year's pool was lower than the actual level of inflation of 3.09 per cent. The adjustment is added to the 2000-01 quarterly payments, based on the distribution of the 1999-00 grants. This means that the cash actually paid to Tasmanian councils in 2000-01 will be the estimated 2000-01 entitlement of $44.0 million plus a positive adjustment to the 1999-00 grants of $73 387, which is a total of $44.1 million. Over time, Tasmania's share of these grants is expected to decline due to a declining share of national population.

Each LGA's share of funds is allocated on the recommendation of the Tasmanian State Grants Commission. The base grant distribution is determined according to the fiscal equalisation principle. This principle aims to provide each LGA with the capacity to be able to fund a level and standard of service not appreciably different from the State average, provided that an average revenue raising effort is made. The allocation of

ILRFs between LGAs is based on the relative expenditure need of each municipality in order to preserve its road assets.

Table 13.2 details the Commonwealth general purpose grants made to individual Tasmanian councils in 1999-00 and the recommended grants for 2000-01 that have been approved by the Commonwealth. The totals in Table 13.1 for 2000-01 vary from the Tasmanian figures presented in Table 13.2 because they represent the cash payments to be made in 2000-01.

Table 13.2: Commonwealth General Purpose Grants to LGAs, 1999-00 and 2000-01 (Recommended Entitlement)

	1999-00			2000-01		
	Base Grant	ILRF	Total Grant per capita	Base Grant	ILRF	Total Grant per capita
	$'000	$'000	$	$'000	$'000	$
Break O'Day	662.8	792.7	253.4	674.0	872.0	269.1
Brighton	745.9	308.5	81.2	708.6	309.2	78.4
Burnie	983.4	740.9	89.0	938.2	703.8	84.7
Central Coast	1 178.2	922.1	99.8	1 233.2	1 014.4	106.8
Central Highlands	601.1	791.7	558.0	571.0	767.0	536.1
Circular Head	812.4	912.9	203.1	814.0	902.6	202.1
Clarence	1 058.4	764.2	37.3	1 149.6	794.8	39.7
Derwent Valley	546.5	489.2	105.6	576.5	474.1	107.1
Devonport	776.9	594.3	56.1	792.8	615.8	57.6
Dorset	798.0	1 080.1	252.1	791.4	1 089.7	252.5
Flinders	367.9	364.0	775.2	382.7	363.3	790.3
George Town	554.9	362.6	136.2	558.9	395.0	141.6
Glamorgan/Spring Bay	364.6	417.4	185.3	391.6	440.8	197.2
Glenorchy	615.8	791.5	32.1	630.4	796.5	32.5
Hobart	649.1	835.3	32.3	663.0	918.8	34.4
Huon Valley	932.2	1 016.5	143.0	942.0	1 007.6	143.1
Kentish	629.6	657.0	232.7	649.4	680.7	240.5
King Island	351.0	399.7	422.9	351.2	396.4	421.2
Kingborough	959.6	789.5	61.5	983.3	750.1	60.9
Latrobe	400.1	321.9	89.2	440.1	347.9	97.4
Launceston	1 538.1	1 533.2	48.9	1 691.9	1 613.0	52.6
Meander Valley	1 048.3	1 084.8	121.5	1 153.1	1 193.0	133.6
Northern Midlands	1 129.0	1 190.2	196.3	1 162.3	1 309.2	209.2
Sorell	600.8	477.9	98.9	639.0	520.0	106.2
Southern Midlands	711.3	1 219.1	343.4	739.1	1 275.5	358.4
Tasman	261.7	216.1	213.8	266.1	214.1	214.9
Waratah/Wynyard	942.6	741.8	121.3	943.6	797.2	125.3
West Coast	722.8	333.3	188.6	686.6	366.7	188.1
West Tamar	1 013.8	529.6	77.2	1 007.8	582.6	79.5
TOTAL[1]	**21 956.9**	**20 678.2**	**90.6**	**22 531.7**	**21 511.8**	**93.6**

Sources: Tasmanian *State Grants Commission Annual Report For 2000-01*; Commonwealth approved State Grants Commission recommendations for 2000-01.

Note:

1. To obtain the total grants per capita, the 1999-00 population estimate was used, as this is the most recent available.

The Tasmanian State Grants Commission is currently considering a distribution of grants to local government for 2001-02.

In addition to general purpose grants, the Commonwealth provides some specific purpose grants to local government. These grants are largely provided for aged and disabled persons' homes, children's services and aboriginal advancement.

Partnership Agreements

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

A Partnership Agreement is a document that outlines the ways in which the State Government and a council or group of councils can find innovative ways of working together to improve the social, economic and environmental situation within a community by reaching mutually agreed goals. A Partnership Agreement can be formed around a particular issue, or may cover a range of different issues.

Partnership Agreements provide an opportunity to examine government service delivery arrangements and for the State and councils to jointly identify measures to improve their design and/or delivery. A key aspect is to ensure that there are effective service delivery arrangements to meet the reasonable needs of all residents including, where appropriate, options to improve coordination of joint State-local service delivery arrangements or to address gaps and overlaps in service delivery. Where State Government services can be more effectively and efficiently delivered at the local government level, agreement will be reached on appropriate funding arrangements, and any amendment of existing service delivery arrangements will be the subject of contractual arrangements between the parties to ensure appropriate accountability and transparency of implementation.

Results from the Partnership Agreements are measurable through agreed timeframes and outcomes. Each Partnership Agreement concluded with local government is accompanied by an action plan identifying council and State Government agency responsibilities. An inter-agency coordination group has been established to monitor progress in implementing Partnership Agreement commitments of the State Government.

Cabinet meetings regularly conducted around the State actively support the Partnership Agreements between State and local government. These Cabinet meetings form an additional strategy to draw upon key ideas for growth in local communities.

Objectives

The aim is that Partnership Agreements be developed in a cooperative manner based on the identification of shared objectives and ways in which both levels of government can work towards effectively meeting these objectives. The Government's objectives for the Partnership Agreements were outlined in its *Framework for Developing State-Local Government Partnership Agreements*, released in December 1998.

In summary these objectives are to:

- identify opportunities to work in partnership with local government to progress agreed social, economic and environmental outcomes for local government areas; and
- ensure effective service delivery arrangements including, where appropriate, options to improve coordination and joint service delivery arrangements or address gaps and overlaps in service delivery.

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

- economic growth;
- social justice; and
- community development.

The Partnership Agreements will have a role in facilitating the achievement of agreed social, economic and community development benchmarks identified in Tasmania *Together*, the social and economic plan to drive the strategic direction of the State. Additionally, at a sectoral level the Partnership Agreements provide a framework for implementing the sector specific Industry Development Plans.

Background

The pilot phase of the program was launched in December 1998 commencing with the negotiation of a bilateral Partnership Agreement with the Circular Head Council, which was signed on 1 June 1999. The pilot phase concluded with the signing of a bilateral Partnership Agreement with the Launceston City Council on 10 December 1999.

In December 1999, the State Government agreed to revised arrangements arising from the assessment of the pilot phase of the program. The process for developing Partnership Agreements has been amended to:

- include provision for the Premier (or a Minister nominated to oversee negotiations) to participate in discussion with council(s);
- include provision for the relevant Minister to participate in peak negotiating meetings to oversee negotiations and maintain consultations with elected local government members and State Cabinet;
- include arrangements for the State Government to identify key issues and strategic objectives for proposed Partnership Agreements. The Premier's Office, Ministerial advisers, Heads of Agencies or senior nominees and relevant agency personnel assist in identifying outcomes and the preparation of a draft negotiating brief for Cabinet endorsement; and
- include provision for councils to use their strategic planning process to identify issues for inclusion in negotiations.

In addition to bilateral Partnership Agreements, which are negotiated separately with each council in order to satisfy the particular requirements of the council and those of the State Government, the review identified the development of new partnership options to provide more flexible and innovative opportunities for the State Government to work with local government. To this end, the State Government has undertaken to develop regional Partnership Agreements with a regional body or a group of councils and statewide Partnership Agreements. Where a regional or statewide Partnership Agreement involves specific ministerial portfolios, the relevant Minister oversees negotiation of that Agreement.

The two bilateral Partnership Agreements, which have been finalised since the pilot program, are the Partnership Agreement with the Glenorchy Council, which was signed on 19 October 2000, and the Partnership Agreement with Flinders Council, which was signed on 20 October 2000.

The State Government is in the final stages of negotiating the first regional Partnership Agreement with the Northern Tasmanian Municipal Organisation. Future Agreements include bilateral Partnership Agreements with the Derwent Valley and Break O'Day Councils and a regional Partnership Agreement with the Cradle Coast Authority.

Premier's Local Government Council

The Premier's Local Government Council was established in 2000 as a forum for high-level discussions with councils on issues of statewide significance. The Council comprises the Premier or his nominee and the nine elected representatives who make up the General Management Committee of the LGAT. An Officials Committee made up of State and local government officers supports the Council. A statewide Partnership Agreement, which is negotiated through the Council, involves all councils and the State Government and is signed by the President of the LGAT on behalf of the councils. The Premier's Local Government Council has developed two statewide Partnership Agreements, a Framework for Planning Schemes and a Waste Management Partnership Agreement. The Council's agenda for 2001-02 will include consultation and communication arrangements and a project to reform State and local government financial relations (which is discussed in the next section).

FINANCIAL REFORM OF THE LOCAL GOVERNMENT SECTOR

There is currently a complex set of financial arrangements between State and local government, many of which could be considered a product of history, rather than as a result of deliberate public policy decisions in the context of State-local financial relations more generally. These include:

- levies and charges on local government to fund services provided by the State in which local government has limited, if any, input;
- various fees and charging arrangements which are not commercially based and are therefore considered to distort decision making; and
- various taxation exemptions, concessions, specific purpose grants and subsidies which reduce accountability and distort decision making.

The aim of the State and local government financial reform project is to simplify and make more transparent financial arrangements between the two levels of government. In doing so, policy decision making will be enhanced by making it easier to assess the implications of policies under consideration.

The issue of reforming financial relations between the State and local government has been considered on a number of occasions in the recent past. The latest and, arguably, most comprehensive investigation of this issue concluded in 1996, with a report, entitled *Roles and Responsibilities of State and Local Government* prepared by the Tasmanian Roles and Functions Review Committee.

The Tasmanian Roles and Functions Review Committee recommended a number of reforms to financial relations between the two levels of government, including that:

- both levels of government should be subject to the tax system of each other (reciprocal taxation);
- subsidies and concessions between the two levels of government should be removed;
- there should be a better alignment between the levels of government having service delivery and revenue raising responsibilities; and
- cost reflective and market based fee for service arrangements should apply.

Reciprocal taxation arrangements have a number of significant economic advantages, including the simplification of administrative arrangements through a reduction in the number of exempt entities, which assists in ensuring that decision making takes more account of the full cost of providing government services. The application of general rates to State properties, for example, would provide local government councils with revenue in relation to properties for which services are provided, thereby producing a closer alignment between council revenue and expenditure responsibilities. It would also encourage State Government agencies to rationalise property ownership in the light of holding costs faced by non-government organisations, some of which may provide the same, or similar, services.

Similarly, the application of State taxes to local government would result in councils facing the same market based and commercial decisions faced by all other entities and this will enhance efficient resource management.

Reciprocal taxation arrangements will also serve to improve the transparency and accountability of inter-governmental taxation and place such arrangements on a sustainable long-term footing. Removal of hidden subsidies will also ensure that the true impact of decisions can be assessed.

Work on State and local government financial reform commenced in 1997 and has been held in abeyance since April 1999, pending the implementation of the Commonwealth's national taxation reform from 1 July 2000. At that time it was considered prudent to allow local government to deal with the implementation of the goods and services tax without the added complexity of any measures arising from changes to State-local financial arrangements. It was also unclear at the time the extent to which any national moves to implement reciprocal taxation arrangements might overlap with efforts at the state level to pursue such reform. However, it is now appropriate that the project to reform State and local government financial relations recommence. At the Premier's Local Government Council meeting on 1 March 2001, it was agreed that the project to reform State and local government financial relations would be included on the Council's work program for 2001, given that the project is a matter that affects local government as a whole.

On 24 October 2000, a survey was forwarded to State Government agencies, Government Business Enterprises (GBEs), State-owned Companies (SOCs), statutory authorities and all local government councils in anticipation of the Premier's Local Government Council's agenda being extended to include the project. The results of this survey will be used as the basis for determining the impact of any proposed reform measures.

As the State and local government financial matters are technical in nature and require significant and detailed input, the Premier's Local Government Council will be assisted by a working group to complete the tasks. The LGAT has arranged a small number of council representatives to serve with State Government officials on the working group. The working group will prepare discussion papers, with progress reports and matters requiring decisions or direction to be referred to the Premier's Local Government Council.

The following is a brief description of the nature of the existing State-local financial arrangements.

State Subsidies on Local Government Costs

The State Government subsidises council costs by providing recurrent subsidies on the annual cost of water and sewerage schemes and by reimbursing pensioner concessions on property rates. In 1999-00, State water subsidies amounted to $42 430, sewerage subsidies amounted to $356 440 and the cost of pensioner rates remissions amounted to $12.0 million.

State Taxation Exemptions

Local government is exempt from the payment of State Government taxes.

Local Government Rates Exemptions

State Government agencies, statutory authorities and a number of GBEs are currently exempt from local government rates on property holdings, although service rates for water and sewerage are generally paid.

State Levies and Charges on Local Government

The State Government receives contributions from local councils towards the cost of providing library, fire protection and planning services.

The Tasmanian Government provides public library services and seeks a contribution from local government towards this cost. In all other States, local government provides the service and receives a contribution from the State Government towards the cost. A contribution to library services is made annually by each municipality. It is equivalent to 0.35 cents per dollar of the adjusted assessed annual value of all leviable land, less a prescribed amount (collection fee) which is a maximum of 1.5 per cent of the gross assessed contribution. In 1999-00, the library contribution was $6.1 million, which represented about 42 per cent of total expenditure on library services by the State. The funds collected from the library levy are paid to the Consolidated Fund. The State is precluded by statute from imposing direct charges on library users. The levy partially recovers the cost of library services from the wider community.

The State is responsible for the provision of fire services through the Tasmanian State Fire Commission in accordance with the *Fire Service Act 1979*. However, before 1979, the responsibility for fire protection was shared between two statutory bodies and 22 individual fire brigade boards. In 1999-00, the State Fire Commission received $17.8 million from a levy imposed on local government, which was equivalent to approximately 56 per cent of the Commission's expenditure. This levy is based on the assessed annual value of rateable property. Councils may retain an administration (collection) charge not exceeding four per cent of the gross value of the levy and are permitted to recover the levy from individual property owners provided that the component of rates attributable to the contribution is separately identified. The funds collected from the fire service levy are paid direct to the State Fire Commission.

The State Government has involvement in the operation of local government through the Local Government Division of the Department of Premier and Cabinet and through the Department of Primary Industries, Water and Environment which both have policy, regulatory and advisory roles. Local government contributes to the cost of providing these services through a planning and local government levy equal to 0.15 cents per dollar of the total adjusted assessed annual value of all rateable (non-exempt) land in their municipality. In 1999-00, the local government contribution was $2.6 million.

State Grants

The State Government provides recurrent assistance to local government for specific purposes under the following arrangements:

- direct principal and interest subsidies under the *Public Bodies Assistance Act 1971* on borrowings for approved purposes, such as for new infrastructure or the redevelopment of existing facilities. However, no new loans have been made under this Act since July 1989;
- in 1999-00, the Department of Infrastructure, Energy and Resources distributed grants to councils totalling $1.6 million sourced from State Government heavy vehicle motor taxes (the 'National Road Transport Commission (NRTC) funds');
- in 1999-00 the Launceston City Council received $895 684 from the Department of State Development for the Queen Victoria Museum and Art Gallery;
- in 1999-00 the Department of Premier and Cabinet disbursed $91 716 to councils under the Premier's Sundry Grants program; and
- in 1999-00 the Burnie City Council and the Devonport City Council received $40 000 each for the operation of their respective travel centres. Furthermore, the Department of Health and Human Services contributed $1.7 million towards the operating cost of multi-purpose health centres and nursing homes in four rural municipalities.

Economic Reform and Local Government

At the April 1995 Council of Australian Governments (COAG) meeting, a National Competition Policy (NCP) for Australia was agreed. This policy, which is embodied in three inter-governmental agreements, has implications for all levels of government, including local government.

One of the three inter-governmental agreements, the Competition Principles Agreement (CPA), outlined five key principles relating to:

- the prices oversight of public sector trading activities with monopoly, or near monopoly, characteristics;
- competitive neutrality between the public and private sectors;
- the structural reform of public monopolies;
- the processes for reviewing legislation which restricts competition; and

- a legislated right for the provision of third party access to significant infrastructure facilities.

The CPA provides for these principles to apply to local government, notwithstanding that local government is not a signatory to the Agreement. Furthermore, each state and territory government is responsible for ensuring that these principles are applied to local government.

In addition, the *Conduct Code Agreement* (CCA) required the State Government to introduce legislation to ensure the wider application of the restrictive trade practices provisions of Part IV of the Commonwealth's *Trade Practices Act 1974* (TPA), to encompass all private and public sector business activities, including local government business activities. This was effected through the *Competition Policy Reform (Tasmania) Act 1996*.

In June 1996, as required under the CPA, the former Government submitted to the National Competition Council (NCC) a policy statement entitled *Application of National Competition Policy to Local Government* (Application Statement). This Statement was prepared by the then State Government, in consultation with local government, and provided a broad policy statement on how it was intended that the five competition principles, where appropriate, would be applied to local government. The Government, in conjunction with local government, will be reviewing the Application Statement during 2001-02.

In addition to the reforms required under the CPA, NCP requires jurisdictions to consider reform in the areas of water, electricity, transport and gas. These requirements are detailed in the *Agreement to Implement the National Competition Policy and Related Reforms*.

The NCP Agreements have now been operational for over five years. Two of the Agreements, the CPA and the CCA, contain provisions for a review of their operation and terms after five years. The other Agreement, the *Agreement to Implement the National Competition Policy and Related Reforms*, does not contain a specific review provision.

Accordingly, a review of the CPA and the CCA has been undertaken by the parties to the Agreements. At the 3 November 2000 meeting of COAG, Heads of Government agreed to several measures to clarify and fine-tune implementation arrangements for NCP. These included that:

- the onus of proof, in assessing whether restrictions on competition should remain, be applied more flexibly;
- the NCC determine its forward work program in consultation with COAG Senior Officials;
- COAG Senior Officials continue to clarify and specify NCP reform commitments and assessment benchmarks for the NCC;
- the deadline for completing the NCP legislation review and reform program be extended from 31 December 2000 to 30 June 2002; and
- the NCP Inter-governmental Agreements be amended to provide further guidance to the NCC on how to assess whether jurisdictions have complied with their legislation review commitments.

The alterations related to fine tuning and clarification of the provisions in the CPA and CCA. However, the Agreements were left substantially unchanged.

Progress to date in relation to the application of competitive neutrality, legislation review, monopoly prices oversight and water reform to local government is outlined below.

Competitive Neutrality

In accordance with the Application Statement, all councils have assessed their significant business activities to which full cost attribution (FCA) would apply. This was done during 1996. These lists were reviewed by a peer group (established by the LGAT).

Realising the advantages that competitive neutrality could deliver in increasing the efficiency of council operations, 18 of the 29 councils decided to apply FCA to all of their business activities. The majority of the remaining councils chose to apply FCA to their public trading enterprises (largely water and sewerage services) and road maintenance.

Further discussions, which commenced in mid-1998, led to an updated agreement on the application of NCP to local government in Tasmania. The revised Agreement incorporated a new implementation timetable and was approved by the LGAT General Management Committee in July 1998.

In accordance with the Application Statement, councils were required to:

- identify relevant business activities which were considered significant business activities;
- undertake public benefit assessments of the corporatisation of those business activities which are classified as Public Trading Enterprises (PTEs) under the ABS Government Financial Statistics Classification, as outlined in the Application Statement (generally water and sewerage); and
- corporatise those PTEs where a public benefit assessment indicates that the benefits outweigh the costs of doing so or apply full cost attribution to all other significant business activities.

Accordingly, councils undertook public benefit assessments of the corporatisation of their Public Trading Enterprises during 1999.

All councils found that corporatisation of their PTEs would not be in the public benefit, mainly due to the small size of Tasmanian councils and therefore of their business activities. These results were submitted to a peer review group consisting of LGAT and council representatives. The peer review group endorsed the results of the public benefit assessments and provided a recommendation to the Treasurer to this effect in November 1999. The Treasurer endorsed the public benefit assessment and the outcome of the peer review assessment on 3 December 1999.

It should be noted, however, that the joint bulk water authorities, the Hobart Regional Water Authority (HRWA), the Esk Water Authority (EWA) and the North West Water Authority (NWWA), were corporatised under the Local Government Act, independently of this process.

Councils are continuing to apply FCA to their business activities in a form appropriate to their size. Importantly, the Local Government Act was amended in 1999 to require councils to disclose the full cost of operating their significant business activities in their annual reports. In this regard, councils are required to disclose the operating, competitive neutrality, and capital costs attributable to their significant business activities.

To comply with the competitive neutrality principles, the Local Government Division (LGD) of the Department of Premier and Cabinet has developed a Community Service Obligation (CSO) Policy and Guidelines framework for councils. This policy is consistent with the policy applying to the State Government's GBEs.

The main objectives of the CSO Policy are:

- to ensure that a council's social and other objectives are achieved without impacting on the commercial performance of its significant business activities;
- to improve the transparency, equity and efficiency of CSO service delivery; and
- to be consistent with NCP requirements.

The Policy was implemented in early 2001, in accordance with Tasmania's NCP obligations.

Competitive Neutrality Complaints Mechanism

The Application Statement required the establishment of a competitive neutrality complaints mechanism. Accordingly, a competitive neutrality complaints mechanism was established under the *Government Prices Oversight Regulations 1998*. Under the regulations, a person who believes that he or she has been adversely affected by a contravention of the competitive neutrality principles may lodge a complaint with the Government Prices Oversight Commission (GPOC) which has responsibility for investigating all alleged breaches of the competitive neutrality principles in the State.

During 2000-01, two complaints were lodged with GPOC relating to alleged breaches of the competitive neutrality principles by local government authorities. The complaints were in relation to the operation of Clarence Swim Centre leased out by the Clarence City Council and the operation of Launceston City Council trading as Total Workforce.

At the request of the Treasurer, the Department of Treasury and Finance is undertaking a review of the FCA Guidelines to provide additional guidance in regard to pricing. The result of this will be clearer guidelines for councils on the application of FCA.

More information on the competitive neutrality complaints mechanism is provided in the GPOC Annual Report and the *National Competition Policy Progress Report: May 2001*.

Prices Oversight

The Application Statement stated that local government monopoly or near monopoly providers were to be brought under the prices oversight jurisdiction of GPOC. The *Government Prices Oversight Amendment Act 1997* extended the coverage of the *Government Prices Oversight Act 1995* to include local government monopoly or near monopoly services.

In addition, in accordance with the *Agreement to Implement the National Competition Policy and Related Reforms*, Tasmania is required to implement the COAG *Strategic Framework for the Efficient and Sustainable Reform of the Australian Water Industry* (Strategic Framework). The Strategic Framework requires metropolitan bulk water suppliers to charge on a volumetric basis to recover all costs. Metropolitan bulk water suppliers are to also earn a positive real rate of return on the written-down replacement cost of their assets.

Against this background, GPOC was required to undertake an investigation into the pricing policies associated with the provision of bulk water by the HRWA, the EWA and the NWRWA in 1998. As a result, GPOC recommended maximum prices (in the form of maximum revenues and pricing principles) to be charged by each of the State's three bulk water authorities for a three year period commencing from

1 July 1999. The Government endorsed GPOC's pricing principles for bulk water which are to apply until November 2001. GPOC has recently commenced the next investigation into the pricing policies of these authorities for prices commencing in April 2002.

Legislation Review

The LGD has implemented procedures for the review of all proposed or existing by-laws to ensure that any restrictions on competition are fully justified in the public benefit. The *By-Law Making Procedures Manual* was released in August 1997 and represents the by-law section of the Government's Legislation Review Program (LRP). All by-laws proposed since that date have been required to comply with the new procedures.

All by-laws made under the 1962 Act remained in force under the current Local Government Act (to the extent that they were consistent with the new Local Government Act) for a period of five years, and were due to expire on 17 January 1999.

A number of Councils have been progressively reviewing their by-laws and a number of by-laws have been repealed. As a result, there has been a continued decline in the overall number of by-laws. However, a significant number of councils were not prepared for the statutory expiry of all these by-laws on 17 January 1999. In December 1998, the Government therefore introduced the *Local Government (Savings and Transitional) Amendment Act 1998* to extend the expiry date until 31 March 1999. This resulted in the automatic expiry at the end of March 1999 of approximately 500 by-laws made under the 1962 Act.

All the 115 new by-laws gazetted under the current Local Government Act since the commencement of that Act in January 1994 have been subjected to the legislation review processes. Councils are now carefully considering the subject matter that they wish to deal with through by-laws, such that new by-laws are generally made to deal solely with matters of broad governance rather than relating to commercial operations. Tasmanian councils have repealed their obsolete by-laws and replaced them, where appropriate, with by-laws that focus on governance arrangements and comply with NCP principles.

Amendments to the Local Government Act in 1999 resulted in the further application of NCP principles to local government by-laws, with the requirement that any new by-laws with a significant impact on the community be subject to a Regulatory Impact Statement. This amendment formalised the procedure already required in the *By-Law Making Procedures Manual.*

Water Reform

As part of the Tasmanian water reform process, the HRWB was transferred in 1997 from State Government to local government ownership and established under the Local Government Act as a joint authority. In addition, the State Government's North Esk Regional and West Tamar Water Supply Schemes were also transferred to local government and, together with Launceston City Council's water supply scheme, re-established in 1997 under the Local Government Act as a joint authority entitled the Esk Water Authority.

The NWRWA was the last bulk water authority to be transferred to local government, being transferred on 10 August 1999 and now operates as Cradle Coast Water.

These joint authorities were established in accordance with the NCP corporatisation model and are subject to full taxation equivalent, dividend and loan guarantee fee regimes.

Among other things, the Strategic Framework requires the implementation of two-part (volumetric) pricing for urban water schemes where it is shown to be cost effective. In Tasmania, all urban retail water services are provided by local government. Accordingly, in 1999 councils undertook a significant amount of work in assessing whether two-part tariffs are cost effective for their urban water supply schemes.

To commence this assessment, in June 1999 GPOC set out a methodology for local councils to assess the cost effectiveness of introducing two-part tariffs for their urban water services in its report entitled *The Cost Effectiveness of Local Councils Implementing Two Part Pricing for Urban Water Services*.

Local councils were required to show that they had correctly applied the guidelines to assess whether two-part pricing was cost effective for their urban water service schemes. The submissions provided by councils were subsequently reviewed by an independent review panel comprising State and local government representatives and a representative of the LGAT.

A report on the assessments was provided to the Tasmanian Government in December 1999.

The report showed that two-part tariffs had already been or would be implemented in 24 of the 90 water schemes studied. In these cases, the implementation of two-part pricing for urban water delivers many benefits to councils and the broader community. Correct pricing sends the appropriate price signals to customers to promote water use that is economically efficient and environmentally responsible.

On 22 December 1999, the *Local Government Amendment (Operational Plans) Regulations 1999* were proclaimed. The regulations require the annual reporting by councils on the application of the cost recovery and water pricing principles in their operational plans. The Local Government Act requires that operational plans are made publicly available for comment prior to being put to the relevant council for resolution. These regulations therefore require councils to demonstrate that they are planning to recover all costs from their water schemes.

Tasmania has been assessed by the NCC as having met all its NCP water reform commitments to date. The NCC has acknowledged Tasmania's progress in this area and recognised Tasmania's genuine commitment to implementing two-part pricing where cost effective.

For a full discussion of progress with NCP implementation in Tasmania, refer to the paper *National Competition Policy Progress Report: May 2001* issued by the Tasmanian Government.

FINANCIAL PERFORMANCE

Local Government Sector Financial Aggregates

The Australian Bureau of Statistics (ABS) has revised the series *Government Finance Statistics,* Australia 1998-99, ABS Cat No 5512.0 and *Government Finance Statistics,* Tasmania 1998-99, ABS Cat No 5501.6. The ABS advises that the most fundamental changes in these publications are the adoption of an accrual accounting basis and the use of a revised presentation format. This has resulted in significant revisions to Government Finance Statistics (GFS) data reported in this Chapter in Budget Paper No 1 *Budget Overview 2000-01*.

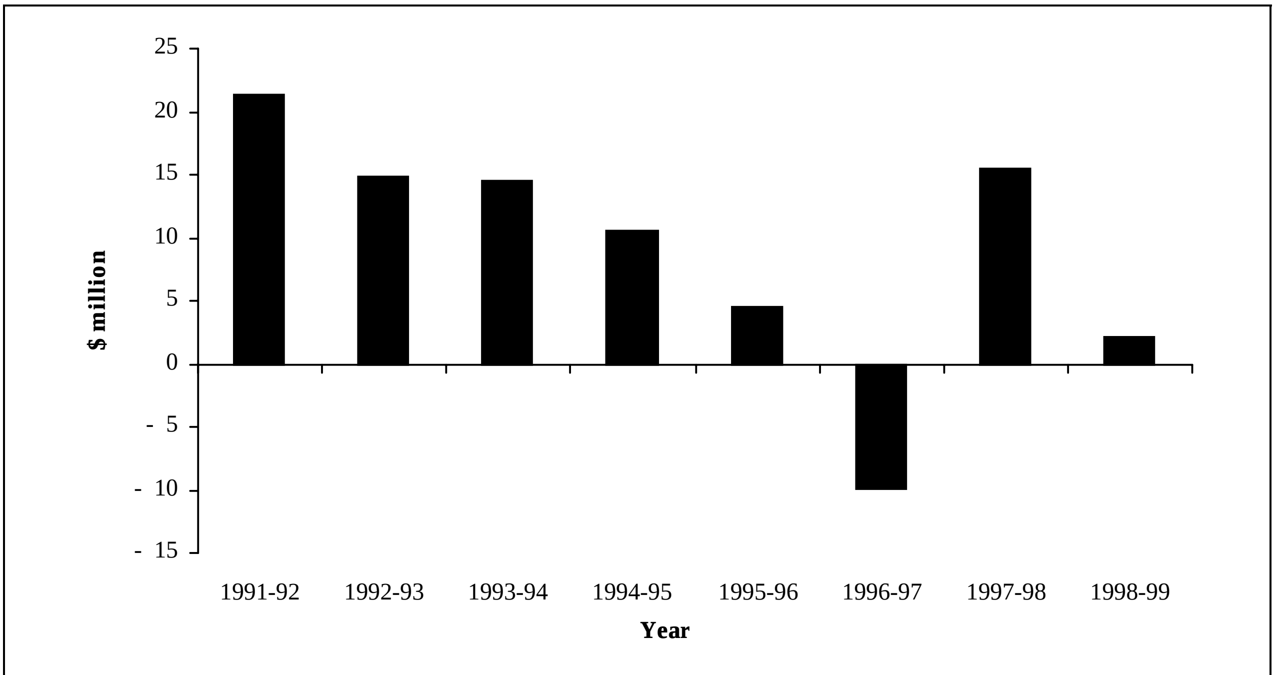
The Tasmanian local government sector returned a net operating balance of $1.0 million in 1998-99. The net operating balance is calculated as GFS revenue less GFS expenses. Launceston City Council returned the highest net operating balance of $7.2 million, while Hobart City Council recorded the lowest, deficit of $9.3 million. The difference between the two councils reflects Launceston City Council's higher capital grants revenue of $7.2 million and a lower depreciation expense of $14.8 million compared to Hobart City Council's $500 000 in capital grants revenue and $21.2 million depreciation.

Local government own-source revenue in 1998-99 totalled $362 million, of which $149 million or 41.2 per cent was from taxation revenue (the general rate component), $177 million was from the sale of goods and services, which includes the water, sewerage and garbage components of rates, accounting for 48.9 per cent of own source revenue and other income of $36 million was the final component, which was equivalent to 9.9 per cent of own-source revenue.

Total grants and subsidies made up 17.4 per cent of total GFS revenue. The largest expense area was housing and community amenities at 34.7 per cent of total GFS expenses, while interest comprises only 3.5 per cent of the total, reflecting the low debt level of the local government sector.

After a surplus of $14 million in 1997-98, the local government sector returned a surplus of $2 million in 1998-99 reflecting purchases of non-financial assets. As shown in Chart 13.2, the local government sector surplus for 1998-99 has returned to a level that is similar to the level experienced in 1995-96 (in 2001-02 dollars). This was before the transfer of the HRWB to the southern councils on 1 January 1997 and before an abnormal increase in capital outlays in 1996-97 due to major construction projects by the Hobart City Council, namely the Hobart Aquatic Centre and the Sandy Bay sewerage treatment project.

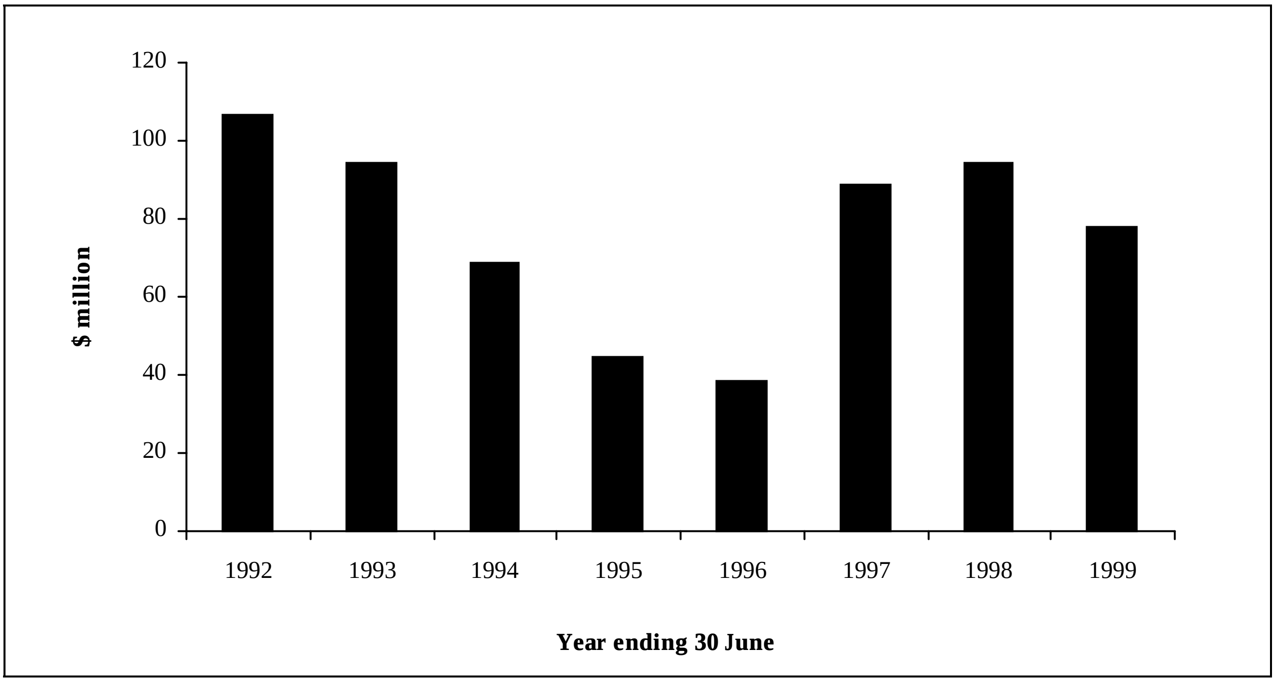
Chart 13.2: Local Government Surplus(+) / Deficit(-) (in 2001-02 dollars) - Tasmania, 1991-92 to 1998-99



Sources: *Government Finance Statistics*, Australia 1998-99, ABS Cat No 5512.0 and Consumer Price Index, Tasmania, Treasury and Finance Statistics.

Furthermore, Tasmanian local government sector net debt was also significantly affected by the transfer of the HRWB and the increase in capital expenditure between 30 June 1996 and 30 June 1997. This is shown in Chart 13.3.

Chart 13.3: Local Government Net Debt (in 2001-02 dollars) - Tasmania, 1992 to 1999



Sources: *Government Finance Statistics,* Australia 1998-99, ABS Cat No 5512.0 and Consumer Price Index, Tasmania, Treasury and Finance Statistics.

Table 13.3 details the net worth of each Tasmanian council as at 30 June 1999. The net worth is a measure of the full balance sheet financial position of each council. The local government sector balance sheet shows a new worth of $3 661.3 million as at 30 June 1999. Total local government net worth was made up of assets totalling $3 939.6 million, of which 95.2 per cent was land and fixed assets, less $278.3 million in liabilities.

The ABS cautions users to take care when interpreting the measure of net worth per head of resident population, as it can be influenced by the extent to which councils have recognised and valued their fixed assets, particularly road funding and construction. For example, councils with a heavy investment in roads relative to their population are likely to show a high net worth per head of resident population.

Table 13.3: Local Government Net Worth by Council, 1998-99

	Net Worth 1998-99	Net Worth per head of est. resident population 1998-99
	$'000	$
Break O'Day	**50 175**	**8 661**
Brighton	**55 147**	**4 275**
Burnie	**224 171**	**11 495**
Central Coast	**148 295**	**7 034**
Central Highlands	**38 688**	**15 407**
Circular Head	**55 316**	**6 489**
Clarence	**271 164**	**5 540**
Derwent Valley	**23 639**	**2 406**
Devonport	**233 269**	**9 525**
Dorset	**73 811**	**9 942**
Flinders	**41 661**	**43 487**
George Town	**36 233**	**5 338**
Glamorgan/Spring Bay	**43 771**	**10 474**
Glenorchy	**245 870**	**5 599**
Hobart	**596 953**	**12 926**
Huon Valley	**101 271**	**7 464**
Kentish	**23 122**	**4 203**
King Island	**21 941**	**12 244**
Kingborough	**172 239**	**6 089**
Latrobe	**36 862**	**4 598**
Launceston	**627 713**	**9 969**
Meander Valley	**118 612**	**6 780**
Northern Midlands	**105 690**	**8 964**
Sorell	**41 409**	**3 785**
Southern Midlands	**40 711**	**7 249**
Tasman	**17 641**	**7 806**
Waratah/Wynyard	**67 838**	**4 879**
West Coast	**43 946**	**7 707**
West Tamar	**104 187**	**5 222**
TOTAL	**3 661 345**	**7 777**

Sources: *Government Finance Statistics*, Tasmania 1998-99, ABS Cat No 5501.6 and *Regional Population Growth*, 1999-00, ABS Cat No 3218.0.

Comparison with Other States and the Northern Territory

Table 13.4 compares various indicators for the local government sector in all states and the Northern Territory for 1998-99.

LGAs within Tasmania have different expenditure priorities. These priorities are the result of the physical characteristics of the local government area and/or differing characteristics and needs of residents. Differences also stem from the policy approaches of individual councils. This is also the case when the Tasmanian local government sector, in aggregate, is compared to the aggregates of other states and the Northern Territory. In addition, the allocation of responsibilities and functions undertaken by the State and local government sectors varies considerably between jurisdictions.

Table 13.5 compares the relative proportion of each expenditure category to the total expenditure within each state and the Northern Territory. Again, care should be taken in comparing the relative importance of categories of expenditure between jurisdictions, as spending priorities will differ between jurisdictions as well as the allocation of funding responsibility between state and local governments.

Table 13.4: Key Indicators by State and the Northern Territory, 1998-99

State/Territory	Revenue per capita	Expenses per capita	Grants and Subsidies as a proportion of revenue	Local Government employment per thousand of population	Expenses as a proportion of GSP
	$	$	%		%
New South Wales	**827**	**763**	**10.1**	**7**	**2.3**
Victoria	**620**	**645**	**18.9**	**7**	**2.0**
Queensland	**1 116**	**859**	**8.5**	**10**	**3.1**
Western Australia	**753**	**698**	**16.8**	**7**	**2.0**
South Australia	**571**	**596**	**13.3**	**5**	**2.2**
Tasmania	**902**	**900**	**14.8**	**8**	**3.8**
Northern Territory	**1 158**	**1 127**	**39.2**	**14**	**3.3**
TOTAL	**793**	**726**	**12.8**	**7**	**2.3**

Sources: *Government Finance Statistics,* Australia 1998-99, ABS Cat No 5512.0; *Australian Demographic Statistics,* September Quarter 2000, ABS Cat No 3101.0; *Wage and Salary Earners,* May Quarter 1999, ABS Cat No 6248.0 and *Australian National Accounts: State Accounts* 1999–00, ABS Cat No 5220.0.

Table 13.5: Relative Importance of Categories of Expenditure, 1998-99 (Expenses by Purpose as a share of Total Expenses (%))

	NSW	VIC	QLD	WA	SA	TAS	NT	Ave[1]
General Public Services	**16.2**	**9.2**	**23.9**	**9.0**	**17.7**	**15.1**	**31.0**	**16.0**
Public Order and Safety	**2.3**	**1.7**	**0.9**	**3.1**	**2.6**	**0.5**	**0.5**	**1.9**
Education	**0.1**	**1.1**	**....**	**0.5**	**....**	**....**	**....**	**0.3**
Health	**1.0**	**2.9**	**1.5**	**2.1**	**2.3**	**3.1**	**3.2**	**1.8**
Social Security and Welfare	**3.4**	**13.6**	**1.2**	**4.8**	**3.2**	**2.4**	**1.4**	**5.2**
Housing and Community Amenities	**23.3**	**18.0**	**33.1**	**15.3**	**16.8**	**34.7**	**23.1**	**23.5**
Recreation and Culture	**10.4**	**17.5**	**9.3**	**22.8**	**16.7**	**12.0**	**6.5**	**13.3**
Fuel and Energy	**....**	**....**	**....**	**....**	**0.7**	**....**	**0.9**	**0.1**
Industry Services	**1.5**	**1.0**	**2.1**	**....**	**1.8**	**....**	**....**	**1.3**
Transport and Communications	**35.7**	**27.3**	**19.8**	**32.7**	**24.4**	**25.0**	**8.3**	**28.6**
Other	**6.1**	**7.7**	**8.0**	**9.6**	**14.0**	**7.3**	**24.1**	**8.0**
TOTAL[2]	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Source: *Government Finance Statistics,* Australia 1998-99, ABS Cat No 5512.0.
Notes:
1. Weighted average.
2. Figures may not add to 100 due to rounding.

Table 13.6 shows the relative debt as at 30 June 1999 and debt servicing levels for 1998-99 of local government sectors in all states and the Northern Territory.

Table 13.6: Local Government Debt Statistics

	Net Debt per capita as at 30 June 1999[1]	Net Interest Payments per capita 1998-99
	$	**$**
New South Wales	**(245)**	**(8)**
Victoria	**(56)**	**....**
Queensland	**613**	**30**
Western Australia	**(199)**	**(9)**
South Australia	**153**	**7**
Tasmania	**151**	**15**
Northern Territory	**(94)**	**(5)**
AVERAGE	**12**	**3**

Sources: *Government Finance Statistics,* Australia 1998-99, ABS Cat No 5512.0 and *Regional Population Growth,* 1999–00, ABS Cat No 3218.0.
Note:
1. Equals deposits held, advances received and borrowing less cash and deposits, advances paid and investments, loans and placements.

Table 13.6 shows that in 1998-99 the Tasmanian local government sector's debt servicing burden was the second highest among the states and the Northern Territory.

Key Performance Indicators

The Key Performance Indicator (KPI) project aims to provide all Tasmanian councils with a range of indicators to measure their organisational performance. It will enable councils to benchmark their operations and monitor their performance over time. Until now there has not been an industry-wide framework for measuring and comparing council performance.

The KPI project was initially funded by the Commonwealth Government and has been developed jointly by the State Government, the LGAT and Local Government Managers Australia. A committee has been established to manage the implementation of the KPIs. The committee consists of State and local government representatives with assistance where required from the Australian Bureau of Statistics. The indicators have now been established and the project is at the stage of analysing the council data to ensure that the selected indicators are providing meaningful information. Councils are providing their information to the KPI committee on a voluntary basis.

The KPIs for the 1999-00 financial year will be published before 30 June 2001. The KPI committee intends to publish the KPIs for the 2000-01 financial year by the end of 2001. It is intended that the KPIs will also be published in the Tasmanian Budget Papers for 2002-03.

Conventions and Glossary of Terms

Conventions

Figures in tables and in the text have been rounded. Discrepancies in tables between totals and sums of component items reflect rounding. Percentage changes in all tables are based on the underlying unrounded amounts.

The notation for zero or rounded to zero figures is '….'.

Percentages in excess of 999 per cent are shown as '….'.

Glossary of Terms

Accrual Accounting

Accrual accounting recognises revenue and expenditure at the time it is earned or incurred, rather than when money is actually received or paid.

Accrual Budgeting

The preparation, management and presentation of a Budget based on generally accepted accounting principles. The 2001-02 Budget is not presented on an accrual basis but on a cash basis - that is, receipts and payments are recorded when the cash transaction occurs. A Consolidated Accrual Budget is estimated in Chapter 12 of Budget Paper No 1.

Administered Payments

Administered Payments is a classification of expenditure that relates to payments or concessions made by the Government to individuals, groups or organisations. These include Community Service Obligations and Community Service Activities (CSOs and CSAs – see below) payments to Government Business Enterprises and State-owned Companies (GBEs and SOCs – see below). These payments are determined by the Government and are non-discretionary. In relation to the Output Methodology, these payments are not strictly Outputs, but rather Government purchases the administration of these payments from departments. Details of Administered Payments are included in relevant agency chapters in Budget Paper No 2.

Advances

Repayable, interest-bearing loans often provided on concessional terms.

Appropriation

An amount which may be expended from the Consolidated Fund under the authority of an Act of Parliament.

Auditor-General

A statutory office, established under the *Financial Management and Audit Act 1990*, responsible for the independent review of State financial matters. The Auditor-General is required to report annually to Parliament on the accounts of departments and other public bodies.

Benchmarking

The process of comparing the performance of Government agencies in producing goods and services with other governments or the private sector. This process enables analysis of the effectiveness and efficiency of the production of Outputs relative to best practice procedures in other jurisdictions and the private sector and, in turn, assists the Government in making decisions on the level and range of Outputs purchased from departments.

Budget Committee

A Cabinet Sub-Committee that is responsible for considering all Budget related matters and making appropriate recommendations to Cabinet.

Capital Investment Program

The Capital Investment Program (CIP) comprises major capital investment projects for all on-Budget agencies and is funded through the Works and Services section of the Consolidated Fund. The CIP was introduced to link Government investment in capital and maintenance projects with departmental corporate and asset management plans and specific Government policy objectives and Outputs. Details of projects included in the CIP are provided in Chapter 5 of Budget Paper No 1 *Budget Overview 2001-02*.

Cash Accounting

Cash accounting recognises revenue and expenditure only at the time cash is received or paid.

Chain Volume Measures

Whereas constant price estimates measure real changes in various economic statistics by removing the effect of rising prices through an index composed in terms of a constant base year, chain volume measures provide estimates of real change by factoring in changing price relativities from year to year. Chain volume measures have recently replaced constant price estimates as the adjustment mechanism preferred by the Australian Bureau of Statistics for the calculation of real prices.

Commonwealth Grants Commission

An independent body established by the Commonwealth Government to advise on the per capita relativities for distributing general revenue grants among the six States and two Territories.

Community Service Activities (CSAs)

CSAs are non-commercial activities undertaken by State-owned Companies under contract with the Government. To qualify as a CSA, the activity must meet similar identification criteria and net cost conditions as CSOs.

Community Service Obligations (CSOs)

CSOs are activities undertaken by a GBE that would not be undertaken if it was a commercial entity operating in the private sector. In this regard, the GBE Act requires that CSOs can only be declared where the function performed, service provided, or concession allowed will result in a net cost to the GBE, is the direct result of a direction given under, or a specific requirement of, an Act of Parliament and would not be performed, provided or allowed if the GBE were a business in the private sector acting in accordance with sound commercial practice.

Competitive Neutrality

A policy under the *Competition Principles Agreement* (see National Competition Policy) to prevent any resource allocation distortions arising out of the public ownership of entities engaged in significant business activities. Competitive Neutrality aims to ensure that Government businesses do not enjoy any net competitive advantage simply as a result of their public sector ownership.

Concessions

See State Government Concessions.

Consolidated Fund

The Fund established by Part II of the *Public Account Act 1986* to receive all taxes and the majority of other revenue received by the Government. All payments from the Consolidated Fund must be authorised by an Act of Parliament.

Consolidated Fund Appropriation Act

An Act which appropriates moneys from the Consolidated Fund for expenditure by the Government during the financial year. Appropriation Acts are in force from 1 July in one calender year until 30 June in the subsequent year.

Consolidated Fund Surplus (CFS)

The CFS is the excess of Consolidated Fund receipts over the expenditure of these funds (net of loan repayments). A CFS represents funds which are available for the retirement of debt. A negative CFS is the same as the Net Financing Requirement (NFR).

Constant Price Terms

Constant price estimates provide a convenient way of measuring real changes in economic time series. Specifically, such estimates measure the change in a series after adjusting values to remove the effects of price movements over time using an index compiled in terms of a constant base year. In Australian Bureau of Statistics series, most measures of real changes are now estimated using chain volume measures.

See also: Chain Volume Measures; Real Terms.

Consumer Price Index

A measure of the change in prices, over time, of a basket of goods and services representing household expenditure patterns. It aims to measure the changes in the cost of living for the average household.

Department Operating Accounts

Accounts created in the Special Deposits and Trust Fund to record all department related transactions. These accounts receive funds appropriated to departments from the Consolidated Fund and retain certain revenue that is not identified for return to the Consolidated Fund. Department Operating Accounts enable the consideration of the total resourcing of Government Outputs.

Equalisation Grants

See Fiscal Equalisation.

Fees

Fees from regulatory services are levies not primarily designed to raise general revenue, but which are associated with the granting of permit or privilege or for the regulation of activity. This distinguishes them from charges for services rendered to clients and receipts from the sale of goods and services provided by public sector agencies.

Financial Agreement Acts 1927 and 1994

Agreements between the Commonwealth Government and State Governments establishing the Loan Council and prescribing a framework for governmental borrowing and sinking fund arrangements.

Financial Assets and Liabilities (FALs)

Financial Assets and Liabilities information covers the whole non-financial public sector incorporating the General Government, Public Trading Enterprises and Public Financial Enterprises sectors. FALs present the consolidated financial assets and liabilities of each sector. Details of FALs are incorporated in Chapter 9 of Budget Paper No 1 *Budget Overview 2001-02*.

Financial Assistance Grant (FAG)

Prior to 2000-01, the FAG represented the main form of general revenue assistance provided to the States and Territories by the Commonwealth. The size of the FAG for each jurisdiction was determined by the Premiers' Conference each year, taking into account the pool of FAGs available for distribution between all jurisdictions in that year which were indexed in line with national CPI and population growth, the per capita relativity factors agreed by the Premiers' Conference, the State or Territory's share of the national population and special assistance for other jurisdictions funded out of the FAG pool. The FAG was abolished with effect from 2000-01 under the Commonwealth's National Tax Reform package. Information on the FAG is presented in Chapter 7 of Budget Paper No 1 *Budget Overview 2001-02*.

Financial Year

The financial year runs from 1 July in one calender year to 30 June in the following year.

Fines

Fines are civil and criminal penalties imposed on law breakers other than penalties imposed by tax authorities.

First Home Owners Scheme

Under the Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations (IGA), the States and Territories were required to establish, administer and fund a First Home Owners Scheme. The scheme provides first home owners with a grant of $7 000 to offset the impact of the GST on house prices.

Fiscal Capacity

The capacity of a State to meet its financial responsibilities. It reflects the adequacy of the various tax bases available to that State, as well as the existence of any disabilities or advantages faced by that State in the provision of services and the raising of revenues.

Fiscal Equalisation

Also described as horizontal fiscal equalisation, it refers to the principle of allocating financial assistance to the States and Territories which, as assessed by the Commonwealth Grants Commission, is designed to provide a jurisdiction with the capacity to provide services at a standard comparable to those of the other jurisdictions on average provided it makes the average revenue raising effort.

Full Time Equivalents (FTEs)

A measure of staffing levels which converts the total number of hours worked by all staff (including part time and casual staff) to an equivalent number of full time staff.

General Government Sector

For the purpose of reporting uniform information on Government Financial Estimates (GFEs - see below) and Financial Assets and Liabilities (FALs - see above), non-financial public sector bodies are categorised as belonging to either the General Government sector, the Public Trading Enterprises (PTEs) sector or the Public Financial Enterprises (PFE) sector. General Government agencies are departments, bodies, or offices that provide services free of charge or at prices substantially below their cost of production.

General Revenue Assistance

Grants provided by the Commonwealth to the State and Territory Governments and Local Governments, to be used for purposes determined by the recipients. Prior to 2000-01, the main form of general revenue assistance provided to the States and Territories was the Financial Assistance Grant (FAG - see above). Other forms of general revenue assistance provided were National Competition Policy related payments and Identified Local Road Funds. Under the IGA, general revenue assistance grants will be provided in the form of GST revenue payments and transitional payments. In addition, National Competition Policy related payments will continue under the new arrangements.

Goods and Services Tax (GST)

This is a tax imposed by the Commonwealth Government from 1 July 2000 on most goods and services provided in Australia. All of the revenue raised from this tax is distributed to the States and Territories using the principle of horizontal fiscal equalisation.

Government Business Enterprises

Government Business Enterprises (GBEs) are entities which operate outside the Public Account, principally on the basis of funds derived through their operations, and have no impact on Budget expenditure except in circumstances where they receive funding for CSOs or receive payments for services provided. GBEs also may provide returns to the Consolidated Fund in the form of dividends to shareholders (the State) and the payment of taxation equivalents and guarantee fees and are subject to their own enabling legislation and the GBE Act. GBEs prepare annual reports, with financial statements on a commercial, accrual accounting basis, which are tabled in Parliament and are subject to audit by the Auditor-General as the auditor appointed by the shareholders. Details of GBEs are provided in Chapter 10 of Budget Paper No 1 *Budget Overview 2001-02*.

Government Financial Estimates (GFEs)

Government Financial Estimates provide a comprehensive record of the financial transactions of the whole non-financial public sector incorporating the General Government and Public Trading Enterprises sectors. GFEs utilise the framework for statistical classification of transactions adopted by the ABS in the preparation of public finance statistics. Details of GFEs are provided in Chapter 11 of Budget Paper No 1 *Budget Overview 2001-02*.

Governor-in-Council

The Governor acting with the advice of the Executive Council, which consists of two or more Ministers of the Crown presided over by the Governor.

Grants

Non-repayable, non-interest bearing assistance.

Gross State Product

The total value added in production in the State economy in a year. Broadly, it equals the total value of goods and services produced less the cost of goods and services used in the production process.

GST Administration Costs

Under the IGA, the States and Territories are required to meet the costs of administering the GST. These costs are those incurred through the Australian Tax Office and Australian Customs Service in the collection of the GST.

GST Law

Has the same meaning as defined in the *A New Tax System (Goods and Services Tax) Act 1999* of the Commonwealth.

Guarantee Fees

Guarantee fees are applied to GBEs and SOCs to compensate for the lower borrowing rates that GBEs and SOCs often receive due to their Government ownership. Guarantee fees apply to effectively increase the borrowing rate that GBEs and SOCs receive up to the market borrowing rate. In line with National Competition Policy principles, guarantee fees remove any competitive advantage that a GBE or SOC may receive in terms of reduced debt costs through Government ownership.

Guaranteed Minimum Amount

Under the Intergovernmental Agreement, the Commonwealth has guaranteed that no State or Territory will be worse off financially under the new Commonwealth-State financial arrangements than they would have been had the National Tax Reforms not taken place. The guaranteed minimum amount is the minimum level of funding required by each State to ensure that the guarantee provisions of the IGA are met.

Horizontal Fiscal Equalisation

See Fiscal Equalisation.

Implicit Price Deflator – GSP

An Implicit Price Deflator (IPD) is another means, in addition to the Consumer Price Index, by which changing prices can be measured. The IPD for Gross State Product (GSP) is a broad measure of price change used in the State accounts. IPD indexes are obtained by dividing a current price value by its corresponding constant price value or chain volume measure.

Infrastructure Fund

A significant new initiative of the Government introduced to provide one-off funding for the development of major government social and economic infrastructure. For further information on the Infrastructure Fund see Chapter 5 of Budget Paper No 1 *Budget Overview 2001-02*.

Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations (IGA)

This is the agreement signed by the Commonwealth and all state and territory Governments in June 1999 which provides for major changes to Commonwealth-State financial relations. Under the IGA GST revenue is to be distributed to the States and Territories on a horizontal fiscal equalisation basis. In return, the States and Territories have agreed to forego revenue and accept additional expenditure responsibilities.

Loan Council

A body comprising the Commonwealth, State and Territory Treasurers which meets, usually on an annual basis, to determine the Loan Council Allocation (see below) for the Commonwealth, States and Territories for the forthcoming financial year.

Loan Council Allocation (LCA)

A State or Territory's Loan Council Allocation is the borrowing level for the jurisdiction endorsed by the Loan Council, based on its combined General Government and PTE sector deficit (adjusted for financing transactions), plus a number of memorandum items. These items reflect public sector transactions which may have many of the characteristics of borrowings but do not constitute formal borrowings. One example is operating leases. Thus the LCA provides an indicator of the likely impact of the total State public sector's operations on the economy through its net call on national savings.

Major Works

Capital investment projects, including construction and maintenance, which have an estimated total value greater than $100 000.

National Competition Policy (NCP)

NCP involves a series of policy initiatives, agreed by all Australian governments, that are aimed at promoting free and open competition, where this is in the public benefit, which in turn will increase efficiency and productivity throughout the Australian economy. The basis of NCP is three intergovernmental agreements between the Commonwealth and State and Territory Governments that were signed on 11 April 1995. These agreements are the *Conduct Code Agreement* (relating to the extension of Part IV of the Commonwealth's *Trade Practices Act 1974* to all businesses), the *Competition Principles Agreement* (relating to the implementation of a series of policy elements designed to improve competition in the Australian economy) and the *Agreement to Implement the National Competition Policy and Related Reforms* (relating to the sharing of the financial benefits expected to flow from the implementation of NCP).

NCP is not about competition for competition's sake and, in most areas, requires the use of the public benefit test to ensure that all government and community objectives are considered before specific action is taken to facilitate competition in the economy. For example, considerations include, but are not limited to, economic and regional development (including employment and investment growth) and the interests of consumers generally or a class of consumers, and social welfare and equity considerations (including community service obligations).

Net Debt

The State's Net Debt is defined as the difference between financial assets (claims the Government has on external organisations and individuals) and financial liabilities (claims of external organisations and individuals on the Government) held in the form of cash, deposits, non-transferable loans, transferable debt securities (eg Treasury notes and bonds) and finance leases. This definition does not include other financial assets and liabilities such as accounts receivable/payable, assets (such as shares) representing equity in other organisations (including public trading enterprises), liabilities for unfunded employee entitlements and assets and liabilities in the form of long-term trade credit.

Net Financing Requirement (NFR)

The difference between Consolidated Fund receipts and the expenditure of these funds (net of loan repayments) is the Net Financing Requirement (NFR). An NFR is required to be funded by new borrowings. Previously, due to a deficit Consolidated Fund budget situation, the NFR has been the primary focus of the Budget outcome. A negative NFR is the same as the Consolidated Fund Surplus (CFS).

Net Interest Cost Ratio

The ratio of net interest costs met from the General Government sector (where net interest costs are defined as gross interest costs less interest recoveries and interest received from investments) to total recurrent receipts of the General Government sector net of total interest recoveries.

Nominal Terms

Values expressed in nominal terms are actual values at a point in time and reflect changing price levels over time. The term is used to contrast with 'real terms' (see below).

Outcomes

There are three different levels of outcomes.

- Community Outcomes are the long-term, high level objectives sought by the Government for the benefit of the Tasmanian community. These Outcomes are at such a high level that all of the activities of the State Service, along with contributions from the non-government sector of the Tasmanian community, contribute to their achievement.
- Government Policy Priorities are those policy directions which indicate a change in direction, an area of reform or a change in priority.
- Agency Outcomes are those Outcomes for which an agency can be held accountable, and the achievement of which contributes not only to the Government Policy Priorities but also to the Community Outcomes.

Output

An identifiable good or service produced by, or on behalf of, a department and provided to customers outside the department. The Government purchases Outputs in order to achieve policy objectives or Outcomes.

Output Expenditure

Expenditure over which a department has flexibility to reallocate funds to other Outputs within the limits of Budget allocation principles.

Output Methodology

A system of operating, budgeting and reporting which focuses attention on the Government's desired policy Outcomes and the level of Outputs required to be purchased by the Government in order to achieve those Outcomes.

Premiers' Conference

A meeting of the Prime Minister, State Premiers and the Chief Ministers of the two Territories, which prior to the year 2000 was held annually, to deal with Commonwealth-State financial relations issues. Under the IGA, this meeting has been replaced by the Treasurers' Conference (see below).

Public Account

The account established by the *Public Account Act 1986*. It consists of two separate Funds: the Consolidated Fund and the Special Deposits and Trust Fund.

Public Debt

The indebtedness to the Commonwealth for the State's share of loan raising under the Financial Agreement.

Public Financial Enterprises Sector

For the purpose of reporting uniform information on Government Financial Estimates (GFEs - see above) and Financial Assets and Liabilities (FALs - see above), non-financial public sector bodies are categorised as belonging to either the General Government sector, the Public Trading Enterprises (PTEs) sector or the Public Financial Enterprises (PFEs) sector. The PFE sector comprises those entities that perform central bank functions or have the authority to incur financial liabilities and acquire financial assets in the market on their own account. This Sector is equivalent to the Public Financial Corporations Sector which is the terminology currently used by the Australian Bureau of Statistics.

Public Trading Enterprises Sector

For the purpose of reporting uniform information on Government Financial Estimates (GFEs - see above) and Financial Assets and Liabilities (FALs - see above), non-financial public sector bodies are categorised as belonging to either the General Government sector, the Public Trading Enterprises (PTEs) sector or the Public Financial Enterprises (PFEs) sector. PTEs aim to recover the majority of their costs by revenue generated from user charges. This Sector is equivalent to the Public Non-Financial Corporations Sector which is the terminology currently used by the Australian Bureau of Statistics.

Real Terms

Statistics measured in real terms remove the effects of rising prices or inflation to facilitate a more accurate measure of change over time. Such values are now most commonly referred to in terms of constant price estimates or chain volume measures (where changing price relativities are factored in from year to year). Except where otherwise stated, figures in the Budget documents expressed in real terms are calculated using the Gross State Product Implicit Price Deflator (GSP IPD).

Recurrent Services

That part of expenditure from the Consolidated Fund which relates to the 'ordinary annual' expenditures of the Government that are incurred in the production of Outputs. The major components of expenditure are salary and administrative and operating expenses, including building services and maintenance and furniture and equipment purchases. In addition, Recurrent Services include Administered Payments and Reserved by Law payments.

Reserved by Law Payments

Reserved by Law payments are recurrent expenditures that are made where there is a legislative requirement for funding to be provided for specific purposes without the necessity for an annual appropriation.

Royalty

A payment made for the use of publicly owned resources such as timber, water, fish, minerals or intellectual property.

Special Deposits and Trust Fund

A Fund established under the *Public Account Act 1986* which comprises various individual accounts designated for specific purposes.

Specific Purpose Payments (SPPs)

SPPs (also known as tied grants) are payments made by the Commonwealth to the States and Territories, generally under section 96 of the Constitution, for the purposes, and on such terms and conditions, as may be specified by the Commonwealth. All SPPs of a recurrent nature are in the form of grants, while a small amount of assistance of a capital nature takes the form of advances.

State Capital Program

The State Capital Program comprises the capital programs of State authorities, GBEs and SOCs and the capital expenditure programs of Government departments. Details of the State Capital Program are provided in Chapter 5 of Budget Paper No 1 *Budget Overview 2001-02*. It provides information on the whole State public sector's capital expenditure in Tasmania.

State Debt

The total of debt incurred by the State under the Financial Agreement and borrowings through Tascorp.

State Government Concessions

A State Government Concession is a reduction, discount, subsidy, rebate or waiver/exemption provided by a State Government agency on the value of goods or service (associated fees) to an individual, family or household based on one or more of the following eligibility criteria:

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

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

State-owned Company

State-owned Companies (SOCs) operate outside the Public Account, principally on the basis of funds derived through their operations and are subject to Corporations Law. They have no impact on the Consolidated Fund except in circumstances where they receive payment for services provided by the SOC to the Government, or provide dividends, taxation equivalents or guarantee fees to the Government. Details of SOCs are provided in Chapter 10 of Budget Paper No 1 *Budget Overview 2001-02*.

State Public Sector Debt

The term used to describe the overall indebtedness of the Government and its State authorities, which includes repayable advances from the Commonwealth to the State for specific programs.

Statutory Authority

Statutory authorities are each established under specific legislation which defines the purpose for which they are established and the general functions for which they are responsible. Statutory authorities can be classified into two distinct categories, namely:

- those authorities that are subject to specific requirements contained in their enabling legislation; and
- those authorities which are subject to provisions contained in their enabling legislation and are also subject to the provisions of the *Government Business Enterprises Act 1995* (GBE Act). Authorities in this category are those which undertake commercial trading activities. These authorities are described as GBEs.

Statutory Office

A position established under an Act of Parliament, for example the office of Auditor-General.

Supply Act

The purpose of a Supply Act is to appropriate funds for payments necessary for the ongoing business of the Government during the period between the first day of each financial year and the passing of the Consolidated Fund Appropriation Bill. It lapses when the Consolidated Fund Appropriation Act is passed. In previous years, where the Budget has been introduced into Parliament and finally passed by Parliament well into the Budget year, the Supply Act has played a very important role in the provision of funds to agencies. With the movement to a May Budget a Supply Act has not been required.

Tascorp

The Tasmanian Public Finance Corporation. Tascorp acts as the State's central borrowing authority and raises funds for State authorities, GBEs, SOCs and the Consolidated Fund under the annually approved Loan Council Allocation.

Taxation

A compulsory levy or impost which the Government imposes on transactions, inputs, documents, property and certain activities for the purpose of raising revenue. Unlike a charge, fee or royalty, a tax does not carry a specific entitlement to goods and services.

Taxation Equivalents

Taxation equivalents are tax-like payments that are required to be paid to the Tasmanian Government by GBEs and SOCs, in line with National Competition Policy principles, to compensate for GBEs and SOCs being exempt from certain Commonwealth taxes. Taxation equivalents are applied to ensure that GBEs and SOCs are not placed at a competitive advantage due to their exemption from these taxes. The Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations provides that reciprocal taxation will be progressed on a revenue neutral basis. This was to be achieved through the negotiation of a reciprocal taxation agreement, with one aspect, the National Equivalent Regime for income tax, to be operational from 1 July 2001.

Territorial Revenue

Revenue arising from the sale, rent or other use of Crown land or property rights.

Transitional Payments

The difference between the Guaranteed Minimum Amount and the revenue from the GST distributed to a State or Territory is referred to as the Transitional Payment. The Transitional Payment to be provided by the Commonwealth will be in the form of a grant.

Treasurers' Conference

Under the IGA, the Treasurers' Conference for Commonwealth-State Financial Relations is established, comprising the Treasurer of the Commonwealth and the Treasurers of the States and Territories. The detailed responsibilities of the Council are provided in the IGA.

Treasurer's Reserve

An appropriation to the Treasurer to provide funds to meet expenditure which could not have been reasonably foreseen at the time of preparation of the Budget. The Treasurer's Reserve is comprised of a statutory amount of $10 million, as provided for in the *Public Account Act 1986*, together with any additional amount appropriated. See Chapter 5 of this document for a more complete discussion of the Treasurer's Reserve.

Vertical Fiscal Imbalance

An imbalance between the expenditure responsibilities of each tier of government and the own-source revenue resources available to that tier. Australia is characterised by significant vertical fiscal imbalance, since the Commonwealth raises around 70 per cent of national tax revenues but has direct responsibility for only approximately 54 per cent of all public sector outlays.

Works and Services

That part of Consolidated Fund expenditure relating to the construction, purchase and maintenance of major capital assets such as roads, public housing, schools, hospitals and equipment. Works and Services expenditure is reflected in the Roads, Housing and Capital Investment Programs and the appropriation of funds to the new Infrastructure Development Fund. For detailed information on the Infrastructure Fund see Chapter 5 of Budget Paper No 1 *Budget Overview 2001-02*.