

Economic and Fiscal Update Report - May 2020



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I. REPORT CONTEXT

This Report has been prepared in the context of the unprecedented times resulting from the COVID-19 pandemic and the significant action that the Australian Government and all State and Territory Governments have had to take to seek to mitigate its impact. Modelling considered by National Cabinet showed that if far reaching action was not taken, up to 22.7 million Australians (89.1 per cent of the population) could have become infected with the virus, with up to 1.4 million (5.4 per cent of the population) requiring hospitalisation. Given Tasmania's population, this would have resulted in an estimated 477 000 Tasmanians infected with COVID-19 and 29 400 being hospitalised. An unmitigated COVID-19 pandemic would have dramatically exceeded the capacity of the Australian health system over a prolonged period of time. Given the older and more vulnerable Tasmanian population, the importance of action being taken by the State Government was particularly vital.

Reducing COVID-19 morbidity and mortality has been dependent upon the introduction of a combination of measures to strengthen and extend public health clinical capacity and the overall reduction of infection transmission in the community.

In addition to the health impacts, the necessary actions taken to slow the spread of the disease are resulting in significant economic and social consequences across Tasmania.

The strength of the Tasmanian economy and the State's Budget position, prior to the emergence of the COVID-19 pandemic, has been an important factor in shaping and supporting the Government's response to the pandemic.

Social and Economic Support Measures announced by the State Government represent direct expenditure, the removal of the efficiency dividend requirements for agencies, funding set aside for loans, reductions in State revenues, and grants provided directly to those who are needing them the most during this uncertain time. Total support to the community will be in excess of \$1 billion. This includes, additional expenditures in excess of \$327 million, reductions in revenue in excess of \$194 million, loans in excess of \$200 million, the removal of efficiency dividends on agencies of \$268 million and waiver of quarterly bills for small business by Aurora (est \$27 million) and TasWater (est \$25 million). Some of these measures provide support beyond the 2019-20 and 2020-21 financial years detailed in this report.

The most recent economic, financial and budgetary information published by the Government was the *Revised Estimates Report 2019-20 (including the December Quarterly Report)* published on 11 February 2020. The economic and budgetary estimates presented in that Report were prepared at an early stage in the development of the COVID-19 pandemic and there was a high level of uncertainty in relation to the economic and fiscal impacts. As a result, the impact of COVID-19 was identified as a budget risk and preliminary commentary was provided on the economic risks.

Since that time, the COVID-19 pandemic has had a significant global, national and local impact. In response, the Government has announced a range of revenue and expenditure measures to support the health of Tasmanians and the broader community, and support the Tasmanian economy. Some initial measures were endorsed by State Parliament through the passage of a Supplementary Appropriation Act in relation to 2019-20 and a Supply Act in relation to 2020-21.

In recognition of the uncertainty surrounding the full impact of the COVID-19 pandemic on Tasmania's economic and fiscal position, the priority of addressing the immediate impacts of the pandemic and the constraints imposed on public sector resources, a decision was made by the Government to delay the 2020-21 Budget until later in 2020 (the previously announced date was 4 June 2020). This decision was consistent with similar announcements made by the Australian Government and other States and Territories.

At the time of the announcement of the delay in the timing of the 2020-21 Budget, the Treasurer advised that updated information on the Government's economic and fiscal position would be provided prior to the 2020-21 Budget. In accordance with this commitment, on 30 April 2020, the Treasurer announced that he had requested the Secretary of the Department of Treasury and Finance to prepare and publish an Economic and Fiscal Update. He also stated that this update would include revised General Government Sector financial statements for the 2019-20 and 2020-21 financial years, updated economic estimates, commentary on the economic and fiscal position and the legislatively required 2019-20 March Quarterly Report.

This Economic and Fiscal Update Report has been prepared by Treasury in accordance with the Treasurer's commitment.

Further financial information is required to be published under the provisions of the *Financial Management Act 2016* during 2020. This includes the Preliminary Outcomes Report (by 15 August 2020) which will provide estimates of the financial outcome for 2019-20, the Treasurer's Annual Financial Report (by 31 October 2020) which will provide the Government's audited financial statements for the 2019-20 year and the September Quarterly Report. It is envisaged that additional information on the impact of COVID-19 will be included in the POR and TAFR.

As is usual practice, the 2020-21 Budget will provide comprehensive agency and whole-of-government budget information in relation to the 2020-21 Budget year and Forward Estimates period (2021-22 to 2023-24) together with other information generally included in the Budget Papers. The 2020-21 Budget will be delivered in November 2020.

2. BASIS FOR PREPARATION OF REPORT

This Economic and Fiscal Update Report has been prepared in a highly uncertain economic and fiscal environment, with the full impacts of COVID-19 and the likely recovery timeframe not yet known. The impact on the level of GST receipts, other Australian Government receipts, State own-source revenues and many agency expenditures is particularly uncertain. Furthermore, new policies and actions to address the impacts of the pandemic continue to be announced by the State and Australian Governments, and these are expected to have an impact on the economic and fiscal estimates.

As such, it is currently not possible to reliably measure the full impacts of COVID-19 on Tasmania's economy and budget. The preparation of this Report has required the exercise of considerable judgement and reliance on a greater than usual number of assumptions as to potential outcomes.

In addition, given the timing of the preparation of this Report, some fiscal and economic information that would generally be taken into account in the preparation of estimates, is not currently available.

The economic and budget estimates presented in this Report will be subject to ongoing review and amendment in future updates. In this regard, it is particularly noted that the estimates presented in this Report for 2020-21 do not take into account future policy decisions by the Government to mitigate the impact of the pandemic on the health of Tasmanians and on the State's economy and Budget position.

Given the high level of uncertainty, this Report only provides revised fiscal estimates for the 2019-20 and 2020-21 Budget years.

The following matters are included in the fiscal estimates:

- variations that were reflected in the 2019-20 Revised Estimates Report;
- 2020 State of the State Address commitments;
- estimates of expenditure and reduced revenue associated with the Social and Economic Support Measures and subsequent major announcements such as the allocation of an additional \$20 million to the Small Business Grants commitment;
- the removal of agency efficiency dividends, from 2020-21;
- updated GST estimates;
- updated estimates for State Taxation and Government Business Returns;
- the removal of Hydro Tasmania and Sustainable Timber Tasmania special dividends and the additional government business dividends that were included to support a reduction in agency efficiency dividends from 2020-21; and
- additional bushfire costs, in 2019-20, of \$10 million.

The following matters are not included in the fiscal estimates:

- updated agency revenue and expenditure estimates, post the 2019-20 Revised Estimates Report, not related to specific 2020 State of the State Address commitments or Social and Economic Support Measures. For example, the COVID-19 pandemic is expected to have impacted agency revenues and expenditure relating to the provision of services to the Tasmanian community (both in terms of increases and decreases) and agencies continue to experience changes in revenues and expenditures unrelated to the impact of the pandemic. While some allowance has been made for expenditure impacts, the full impacts have not been able to be included in this Report but will be reflected in future reports;
- any adjustment to Defined Benefit Scheme costs to reflect changes in calculations since the 2019-20 Revised Estimates Report; and
- the impact of changes in returns from Government businesses since the 2019-20 Revised Estimates Report on the calculation of the Government's equity investment in those businesses.

3. ECONOMIC UPDATE

The COVID-19 pandemic represents a significant shock to the global, national and Tasmanian economies, predominantly due to the range of public health measures put in place to respond to the health crisis. The scale of the economic impact is substantial.

Consistent with most other impacted countries, the Australian Government, along with states and territories, has progressively implemented measures to limit the spread of the virus and to lower the rate of infections.

While these measures have successfully slowed the rate of infection in the community, they are also negatively impacting the economy, with some sectors impacted more extensively than others. Consumption by households has fallen dramatically, reflecting both restrictions on where members of households can physically go as well as a high degree of consumer caution related to uncertainty surrounding employment in the months ahead.

In response, all levels of government have announced significant support and stimulus packages aimed at supporting businesses, employees and the community.

In total, the Australian Government has announced stimulus measures of over \$320 billion across the forward estimates, including the \$130 billion JobKeeper Payment program. The Tasmanian Government has also announced Social and Economic Support Measures valued at over \$1 billion. These are detailed further in Section 4.

Stimulatory measures have also been implemented by the Reserve Bank of Australia, with a reduction in the official cash rate to 0.25 per cent and a range of interventions to support the supply of credit to the economy and to provide liquidity to financial markets.

Despite this significant level of support, there still remains considerable uncertainty about the size and duration of the economic impact.

Private sector forecasts have been released that display considerable variations in opinion about the size of the impact on the economy and the labour market, with frequent revisions as new information becomes available.

Due to the current levels of uncertainty, revised economic estimates are presented for 2019-20 only. In addition, the revised estimates outlined in this section should be considered in the context of a highly uncertain environment and with an acknowledgement that they will be revised further in future updates.

Global and national economic environment

In its April 2020 *World Economic Outlook*, the International Monetary Fund (IMF) indicated that the health crisis is having a severe impact on economic activity with global output forecast to drop by 3.0 per cent in 2020, with advanced economies expected to experience a fall of 6.1 per cent. This is significantly worse than the outcome during the global financial crisis in 2009.

The IMF's baseline scenario assumes that economic activity will stabilise in the second half of the 2020 calendar year, with global growth projected to be 5.8 per cent in 2021, with advanced economies to grow by 4.5 per cent.

However, it is acknowledged that there is extreme uncertainty associated with these forecasts and that the impact will depend on a range of inter-related factors.

The IMF has forecast Australia to experience a fall in GDP of 6.7 per cent in 2020. In comparison, Australia's GDP increased by 1.9 per cent in 2008-09 following the global financial crisis. Australia's economy has not recorded negative growth since the early 1990s recession. The IMF has projected Australia's GDP to grow by 6.1 per cent in 2021.

On 11 March 2020, Governor of the RBA, Philip Lowe initially estimated a detraction of around 0.5 of a percentage point on GDP from falling services exports in the March quarter 2020 before the full impact of the pandemic became apparent. In a more recent speech on 21 April 2020, he noted that Australian GDP is likely to fall by around 10 per cent in the first half of 2020, with most of that fall occurring in the June quarter 2020.

He also noted that hours worked are likely to fall by about 20 per cent and the national unemployment rate is likely to reach around 10 per cent by June 2020, with inflation declining significantly in the June quarter 2020. The Governor has also indicated that considerable uncertainty with these estimates is likely to continue, with the profile of the recovery dependant on the timing of the removal of restrictions and a return of consumer confidence as the level of uncertainty reduces. The RBA's quarterly *Statement on Monetary Policy* was released on 8 May 2020 and forecasts GDP to fall by 8 per cent in the June quarter 2020 compared to the previous year and by 6 per cent over the year to the December quarter 2020. The Statement includes the RBA's expectation that the unemployment rate will peak at around 10 per cent in the June quarter 2020, with a gradual decline to 6½ per cent by June 2022.

In a Ministerial Statement on 12 May 2020, the Australian Treasurer announced that Australian Treasury estimated a fall in national GDP of around 10 per cent in the June quarter 2020 and that each additional week of the existing restrictions results in a reduction of \$4 billion in national economic activity. National household consumption is expected to be 16 per cent lower in the June quarter 2020, business investment around 18 per cent lower and dwelling investment also around 18 per cent lower.

The Prime Minister has also recently noted that the Government is expecting a fall in overseas migration of around 30 per cent in 2019-20 from 2018-19 levels, with a further fall expected in 2020-21 that would result in the level in that year being around 85 per cent below the 2018-19 levels.

Recent performance and outlook for the Tasmanian economy

Prior to the COVID-19 pandemic emerging in early 2020, the Tasmanian economy was growing at its strongest rate in over a decade. High levels of tourism had led to a strong pipeline of tourism-related construction projects. Population growth was over double the long-term average rate and growth in employment was robust, with unemployment at very low levels. Some measures, such as those related to private investment, had started to slow prior to the pandemic, compared with the very high levels recorded in 2018-19.

As a result of the solid growth recorded in the first three quarters of 2019-20, year-average estimates are not likely to be severely negative, particularly for the labour force.

The 2019-20 Revised Estimates Report noted the spread of COVID-19 as a risk to the outlook. At that time, Tasmania was impacted through its links to China, with reductions in international tourism and students through travel bans and selected exporters, such as rock lobster, facing reduced demand from China.

However, since the time of the 2019-20 Revised Estimates Report, the situation has evolved rapidly. With limited economic data on actual outcomes available to date, the revised estimates have taken a wide range of indicators and policy responses into consideration and applied judgement to develop estimates for the March and June quarters 2020.

Gross state product is estimated to decline by around 1¾ per cent in 2019-20. This compares with the revised estimate of 3 per cent in the 2019-20 Revised Estimates Report. This reflects expected falls in all components, except government expenditure, which is expected to increase due to the increased level of spending associated with the State's pandemic response.

This would be the first decline in GSP for Tasmania since 2012-13 and the largest decline in the history of the State Accounts series (that dates back to 1989-90).

State final demand is expected to fall by around 1½ per cent in 2019-20. This compares with the revised estimate of 2¾ per cent in the 2019-20 Revised Estimates Report.

Table 3.1: Tasmanian Economic Estimates

	2018-19	2019-20 RER	March EFU
	Actual	2019-20 Estimate	2019-20 Estimate
Gross State Product (real, % change)	3.6	3	-1¾
State Final Demand (real, % change)	4.5*	2¾	-1½

Source: Actual - Australian Bureau of Statistics; Estimates - Treasury

Note:

* State Final Demand actual has been calculated using the December quarter 2019 National Accounts data.

Household consumption is expected to fall in 2019-20. This reflects solid growth in consumption in the first half of the year, which was expected to have continued in the March quarter 2020 as panic buying in March disrupted normal consumption patterns and offset some declines in expenditure categories such as transportation. A significant decline in consumption is expected for the June quarter 2020, with falls expected in most consumption categories, particularly those areas impacted by government restrictions such as hotels, cafés and restaurants, with only categories related to essential consumption likely to experience growth.

Private investment is also expected to fall, with some projects deferred or potentially cancelled, along with supply chain disruptions slowing the completion of existing projects. Dwelling investment is likely to slow in the June quarter 2020 as households put building plans on hold due to low consumer confidence related to the level of economic uncertainty and potential delays due to supply chain disruptions.

International exports are also expected to decline, largely due to a very large decline in international service exports as border restrictions halt international tourism in the June quarter 2020 and significantly impact on international education. Exports of goods are expected to fall by a lower rate than services, with reduced global demand and reduced international air freight impacting levels.

While the pandemic has had a significant impact on the labour market, both in Tasmania and across the country, it is likely that the full impact will not be apparent in official labour market statistics. This is due to a number of factors, such as:

- employers reducing hours worked of employees rather than reducing staff numbers;
- some employees who are temporarily stood down accessing leave entitlements;
- the Australian Government's JobKeeper Payment program allowing employers to retain staff; and
- the removal of job search requirements for JobSeeker recipients.

These factors will result in employees that would be likely considered as unemployed by the general public being considered either still employed by the ABS or as not in the labour force, therefore reducing the participation rate. This will constrain growth in the unemployment rate, but likely result in a decline in hours worked and rising underemployment.

Tasmania's level of employment is likely to fall by around $\frac{1}{4}$ of one per cent in year-average terms in 2019-20. This is due to very strong growth in employment in the first three quarters of 2019-20 that has been offset by the estimated fall in employment in the last quarter of the year of around 27 500 persons.

Table 3.2: Tasmanian Labour Force Estimates

	2019-20 RER		March EFU	
	2018-19 ¹	2019-20 ¹	2019-20 ¹	June 2020 ³
	Actual ²	Estimate	Estimate	Estimate
Employment (% change)	0.2	1½	-¼	-10¾ ⁴
Labour force participation rate (%)	60.6	60¾	60½	59
Unemployment rate (%)	6.3	6	7¼	12¼

Source: Actual - Australian Bureau of Statistics; Estimates, forecasts - Treasury

Notes:

1. Year-average.
2. Labour Force actuals are based on March 2020 data.
3. Monthly seasonally adjusted estimate.
4. Change between March 2020 and June 2020.

The participation rate is expected to decrease by around two percentage points by June 2020 from its seasonally adjusted level of 61.1 per cent in March 2020. This will result in a year-average participation rate of 60½ per cent in 2019-20.

The unemployment rate is expected to reach around 12¼ per cent in June 2020 in seasonally adjusted terms. Due to the much lower rate for the first three quarters of 2019-20, this results in a year-average unemployment rate of around 7¼ per cent in 2019-20.

The Consumer Price Index is likely to experience a large decline in the June quarter 2020, due to price freezes on a range of services such as electricity and water, the Australian Government's free childcare initiative, discounting by retailers on slow-selling items such as clothing, and the decline in oil prices flowing through to petrol prices. Hobart's CPI is expected to be 2¼ per cent in 2019-20, compared with the forecast of 2¾ per cent in the 2019-20 Revised Estimates Report. In its *Statement on Monetary Policy*, the RBA expects national CPI will decline by around 2¼ per cent in the June quarter 2020 to be 1 per cent below the level of one year earlier.

Prior to the pandemic, Tasmania's population had been increasing at a rate around double the long-term average, driven by a return to positive net interstate migration and higher levels of overseas migration. Border restrictions in place since late March 2020 will reduce levels of both overseas and interstate migration. Despite this, Tasmania's population is still expected to increase by around one per cent due to high levels of growth in the first three quarters of 2019-20.

Risks for the outlook

There are significant risks to the short-term outlook, most significantly the COVID-19 pandemic and the associated public health restrictions.

Economic recovery is dependent on the timing of the rollback of containment measures, along with the State's ability to control the outbreak.

The speed of recovery may also be tempered by consumer sentiment. Some concerns may remain amongst consumers, along with possible reduced savings due to reduced hours worked or unemployment, which may result in a prolonged period of lower spending. In addition, it is expected that international travel constraints will be among the last of the current restrictions to be lifted. This will result in a more prolonged impact through reductions in migration, international students and tourism.

The COVID-19 pandemic will significantly change world economies. There is likely to be a greater focus on national self-sufficiency for key products and services and an impact on international trade arrangements. This will provide opportunities for some Australian businesses, which has already happened to some degree with some businesses able to change their production to meet shortages in key items. However, this shift will require a transformation of industry and the economy and a refocus of government policies to help facilitate this change.

There continues to be significant uncertainty and the road to recovery will depend on a range of inter-related social and economic factors. These will include the need to live and work with the COVID-19 pandemic until such time as a vaccine is available. Ongoing containment measures will impact the way our community interacts and how our businesses operate. These are uncertain times, with changing financial market conditions, international and domestic supply disruptions, and significant personal impacts on all Tasmanians.

4. FISCAL UPDATE

Table 4.1 summarises the impact of budget variations on the Key Fiscal Measures between the original 2019-20 Budget Estimates and the updated estimates presented in this Report.

Key Fiscal Measures Summary

	Original 2019-20 Budget	2019-20 Estimated Outcome	Original 2020-21 Forward Estimate	Revised 2020-21 Forward Estimate
	\$m	\$m	\$m	\$m
Net Operating Balance	57.4	(716.4)	85.1	(1 007.5)
Fiscal Balance	(248.4)	(1 035.1)	(225.7)	(1 469.2)
Net Debt	284.5	645.9	643.1	2 348.9
GFS Net Debt	(50.4)	299.2	321.0	2 016.2
Infrastructure Investment	723.3	722.2	715.9	826.3

The General Government Income Statement for 2019-20 and 2020-21 is detailed in Table 4.2.

Table 4.2: General Government Income Statement

	Original 2019-20 Budget	2019-20 Estimated Outcome	Original 2020-21 Forward Estimate	Revised 2020-21 Forward Estimate
	\$m	\$m	\$m	\$m
Revenue from transactions				
Grants	3 973.3	3 686.9	4 075.4	3 846.5
Taxation	1 215.5	1 139.2	1 251.6	968.4
Sales of goods and services	416.0	404.6	421.3	423.0
Fines and regulatory fees	103.1	100.7	104.3	99.2
Interest income	16.8	18.7	16.6	16.2
Dividend, tax and rate equivalent income	524.1	516.9	375.4	235.2
Other revenue	157.9	162.3	153.0	155.5
	6 406.7	6 029.3	6 397.6	5 744.1
Less Expenses from transactions				
Employee expenses	2 675.1	2 814.9	2 712.9	2 858.6
Superannuation	305.1	370.9	303.3	302.0
Depreciation	329.4	340.5	352.0	363.8
Supplies and consumables	1 293.8	1 302.8	1 277.4	1 286.7
Nominal superannuation interest expense	271.3	180.1	274.4	263.4
Borrowing costs	14.1	9.3	23.7	21.8
Grant and subsidy expenses	1 461.2	1 679.6	1 424.6	1 611.3
Other expenses	(0.7)	47.6	(55.8)	44.0
	6 349.3	6 745.7	6 312.5	6 751.5
Equals NET OPERATING BALANCE	57.4	(716.4)	85.1	(1 007.5)
Plus Other economic flows - included in Operating Result				
Gain/(loss) on sale of non-financial assets	16.7	16.7	16.7	16.7
Revaluation of equity investment in PNFC and PFC sectors	(227.6)	....	(38.2)	....
Movements in superannuation liability	....	3 482.2	....	....
Other gains/(losses)	(2.0)	289.0	(7.7)	4.5
	(212.9)	3 787.8	(29.1)	21.3
Equals Operating Result	(155.6)	3 071.4	56.0	(986.2)

Table 4.2: General Government Income Statement (continued)

	Original 2019-20 Budget	2019-20 Estimated Outcome	Original 2020-21 Forward Estimate	Revised 2020-21 Forward Estimate
	\$m	\$m	\$m	\$m
Plus Other economic flows - other movements in Equity				
Revaluations of non-financial assets	282.7	282.5	300.9	299.1
Revaluation of equity investment in PNFC and PFC sectors	....	217.4	....	(136.3)
Other non-owner movements in Equity	(210.8)	(242.4)	....	....
	71.9	257.4	300.9	162.8
Equals Comprehensive Result	(83.6)	3 328.8	356.8	(823.4)
KEY FISCAL AGGREGATES				
NET OPERATING BALANCE	57.4	(716.4)	85.1	(1 007.5)
Less Net acquisition of non-financial assets				
Purchases of non-financial assets	700.1	724.1	718.6	881.4
Less Sales of non-financial assets	65.0	65.0	55.9	55.9
Less Depreciation	329.4	340.5	352.0	363.8
	305.7	318.6	310.8	461.7
Equals FISCAL BALANCE	(248.4)	(1 035.1)	(225.7)	(1 469.2)

The General Government Balance Sheet for 2019-20 and 2020-21 is detailed in Table 4.3.

Table 4.3: General Government Balance Sheet

	Original 2020 Budget	2020 Estimated Outcome	Original 2021 Forward Estimate	Revised 2021 Forward Estimate
	\$m	\$m	\$m	\$m
Assets				
Financial assets				
Cash and deposits	926.6	1 063.5	894.7	862.3
Investments	158.8	158.8	191.7	180.9
Equity investments in PNFC and PFC sectors	5 451.5	5 363.8	5 503.1	5 363.3
Other equity investments	71.5	71.4	127.0	126.9
Receivables	307.8	343.4	303.8	339.2
Other financial assets	822.9	691.3	843.5	691.8
	7 739.1	7 692.2	7 863.8	7 564.3
Non-financial assets				
Land and buildings	6 953.3	7 387.5	7 195.7	7 662.6
Infrastructure	6 115.9	6 313.7	6 494.8	6 779.5
Plant and equipment	270.9	265.5	291.8	284.1
Heritage and cultural assets	486.5	475.3	498.7	487.6
Investment property	4.1	3.2	4.4	3.5
Intangibles	51.4	61.6	48.9	57.4
Assets held for sale	6.6	5.0	5.6	4.0
Leases - right-of-use assets	333.4	345.4	321.6	330.8
Other non-financial assets	41.6	45.2	38.0	88.1
	14 263.7	14 902.5	14 899.6	15 697.6
Total Assets	22 002.7	22 594.7	22 763.4	23 261.9
Liabilities				
Borrowings	1 035.0	1 521.5	1 407.4	3 059.3
Lease liabilities	334.9	346.7	322.1	332.7
Superannuation	7 007.8	6 731.6	7 071.7	6 779.9
Employee entitlements	665.2	702.7	679.4	717.3
Payables	164.7	204.7	166.9	207.0
Other liabilities	464.4	535.1	428.3	436.7
Total Liabilities	9 671.9	10 042.3	10 075.8	11 533.0
Net Assets	12 330.8	12 552.4	12 687.6	11 728.9

Table 4.3: General Government Balance Sheet (continued)

	Original 2020 Budget	2020 Estimated Outcome	Original 2021 Forward Estimate	Revised 2021 Forward Estimate
	\$m	\$m	\$m	\$m
Equity				
Accumulated funds	5 830.6	7 217.9	5 886.6	6 231.6
Asset revaluation reserve	6 500.2	5 527.1	6 801.0	5 826.2
Other revaluation reserves	....	(192.6)	....	(328.9)
Total Equity	12 330.8	12 552.4	12 687.6	11 728.9
KEY FISCAL AGGREGATES				
NET WORTH¹	12 330.8	12 552.4	12 687.6	11 728.9
NET FINANCIAL WORTH²	(1 932.9)	(2 350.1)	(2 212.0)	(3 968.7)
NET FINANCIAL LIABILITIES³	7 384.4	7 713.9	7 715.0	9 331.9
NET DEBT⁴	284.5	645.9	643.1	2 348.9
GFS NET DEBT⁵	(50.4)	299.2	321.0	2 016.2

Notes:

1. Net Worth represents Total Assets less Total Liabilities.
2. Net Financial Worth represents Total Financial assets less Total Liabilities.
3. Net Financial Liabilities represents Total Liabilities less Financial assets, excluding Equity investment in PNFC and PFC sectors.
4. Net Debt represents Borrowings plus Lease liabilities, less the sum of Cash and deposits and Investments.
5. GFS Net Debt represents Borrowings less the sum of Cash and deposits and Investments. This is equivalent to Net Debt based on the Australian Bureau of Statistics Government Finance and Statistics reporting framework, and excludes the impact of Lease liabilities (this reflects how Net Debt has been calculated prior to the introduction of AASB 16 in 2019-20).

The General Government Cash Flow Statement for 2019-20 and 2020-21 is detailed in Table 4.4.

Table 4.4: General Government Cash Flow Statement

	Original 2019-20 Budget	2019-20 Estimated Outcome	Original 2020-21 Forward Estimate	Revised 2020-21 Forward Estimate
	\$m	\$m	\$m	\$m
Cash flows from operating activities				
Cash received from operating activities				
Grants received	3 838.7	3 582.5	4 036.1	3 745.7
Taxation	1 213.1	1 136.8	1 249.7	966.5
Sales of goods and services	414.7	403.4	420.9	422.6
Fines and regulatory fees	103.0	100.7	104.3	99.2
Interest received	17.2	19.1	15.7	15.3
Dividend, tax and rate equivalents	511.5	574.9	356.5	248.5
Other receipts	331.5	336.2	321.8	324.4
	6 429.8	6 153.4	6 505.0	5 822.2
Cash payments for operating activities				
Employee entitlements	(2 688.5)	(2 828.3)	(2 696.6)	(2 842.3)
Superannuation	(509.7)	(526.6)	(513.0)	(516.3)
Supplies and consumables	(1 296.8)	(1 313.0)	(1 276.3)	(1 292.2)
Borrowing costs	(14.3)	(9.4)	(23.9)	(21.8)
Grants and subsidies paid	(1 461.2)	(1 679.6)	(1 424.5)	(1 611.2)
Other payments	(172.7)	(221.3)	(114.4)	(214.2)
	(6 143.2)	(6 578.2)	(6 048.8)	(6 498.0)
Net cash flows from operating activities	286.7	(424.8)	456.2	(675.8)
Cash flows from investing activities				
Net cash flows from non-financial assets				
Purchases of non-financial assets	(688.4)	(712.5)	(706.5)	(869.3)
Sales of non-financial assets	61.2	61.2	52.7	52.7
	(627.3)	(651.3)	(653.8)	(816.6)
Net cash flows from financial assets (policy purposes)				
Equity injections	(116.9)	(122.7)	(145.2)	(191.2)
Net advances paid	4.1	39.9	6.6	6.6
Equity disposals	3.6	3.6	3.6	3.6
	(109.2)	(79.3)	(135.1)	(181.1)

Table 4.4: General Government Cash Flow Statement (continued)

	Original 2019-20 Budget	2019-20 Estimated Outcome	Original 2020-21 Forward Estimate	Revised 2020-21 Forward Estimate
	\$m	\$m	\$m	\$m
Net cash flows from financial assets (liquidity management purposes)				
Net (purchase)/sale of investments	(54.9)	(41.7)	(39.5)	(28.7)
	(54.9)	(41.7)	(39.5)	(28.7)
Net cash flows from investing activities	(791.4)	(772.2)	(828.4)	(1 026.4)
Cash flows from financing activities				
Net borrowing	332.8	1 014.2	340.3	1 501.0
Net cash flows from financing activities	332.8	1 014.2	340.3	1 501.0
Net increase/(decrease) in cash held	(171.9)	(182.8)	(31.9)	(201.2)
Cash at the beginning of the year	1 098.5	1 246.3	926.6	1 063.5
Cash at the end of the year	926.6	1 063.5	894.7	862.3
KEY FISCAL AGGREGATES				
Net cash flows from operating activities	286.7	(424.8)	456.2	(675.8)
Plus Net cash flows from non-financial assets	(627.3)	(651.3)	(653.8)	(816.6)
Equals CASH SURPLUS/(DEFICIT)	(340.6)	(1 076.1)	(197.6)	(1 492.5)

Major Revenue Variations

State Taxation

As noted in Section 3, public health measures to limit the spread of COVID-19 have had a significant negative impact on the economy. There also remains a high-level of uncertainty as to the duration of the pandemic and the economic impact of the public health measures implemented to slow the rate of infection in the community.

Updated revenue estimates for 2019-20 and 2020-21 have therefore been prepared against a background of considerable ambiguity and uncertainty. A range of assumptions have been made, based on advice from a number of different sources and these are reflected in the updated estimates, including the anticipated timing of the removal of particular restrictions. Notwithstanding the expected removal of restrictions, the estimates also assume an extended period of subdued activity over 2020-21.

The impact of the Government's Social and Economic Support Measures are also reflected in the revised estimates. This includes measures such as the:

- payroll tax relief for Tasmanian employers with wages up to \$5 million and Tasmanian hospitality, tourism and seafood industry employers;
- waiver of payroll tax on wages paid to employees under the Australian Government's JobKeeper Payment program; and
- land tax relief for commercial property owners impacted by COVID-19.

A more accurate reflection of the revenue impact of the measures will not be known until further information is available on the uptake of the measures.

Based on the assumptions, for 2019-20, taxation revenue is forecast to decrease by \$76.3 million with impacts on major taxation lines including payroll tax, casino tax and motor vehicle duty.

Further reductions in taxation revenue are expected for 2020-21, with a decrease of \$283.2 million to the Budget Forward Estimate of \$1 251.6 million, with significant reductions in payroll tax (\$93.5 million), conveyance duty (\$58 million), land tax (48.6 million) and motor tax (\$40 million). This reflects the impact of subdued economic conditions for an extended period, together with the impact of Government support measures.

Scenario modelling has been undertaken of the impact on major own-source revenue line estimates which suggests that a return to pre-COVID-19 economic activity in the first half of the 2021 calendar year would ameliorate the impact to some extent. Conversely, if economic recovery is slower than anticipated, revenue estimates would likely be more subdued.

GST Revenue

Similarly a range of assumptions have been made in relation to GST estimates. These include the impact of social distancing policies on household consumption and GST collections up to March 2020. For the purposes of this report reductions in GST revenue are recognised in the year in which they occur.

Based on the assumptions, for 2019-20, GST revenue is forecast to decrease by \$309.8 million and \$357.6 million for 2020-21. The impact of COVID-19 measures on GST in 2020-21 has been partially offset by the positive impact on Tasmania's share of the GST pool as a result of the Commonwealth Grants Commission's 2020 Methodology Review Final Report.

Scenario modelling demonstrates that an earlier return to pre-COVID-19 activity will provide limited improvement to these estimates.

Dividend, Tax and Rate Equivalent Income

A similar approach to that outlined above for State taxation has been applied to dividend, tax and rate equivalent income from Government businesses. Updated estimates for 2019-20 and 2020-21 reflect the impact that public health measures to limit the spread of COVID-19 are likely to have on Government business profitability. Dividend, tax and rate equivalent income is forecast to decrease by \$7.2 million in 2019-20 and by \$140.2 million in 2020-21.

The 2019-20 Revised Estimates Report included special dividends in 2019-20 from Hydro Tasmania of \$70 million and Sustainable Timber Tasmania (STT) of \$20 million. This reflected the capacity of both businesses to provide increased returns at that time. Given the unprecedented impact of the COVID-19 pandemic, Hydro Tasmania and STT will not be directed to pay special dividends in 2019-20.

Major Expense Variations

Since the 2019-20 Budget, expenditure is currently estimated to increase significantly in both 2019-20 and 2020-21. In 2019-20, this increase is estimated to be \$396.4 million and, in 2020-21, it is estimated to be \$439 million. As highlighted earlier in this Report, whilst some allowance has been made for increased expenditures, these do not currently include the full impact of changes in agency expenditures (both increases and decreases) post the preparation of the 2019-20 Revised Estimates Report. These changes will be reflected in future updates.

Increases in expenditures primarily reflect:

- revised expenditure disclosed in the 2019-20 Revised Estimates Report;
- funding announced as part of the Government's 2020 State of the State address; and
- funding announced by the Government in its Social and Economic Support Measures in response to the COVID-19 pandemic.

The increases in expenditure have been reflected across a number of different expenditure types with substantial increases in Grant and subsidy expenses, Employees expenses and Other expenses (primarily as a consequence of the removal of agency efficiency dividends).

Summary information on expenditure commitments since the 2019-20 Budget that impact the 2019-20 and 2020-21 Budget years, is provided below. In some instances, the new initiatives that have been announced, require the allocation of additional funding on an ongoing basis or over a number of years while, in other instances, funding is of a short-term nature only. Further detailed information on additional expenditure has already been provided in the 2019-20 Revised Estimates Report, the Premier's 2020 State of the State Address and at www.coronavirus.tas.gov.au.

2019-20 Revised Estimates Report

The 2019-20 Revised Estimates Report included the following significant expenditure initiatives:

- \$118 million in 2019-20 and \$140 million in 2020-21 to support the delivery of health services by the Tasmanian Health Service;
- \$47 million across 2019-20 and 2020-21 representing the removal of the agency efficiency dividend from the Tasmanian Health Service (\$17 million in 2020-21) and the introduction of offsetting increased expenditure as a result of offsetting Dividend revenue (\$30 million); and
- \$10 million in 2019-20 to meet additional firefighting costs.

2020 State of the State Address

The 2020 State of the State Address delivered by the Premier on 3 March 2020, included a number of new expenditure initiatives. Initiatives impacting the 2019-20 and 2020-21 Budget years include:

- \$370 000 in 2019-20 and \$3.6 million in 2020-21 to support new bushfire fuel reduction initiatives;
- \$4 million in 2020-21 to support Tasmania's Hydrogen Energy industry; and
- \$2.4 million in 2020-21 to meet the cost of the Government's decision to extend the First Home Owner's Grant.

Social and Economic Support Measures

On 17 March 2020 and 26 March 2020 the Premier announced a number of initiatives to support individuals, the Tasmanian community and Tasmanian businesses and industries to address the health and economic impacts of the COVID-19 pandemic. These initiatives impact both revenue (as detailed previously) and expenditure estimates. In relation to expenditure initiatives, as noted earlier, there is uncertainty in some instances in relation to the allocation of expenditure between 2019-20 and 2020-21. The total 2019-20 and 2020-21 additional expenditure associated with Social and Economic Support Measures is \$377.6 million.

Major initiatives included:

- \$150 million to meet health costs associated with managing the COVID-19 pandemic;
- \$68 million in additional expenditure reflecting the Government's decision to remove agency efficiency dividends in 2020-21 (and future years);
- \$60 million for the Small Business Emergency Support Grants Program;
- \$50 million to fund the Government Maintenance Program;
- \$6.3 million for the Rapid Response Skills Initiative;
- \$5 million for the Community Support Fund;
- \$5 million for Primary Health Support;
- \$2.7 million for Family Violence initiatives; and
- \$2.5 million for the Child Safety System.

Other Additional Expenditure

The Government included additional funding of \$10 million in the *Appropriation (Supplementary Appropriation for 2019-20) Act 2020* to meet additional 2019-20 bushfire costs.

Purchases of Non-Financial Assets

The changes in the Purchases of non-financial assets primarily reflects updates disclosed in the 2019-20 Revised Estimates Report. Due to the impacts of the COVID-19 pandemic it is anticipated that delays in some projects will impact Purchases of non-financial assets, resulting in reductions in 2019-20 and increases in 2020-21. These changes will be reflected in subsequent updates as more detailed information becomes available.

Budget Risks

In addition to the high level of uncertainty in relation to the impact of the COVID-19 pandemic on the expenditure estimates presented in this Report, there are a range of other general risks to these expenditure estimates. These risks include matters such as those detailed in the 2019-20 Budget Papers and the 2019-20 Revised Estimates Report. These risks will be considered further in the development of the 2020-21 Budget.

ATTACHMENT I

MARCH QUARTERLY REPORT

The *March Quarterly Report 2019-20* is prepared in accordance with section 38 of the *Financial Management Act 2016*. It presents financial results for the nine months ending 31 March 2020 for the General Government Sector and the Public Account.

The March Quarterly Report has been previously published as part of the Tasmanian Budget, normally handed down in May or June of each year. However, given the major fiscal and economic impacts of the COVID-19 pandemic, the 2020-21 Tasmanian Budget has been delayed. This *March Quarterly Report 2019-20* is, therefore, published as part of this Economic and Fiscal Update Report.

The financial statements have been prepared in accordance with applicable Australian Accounting Standards including *AASB 1049 Whole of Government and General Government Sector Financial Reporting*. Estimation methods have been used in the preparation of this Report which are based on the principles of *AASB 134 Interim Financial Reporting*.

Presentation of the financial statements is consistent with the 2019-20 Budget and reporting requirements of the Uniform Presentation Framework.

The Report contains the following information:

- financial results for the General Government Sector for the nine months ending 31 March 2020; and
- receipts to, and expenditure from, the Public Account for the nine months ending 31 March 2020.

All amounts in the financial statements have been rounded to the nearest \$100 000, unless otherwise stated. As a consequence, rounded figures may not add to totals. Amounts less than \$50 000 are indicated by “....”.

GENERAL GOVERNMENT SECTOR

Income Statement

The General Government Sector Income Statement is presented in Table 1.1. The Net Operating Balance for the nine months ending 31 March 2020 is a deficit of \$100.5 million.

The financial impacts of COVID-19 are minimal in the nine months ending 31 March 2020. However, the effects of the pandemic and the Government's broad range of support measures announced in response to the virus will have a significant financial impact in the June 2020 quarter and on 2019-20 outcomes.

Where relevant, the quarterly results have been compared to a pro-rata percentage (75 per cent) of the Original Budget estimate. It should be noted that this comparison point has not been adjusted to reflect seasonal and timing impacts for receipts and payments.

Revenue from transactions for the nine months ending 31 March 2020 is \$4 898.2 million, which is \$93.2 million above the pro-rata Original Budget estimate of \$4 805 million, or 76.5 per cent of the Original Budget for 2019-20. The main variations from a pro-rata Budget estimate are as follows:

- Grants revenue is \$125.2 million below the pro-rata Original Budget estimate. The decrease is primarily due to:
 - a decrease in General Purpose Payments of \$44.4 million which reflects the downward revision made by the Australian Government in its Mid-Year Economic and Fiscal Outlook;
 - an increase in Specific Purpose Payments of \$84.8 million primarily due to the timing of payments for Non-Government Schools Grants, this is offset by an increase in Grants and subsidy expenses; and
 - a decrease in National Partnership Payments of \$163 million which primarily reflects the impact of timing of payments for Roads and rail infrastructure programs of \$50.7 million, Royal Hobart Hospital Redevelopment of \$29.9 million, Other health related NPs of \$23.2 million, Natural Disaster Relief and Recovery Arrangements of \$28.5 million, and Project Marinus of \$22.5 million.
- Taxation revenue is \$129.3 million above the pro-rata Original Budget estimate. The increase primarily reflects an increase in conveyance duty of \$88 million which is consistent with the upwards revision in the 2019-20 Revised Estimates Report, as a result of the increase in average residential house prices across the State and a number of large commercial transactions. There is also an increase in land tax of \$34.9 million which reflects the timing of the collection of land tax, the majority of which was recognised in the September 2019 quarter.
- Dividend, tax and rate equivalent income is \$76.4 million above the pro-rata Original Budget estimate. This reflects the timing of the payment of dividends by government businesses. These payments are all received in the December 2019 quarter.

Expenses from transactions for the nine months ending 31 March 2020 is \$4 998.7 million, which is \$236.7 million above the pro-rata Original Budget estimate of \$4 762 million, or 78.7 per cent of the Original Budget for 2019-20. The main variations from a pro-rata Budget estimate are as follows:

- Employee expenses is \$118.4 million above the pro-rata Original Budget estimate. The increase primarily reflects additional funding provided to agencies in the Revised Budget, as outlined in the 2019-20 Revised Estimates Report, and the impact of timing which has resulted in increases for the Department of Health of \$72.1 million, the Department of State Growth of \$11.1 million, the Department of Police, Fire and Emergency Management of \$10.5 million, and the State Fire Commission of \$9.5 million.
- Grant and subsidy expenses are \$94.6 million above the pro-rata Original Budget estimate. The increase is primarily a result of the timing of Non-Government School Grants by the Department of Education.

Net acquisition of non-financial assets for the nine months ending 31 March 2020 is \$27.1 million, which is \$202.2 million lower than the pro-rata Original Budget estimate of \$229.3 million. This is mainly due to Purchases of non-financial assets for the period being \$221.7 million below the pro-rata Original Budget estimate. This decrease primarily reflects the impact of timing on cash flows for the following projects:

- Road infrastructure for the Department of State Growth of \$74.8 million;
- Hospital redevelopments and upgrades for the Department of Health of \$64.6 million;
- Housing projects for the Department of Communities Tasmania of \$23.9 million;
- National Park infrastructure for the Department of Primary Industries, Parks, Water and Environment of \$13.3 million; and
- Prison infrastructure for the Department of Justice of \$12.5 million.

Balance Sheet

The General Government Sector Balance Sheet is presented in Table 1.2. Net Worth for the Sector has remained relatively stable, with a small decrease of \$7.9 million from \$9 223.6 million as at 30 June 2019 to \$9 215.7 million as at 31 March 2020.

Assets increased by \$454.2 million primarily due to the following major movements:

- the recognition of Lease - right-of-use assets of \$353.7 million;
- an increase of \$207 million in the remaining non-financial assets; and
- a decrease in Cash and deposits of \$239.2 million.

Liabilities have increased by \$462 million primarily due to the following major movements:

- the recognition of \$354.3 million in Lease liabilities;
- an increase in Other liabilities of \$251.8 million following the recognition of National Partnership Payments Revenue received in advance of \$242.2 million; and
- a decrease of \$128.7 million in Borrowings, primarily as a result the Australian Government's waiver of the State's outstanding housing-related loans of \$157.6 million.

Net Debt deteriorated by \$403.2 million from negative \$774 million as at 30 June 2019 to negative \$370.8 million as at 31 March 2020. This primarily reflects the recognition of \$354.3 million in Lease liabilities following the introduction of AASB 16 Leases and the Cash deficit result for the period.

GFS Net Debt deteriorated by \$48.8 million from negative \$774 million as at 30 June 2019 to negative \$725.2 million as at 31 March 2020. This primarily reflects the Cash deficit result for the period, partly offset by the improvement of Borrowings.

Table I.1: General Government Income Statement

	2018-19	2019-20	2019-20
	March YTD	Original	March YTD
	Actual	Budget	Actual
	\$m	\$m	\$m
Revenue from transactions			
Grants	2 983.0	3 973.3	2 854.8
Taxation	890.2	1 215.5	1 040.9
Sales of goods and services	306.8	416.0	307.7
Fines and regulatory fees	91.5	103.1	87.3
Interest income	14.2	16.8	6.9
Dividend, tax and rate equivalent income	348.4	524.1	469.5
Other revenue	147.9	157.9	131.3
	4 782.0	6 406.7	4 898.2
Less Expenses from transactions			
Employee expenses	1 963.4	2 675.1	2 124.7
Superannuation	243.0	305.1	282.4
Depreciation	206.3	329.4	255.4
Supplies and consumables	925.7	1 293.8	971.6
Nominal superannuation interest expense	182.5	271.3	135.2
Borrowing costs	7.4	14.1	2.1
Grant and subsidy expenses	1 025.2	1 461.2	1 190.5
Other expenses	30.1	(0.7)	37.0
	4 583.4	6 349.3	4 998.7
Equals NET OPERATING BALANCE	198.7	57.4	(100.5)
Plus Other economic flows – Included in Operating Result			
Gain/(loss) on sale of non-financial assets	(4.2)	16.7	(23.9)
Revaluation of equity investment in PNFC and PFC sectors	....	(227.6)	....
Other gains/(losses)	(5.4)	(2.0)	153.9
	(9.6)	(212.9)	129.9
Equals Operating Result	189.1	(155.6)	29.4

Table I.1: General Government Income Statement (continued)

	2018-19 March YTD Actual \$m	2019-20 Original Budget \$m	2019-20 March YTD Actual \$m
Plus Other economic flows – Other movements in equity			
Revaluations of non-financial assets	203.8	282.7	211.9
Other non-owner movements in equity	(0.8)	(210.8)	(249.1)
	202.9	71.9	(37.2)
Equals Comprehensive Result	392.0	(83.6)	(7.8)
KEY FISCAL AGGREGATES			
NET OPERATING BALANCE	198.7	57.4	(100.5)
Less Net acquisition of non-financial assets			
Purchases of non-financial assets	374.9	700.1	303.4
Less Sales of non-financial assets	22.5	65.0	21.0
Less Depreciation	206.3	329.4	255.4
	146.1	305.7	27.1
Equals FISCAL BALANCE - SURPLUS/(DEFICIT)	52.5	(248.4)	(127.6)

Table 1.2: General Government Balance Sheet

	30 June 2019	30 June 2020	31 March 2020
	Actual	Budget	Actual
	\$m	\$m	\$m
Assets			
Financial assets			
Cash and deposits	1 246.3	926.6	1 007.1
Investments	121.2	158.8	182.9
Equity investment in PNFC and PFC sectors	5 049.2	5 451.5	5 111.4
Other equity investments	45.9	71.5	69.2
Receivables	345.9	307.8	359.7
Other financial assets	609.9	822.9	581.6
	7 418.3	7 739.1	7 311.9
Non-financial assets			
Land and buildings	7 101.3	6 953.3	7 159.4
Infrastructure	5 976.5	6 115.9	6 109.5
Plant and equipment	244.7	270.9	251.2
Heritage and cultural assets	463.1	486.5	467.1
Investment property	3.0	4.1	3.3
Intangible assets	64.7	51.4	63.1
Assets held for sale	9.7	6.6	6.4
Lease - right-of-use assets	....	333.4	353.7
Other non-financial assets	39.5	41.6	49.5
	13 902.5	14 263.7	14 463.2
Total Assets	21 320.8	22 002.7	21 775.0
Liabilities			
Borrowings	593.5	1 035.0	464.8
Lease liabilities	....	334.9	354.3
Superannuation ¹	10 187.4	7 007.8	10 237.6
Employee entitlements	720.8	665.2	731.9
Payables	202.2	164.7	125.5
Other liabilities	393.4	464.4	645.2
Total Liabilities	12 097.3	9 671.9	12 559.3
Net Assets	9 223.6	12 330.8	9 215.7

Table 1.2: General Government Balance Sheet (continued)

	30 June 2019	30 June 2020	31 March 2020
	Actual	Budget	Actual
	\$m	\$m	\$m
Equity			
Accumulated funds	4 389.0	5 830.6	4 169.3
Asset revaluation reserve	5 244.6	6 500.2	5 456.5
Other reserves	(410.0)	....	(410.0)
Total Equity	9 223.6	12 330.8	9 215.7
KEY FISCAL AGGREGATES			
NET WORTH²	9 223.6	12 330.8	9 215.7
NET FINANCIAL WORTH³	(4 679.0)	(1 932.9)	(5 247.4)
NET FINANCIAL LIABILITIES⁴	9 728.2	7 384.4	10 358.8
NET DEBT⁵	(774.0)	284.5	(370.8)
GFS NET DEBT⁶	(774.0)	(50.4)	(725.2)

Notes:

1. There is a difference of \$3 229.8 million between the Original Budget and the March year-to-date valuation of the Superannuation liability. This reflects the difference between the discount rate of 1.8 per cent applied, in accordance with Australian Accounting Standard AASB 119 *Employee Benefits*, for financial reporting purposes and the long-term bond rate of 4.25 per cent which was used for Budget purposes.
2. Net Worth represents Total Assets less Total Liabilities.
3. Net Financial Worth represents Total Financial assets less Total Liabilities.
4. Net Financial Liabilities represents Total Liabilities less Financial assets, excluding Equity investment in PNFC and PFC sectors.
5. Net Debt represents Borrowings plus Lease liabilities, less the sum of Cash and deposits and Investments.
6. GFS Net Debt represents Borrowings less the sum of Cash and deposits and Investments. This is equivalent to Net Debt based on the Australian Bureau of Statistics Government Finance and Statistics reporting framework, and excludes the impact of Lease liabilities (this reflects how Net Debt has been calculated prior to the introduction of AASB 16 in 2019-20).

Table 1.3: General Government Cash Flow Statement

	2018-19 March YTD Actual \$m	2019-20 Original Budget \$m	2019-20 March YTD Actual \$m
Cash flows from operating activities			
Cash receipts from operating activities			
Grants received	2 985.5	3 838.7	2 840.9
Taxation	864.8	1 213.1	1 013.7
Sales of goods and services	289.1	414.7	309.2
Fines and regulatory fees	76.3	103.0	78.0
Interest received	14.5	17.2	8.3
Dividend, tax and rate equivalents	385.2	511.5	482.9
Other receipts	429.7	331.5	327.8
	5 045.1	6 429.8	5 060.9
Cash payments for operating activities			
Employee entitlements	(1 977.9)	(2 688.5)	(2 131.6)
Superannuation	(353.8)	(509.7)	(368.0)
Supplies and consumables	(932.0)	(1 296.8)	(992.1)
Borrowing costs	(2.4)	(14.3)	(0.9)
Grants and subsidies paid	(1 040.9)	(1 461.2)	(1 207.1)
Other payments	(307.8)	(172.7)	(197.9)
	(4 614.7)	(6 143.2)	(4 897.7)
Net cash flows from operating activities	430.4	286.7	163.2
Cash flows from investing activities			
Net cash flows from non-financial assets			
Purchases of non-financial assets	(374.9)	(688.4)	(303.4)
Sales of non-financial assets	22.5	61.2	21.0
	(352.4)	(627.3)	(282.4)
Net cash flows from financial assets (policy purposes)			
Equity injections	(70.9)	(116.9)	(87.3)
Net advances paid	(13.0)	4.1	(21.9)
Equity disposals	2.3	3.6	2.5
	(81.6)	(109.2)	(106.8)
Net cash flows from financial assets (liquidity purposes)			
Net (purchase)/sale of investments	(40.3)	(54.9)	(41.6)
	(40.3)	(54.9)	(41.6)
Net cash flows from investing activities	(474.3)	(791.4)	(430.8)

Table I.3: General Government Cash Flow Statement (continued)

	2018-19 March YTD Actual \$m	2019-20 Original Budget \$m	2019-20 March YTD Actual \$m
Cash flows from financing activities			
Net borrowing	(12.7)	332.8	28.4
Net cash flows from financing activities	(12.7)	332.8	28.4
Net increase/(decrease) in cash held	(56.7)	(171.9)	(239.2)
Cash at the beginning of the year	1 292.7	1 098.5	1 246.3
Cash at the end of the period	1 236.0	926.6	1 007.1
KEY FISCAL AGGREGATES			
Net cash flows from operating activities	430.4	286.7	163.2
Plus Net cash from investments in non-financial assets	(352.4)	(627.3)	(282.4)
Equals CASH SURPLUS/(DEFICIT)	78.0	(340.6)	(119.3)

PUBLIC ACCOUNT

2019-20 is the first year of the implementation of the *Financial Management Act 2016*. Tables 1.4 and 1.5 provide information on the total Receipts and Expenditure of the Public Account for the nine months ending 31 March 2020. These tables reflect the requirements of sections 38(5) of the Financial Management Act.

Tables 1.4 and 1.5 detail the gross cash receipts and expenditure from the Public Account. As such, they do not include the impact of the elimination of inter-entity transactions within the Public Account or whole-of-government investment and cash management activities within the Public Account. These transactions are fully reflected in the General Government Statements and the key financial measures, including the Net Operating Balance, Fiscal Balance and Net Debt. Consequently the receipts and expenditures detailed in the tables will not reconcile directly with those presented in the General Government Sector Cash Flow Statement.

Table 1.4: Public Account Receipts

	2019-20 Original Budget	2019-20 March YTD Actual
	\$m	\$m
General Receipts		
Australian Government Sources	3 079.9	2 350.8
State Sources	1 982.8	1 595.2
	5 062.7	3 946.0
Specific Purpose Accounts	1 959.6	1 864.4
Statutory Authorities	235.7	61.9
Total Receipts	7 257.9	5 872.3

Table I.5: Public Account Expenditure

	2019-20 Original Budget	2019-20 March YTD Actual
	\$m	\$m
Annual Appropriation		
Operating Services Expenditure	4 607.7	3 554.4
Capital Services Expenditure	480.2	257.4
	5 088.0	3 811.8
Reserved by Law	353.7	244.6
Specific Purpose Accounts	2 075.0	1 941.5
Statutory Authorities	240.1	61.9
Other Provisions	0.1	....
Total Expenditure	7 756.9	6 059.8