

PRELIMINARY OUTCOMES REPORT 2007-08



Contents

1	Introduction	1
2	Key Fiscal Strategy Measures	3
	Net Operating Balance	4
	Capital Expenditure	4
	Fiscal Balance	4
	Net Debt	4
3	General Government Preliminary Outcome	5
	Operating Statement	5
	Balance Sheet	10
	Cash Flow Statement	13
4	Consolidated Fund	15
5	Concepts and Definitions	19
	Uniform Presentation Framework	19
	General Government Entities	25

1 INTRODUCTION

The Preliminary Outcomes Report is prepared in accordance with section 26 of the *Financial Management and Audit Act 1990*, which requires the publication of a financial report for the previous financial year by the following 15 August.

This Report is based on unaudited financial data from agencies and other General Government Sector authorities. Agencies and General Government Sector authorities have 45 days from 30 June, in accordance with section 28 of the Act, to forward their financial statements to the Auditor-General, whereas financial information for this Report is required by Treasury within 15 days to enable compilation of the Report by 15 August. Consequently, estimation methods are applied in accordance with the principles of AASB 134 *Interim Financial Reporting*, where appropriate, to ensure that the financial information can be provided within the short timeframe. The final audited Budget Outcome will be released in the Treasurer's Annual Financial Report, to be published by 31 October 2008.

The Preliminary Outcomes Report contains the following information:

- Section 2 provides an update on progress against the Key Fiscal Strategy Measures contained within the preliminary Budget Outcome;
- Section 3 presents the Operating Statement, Balance Sheet and Cash Flow Statement for the General Government Sector, which report preliminary outcomes for the year and original Budget estimates presented in accordance with the Uniform Presentation Framework. The UPF was updated in March 2008 to reflect the introduction of Australian Accounting Standard AASB 1049 *Whole of Government and General Government Sector Financial Reporting*. The revised UPF and full adoption of AASB 1049 will be implemented in the Treasurer's Annual Financial Report 2007-08 to be released by 31 October 2008; it has not been incorporated into this Report. Commentary is provided on material changes between original Budget estimates and preliminary outcomes. Materiality is based on the criteria set out in Australian Accounting Standard AASB 1031 *Materiality*;
- Section 4 summarises details of the receipts to and expenditure from the Consolidated Fund; and
- Section 5 provides an overview of the key concepts and definitions used within this Report.

2 KEY FISCAL STRATEGY MEASURES

Table 2.1 presents progress against a number of key Fiscal Strategy measures, comparing the preliminary outcome to the original Budget estimates for 2007-08 and the actual 2006-07 outcome. The Table shows that, based on the preliminary outcomes, these Fiscal Strategy Targets have been met for 2007-08. For details of the Government's Fiscal Strategy refer to the 2008-09 Budget Papers.

Table 2.1: Key Fiscal Strategy Measures

Tactical Target	2006-07	2007-08	2007-08	Assessment of Progress
	Actual	Original Budget	Preliminary Outcome	
	\$m	\$m	\$m	
A Net Operating Surplus to be achieved on average over a four-year rolling period for the General Government Sector				
Net Operating Surplus/(Deficit)	15	(39)	84	
Four-year rolling average	168	62	115	✓
General Government Capital Expenditure to at least equal depreciation, on average, over a four-year rolling period				
Capital expenditure ¹ in excess of depreciation	26	65	13	
Four-year rolling average	45	62	49	✓
A Fiscal Surplus to be maintained on average over a four-year rolling period in the General Government Sector				
Fiscal Surplus/(Deficit)	49	(31)	141	
Four-year rolling average	178	53	121	✓
General Government Sector to remain Net Debt free				
Net Debt	(409)	(456)	(1 033)	✓

Key: ✓On Target

Note:

1. Capital expenditure is referred to as Purchase of non-financial assets in Table 3.1: General Government Operating Statement.

NET OPERATING BALANCE

The preliminary 2007-08 Net Operating Balance is estimated to be a surplus of \$84 million, an increase of \$123 million from the original Budget deficit of \$39 million. The increase in the preliminary Net Operating Balance is due to a favourable movement in Total Revenue of \$292 million, partially offset by an increase in Total Expenses of \$171 million. Details of the significant variations are provided in Section 3.

CAPITAL EXPENDITURE

Investment in infrastructure is necessary to ensure the effective delivery of Government services to the community and to foster economic and industry development. Maintaining capital expenditure to at least equal to depreciation levels ensures that the real value of General Government infrastructure assets is maintained. The preliminary 2007-08 capital expenditure, in excess of depreciation, is estimated to be \$13 million, a decrease of \$52 million below the original Budget estimate of \$65 million. The variance is primarily due to delays in expenditure for some capital projects which has resulted in Purchase of non-financial assets being \$48 million below the original Budget estimate.

FISCAL BALANCE

The preliminary 2007-08 Fiscal Balance outcome is estimated to be a \$141 million surplus, an increase of \$172 million from the original Budget estimate of negative \$31 million. The increase in the preliminary Fiscal Surplus comprises favourable movements in the Net Operating Balance and decreased capital expenditure, as described above. The preliminary outcome is estimated to be \$92 million more than the 2006-07 Fiscal Surplus of \$49 million. Details of the significant variations are provided in Section 3.

NET DEBT

Net Debt is estimated to be negative \$1 033 million as at 30 June 2008, which is an improvement of \$577 million from the original Budget estimate of negative \$456 million. The preliminary outcome represents an improvement of \$624 million from the balance of Net Debt as at 30 June 2007 of negative \$409 million.

3 GENERAL GOVERNMENT PRELIMINARY OUTCOME

OPERATING STATEMENT

The preliminary 2007-08 Fiscal Balance outcome of a \$141 million surplus is an increase of \$172 million on the original 2007-08 Budget estimate of a \$31 million deficit. The General Government Operating Statement for 2007-08 is detailed in Table 3.1. The significant variations to revenue, expenses and net acquisition of non-financial assets are outlined below.

Revenue

The 2007-08 preliminary outcome for Total Revenue is \$4 039 million, \$292 million or 7.8 per cent greater than the original 2007-08 Budget estimate of \$3 747 million. The main Revenue variations are as follows:

- Grants and subsidies revenue of \$2 463 million is \$72 million above the original Budget estimate of \$2 391 million. General Purpose Payments are \$19 million above the original Budget estimate of \$1 646 million. This is the result of additional Goods and Services Tax transfers from the Australian Government. Specific Purpose Payments are \$35 million above the original Budget estimate of \$455 million, which is primarily due to additional funding of \$31 million from the Australian Government under the Australian Health Care Agreement. Table 3.2 details the components of Grants and subsidies revenue.
- Taxation revenue of \$830 million is \$78 million above the original Budget estimate of \$752 million, primarily due to additional Payroll tax revenue of \$24 million, reflecting an increase in employment in the payroll tax paying sector and wage increases, additional Financial transaction taxes (mostly from property conveyances) of \$43 million and an increase of \$6 million in Fire Service Levies. Table 3.3 details the components of Taxation revenue.
- Sales of goods and services of \$337 million is \$20 million above the original Budget estimate of \$317 million. This is predominantly due to additional revenue received by the Department of Health and Human Services of \$24 million relating to acute health, community health and human services, partially offset by a decrease of \$3 million for rental revenue received by the Department of Primary Industries and Water.
- Interest income of \$73 million is \$28 million above the original Budget estimate of \$45 million. The increase reflects higher levels of cash held in the Public Account and higher than forecast interest rates.

- Dividend and income tax equivalent income of \$166 million is \$17 million above the original Budget estimate of \$149 million. This increase reflects additional tax equivalent income of \$19 million offset by a decrease in dividends and rates equivalents of \$2 million. The additional tax equivalent income relates to higher than anticipated income for the Motor Accidents Insurance Board and Transend Networks Pty Ltd. The lower than budgeted dividends are a result of the deferral of the special dividend from TOTE Tasmania of \$3 million, partially offset by increased dividends from other Government businesses.
- Other revenue of \$170 million is \$78 million above the original Budget estimate of \$92 million. The increase is primarily due to the following:
 - additional receipts of \$31 million from the Australian Government to reimburse the operating costs of the Mersey Hospital;
 - additional revenue of \$16 million from the Department of Justice, which primarily includes \$5 million for WorkCover Board revenue and \$10 million for the collection of fines; and
 - additional revenue received by the Department of Police and Emergency Management of \$9 million which includes revenue received for the secondment of officers to other police jurisdictions and the Australian Federal Police, national criminal history checks, helicopter evacuations and funding for the MAIB Road Safety Taskforce.

Expenses

The 2007-08 preliminary outcome for Total Expenses is \$3 956 million, \$171 million or 4.5 per cent greater than the original 2007-08 Budget estimate of \$3 785 million. The main Expense variations are as follows:

- Employee expenses of \$1 892 million is \$72 million above the original Budget estimate of \$1 820 million. This is primarily due to superannuation expenses of \$221 million being \$60 million above the original Budget estimate of \$161 million. Calculation of superannuation expenses was adjusted as part of the introduction of AASB 1049. These expenses reflect the total employer service cost, including contributions tax expense based on the actuarial assessment. In addition, employee expenses for the Department of Health and Human Services were higher than originally budgeted.
- Other operating expenses of \$993 million is \$101 million above the original Budget estimate of \$892 million. This is primarily due to higher than budgeted costs of \$52 million incurred by the Department of Health and Human Services including expenditure for medical, surgical and pharmacy supplies of \$8 million, other supplies and consumables of \$19 million, property services and maintenance of \$10 million and other expenses of \$5 million. There was also additional expenditure by schools on property services and maintenance of \$9 million and information technology of \$3 million and an increase in expenses of \$11 million incurred by the Tasmanian Risk Management Fund, partially due to the fire at Bridgewater High School. The Department of Police and Emergency Management also incurred higher than budgeted operating expenses of \$12 million.
- Nominal superannuation interest expense of \$165 million is \$23 million less than the original Budget estimate of \$188 million. The decrease reflects the latest actuarial assessment of the Government's unfunded superannuation liability and expenses.

- Grants and transfers of \$673 million is \$14 million above the original Budget estimate of \$659 million. This is primarily due to higher than budgeted grant expenditure for the Department of Police and Emergency Management of \$10 million which reflects the Government's contribution towards a project to rebuild the Launceston Flood Levees.

Net Acquisition of Non-Financial Assets

The 2007-08 preliminary outcome for the Net acquisition of non-financial assets is negative \$56 million, \$49 million lower than the original 2007-08 Budget estimate of negative \$7 million. This is primarily due to lower than budgeted expenditure for the Purchase of non-financial assets of \$48 million. The main variations to the Purchase of non-financial assets are shown below:

- Delays in expenditure on the capital works program by the Department of Infrastructure, Energy and Resources. A decrease of \$36 million is reflected across projects such as the Better Roads Project, Rail Infrastructure and the Roads Program.
- The Department of the Environment, Parks, Heritage and the Arts experienced delays in two major projects. In total, \$15 million of its capital works budget has been carried forward to future years, of which \$9 million relates to the redevelopment of the Tasmanian Museum and Art Gallery site and \$7 million relates to the Cradle Mountain Central Sewerage Treatment infrastructure. These amounts are partially offset by other capital expenditure.
- The Department of Health and Human Services has additional expenditure of \$7 million which is primarily due to \$5 million provided to the Launceston General Hospital and \$11 million for new housing projects, partially offset by delays in projects such as the Hospital Equipment Fund of \$2 million and Hospital Information System of \$2 million.

Table 3.1: General Government Operating Statement

	2006-07	2007-08	2007-08
	Actual	Original	Preliminary
		Budget	Outcome
	\$m	\$m	\$m
Revenue			
Grants and subsidies (Refer Table 3.2)	2 274	2 391	2 463
Taxation revenue (Refer Table 3.3)	748	752	830
Sales of goods and services	319	317	337
Interest income	43	45	73
Dividend and income tax equivalent income	173	149	166
Other revenue	138	92	170
Total Revenue	3 695	3 747	4 039
less Expenses			
Depreciation	207	209	213
Employee expenses	1 742	1 820	1 892
Other operating expenses	943	892	993
Nominal superannuation interest expense	148	188	165
Other interest expense	23	17	20
Grants and transfers	617	659	673
Total Expenses	3 680	3 785	3 956
Equals NET OPERATING BALANCE	15	(39)	84
less Net acquisition of non-financial assets			
Purchase of non-financial assets	233	274	226
less Sale of non-financial assets	60	72	70
less Depreciation	207	209	213
Total	(34)	(7)	(56)
Equals FISCAL BALANCE	49	(31)	141

Table 3.2: General Government Grants and Subsidies

	2006-07 Actual	2007-08 Original Budget	2007-08 Preliminary Outcome
	\$m	\$m	\$m
General purpose payments	1 568	1 646	1 665
Specific purpose payments	442	455	490
Capital grants revenue	48	66	64
Other grants and subsidies	217	224	244
TOTAL GRANTS AND SUBSIDIES	2 274	2 391	2 463

Table 3.3: General Government Taxation Revenue

	2006-07 Actual	2007-08 Original Budget	2007-08 Preliminary Outcome
	\$m	\$m	\$m
Payroll tax	218	226	250
Taxes on property			
Land tax	63	69	71
Fire service levies	43	41	47
Financial transaction taxes	167	157	200
Guarantee fees	9	9	8
Total Taxes on property	282	276	326
Taxes on the provision of goods and services			
Casino tax and licence fees	57	58	59
Other gambling taxes	30	31	31
Taxes on insurance	38	40	41
Total Taxes on the provision of goods and services	124	129	131
Taxes on the use of goods and performance of activities			
Motor vehicle fees and taxes	123	122	124
Total Taxes on the use of goods and performance of activities	123	122	124
TOTAL TAXATION REVENUE	748	752	830

BALANCE SHEET

Table 3.4 details the preliminary General Government Balance Sheet as at 30 June 2008.

Budget estimates for the 2007-08 Balance Sheet were compiled in June 2007 prior to completion of the actual outcomes for 30 June 2007. As a result, the preliminary outcome variance from the original Budget estimate will be impacted by the difference between the estimated and actual opening balances for 2007-08. The following commentary is therefore based on movements between the 30 June 2007 actual outcome and the 30 June 2008 preliminary outcome.

Assets

General Government Total Assets are estimated to be \$15 470 million at 30 June 2008, an increase of \$1 045 million from the 30 June 2007 balance of \$14 425 million.

Financial assets are anticipated to increase by \$607 million due to the following:

- An increase of \$568 million in Cash and deposits which primarily reflects:
 - the net sale proceeds of the Hobart International Airport Pty Ltd, Printing Authority of Tasmania and the Southern Regional Cemetery Trust (\$303 million); and
 - the establishment of the Hospitals Capital Fund (\$75 million) and Housing Fund (\$60 million) using surplus cash held in the Public Account.
- An increase in Equity investments of \$36 million, primarily due to an estimated increase in the net assets of the Public Non-Financial Corporations Sector.

Non-financial assets are anticipated to increase by \$438 million primarily as a result of the following:

- An increase in infrastructure assets of \$260 million within the Department of Infrastructure, Energy and Resources due to capital expenditure and revaluations.
- An increase of \$71 million primarily due to land revaluations by the Department of Health and Human Services and the Department of Environment, Parks, Heritage and the Arts.
- A \$42 million increase in cultural and heritage assets held by the Department of Environment, Parks, Heritage and the Arts, due to revaluations.

Liabilities

General Government Total Liabilities are estimated to be \$4 789 million at 30 June 2008, \$24 million greater than the 30 June 2007 balance of \$4 765 million. The increase in liabilities predominantly relates to the following:

- An increase of \$43 million in Other non-equity liabilities, primarily as a result of:
 - a \$17 million increase in the liabilities of the Tasmanian Risk Management Fund determined by actuarial risk assessment; and
 - an increase of \$12 million in revenue received in advance which primarily relates to a financial transaction tax on the sale of the Hobart International Airport Pty Ltd which has yet to be finalised.
- A \$33 million increase in the liability for unfunded superannuation due to a scheduled actuarial reassessment of the liability.
- A partially offsetting decrease in Borrowings of \$56 million, reflecting the repayment of maturing debt using surplus cash held in the Public Account.

Table 3.4: General Government Balance Sheet as at 30 June

	2007	2008	2008
	Actual	Original	Preliminary
		Budget	Outcome
	\$m	\$m	\$m
Assets			
Financial assets			
Cash and deposits	740	725	1 308
Advances paid	33	49	27
Investments, loans and placements	13	2	12
Other non-equity assets	1 109	1 006	1 117
Equity investment in PNFC and PFC sectors	3 578	3 226	3 614
Other equity investments	6	6	7
Total	5 479	5 015	6 086
Non-financial assets			
Land and fixed assets	8 884	8 710	9 291
Other non-financial assets	62	38	94
Total	8 946	8 749	9 384
Total Assets	14 425	13 764	15 470
Liabilities			
Advances received	242	236	236
Borrowings	135	85	79
Superannuation liability	3 677	3 675	3 710
Other employee provisions	382	400	393
Other non-equity liabilities	329	305	372
Total Liabilities	4 765	4 702	4 789
NET WORTH¹	9 660	9 062	10 681
NET FINANCIAL WORTH²	714	313	1 297
NET FINANCIAL LIABILITIES³	2 864	2 913	2 317
NET DEBT⁴	(409)	(456)	(1 033)

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 the Public Non-Financial Corporations and Public Financial Corporations sectors.
4. Net Debt represents the sum of Advances received and Borrowings less the sum of Cash and deposits, Advances paid and Investments, loans and placements.

CASH FLOW STATEMENT

Table 3.5 details the preliminary General Government Cash Flow Statement for 2007-08.

The Cash Surplus measure represents the Net cash flows from operating activities plus the Net cash flows from investments in non-financial assets. The achievement of a Cash Surplus is consistent with the Government's Fiscal Strategy and also is consistent with the Government's targets of maintaining Budget surpluses and eliminating Net Debt. The 2007-08 preliminary Cash Surplus of \$322 million is \$206 million greater than the original Budget estimate of \$116 million.

Net cash flows from operating activities are estimated to be \$478 million for 2007-08, \$161 million greater than the original Budget estimate of \$317 million. The movements reflect the variations that have occurred in the Operating Statement.

Net cash flows from investments and Net cash flows from financing activities reflect the cash movements in Balance Sheet items. Net cash flows from investments in financial assets for policy purposes for 2007-08 includes \$303 million in receipts relating to the sale of the Hobart International Airport Pty Ltd, Printing Authority of Tasmania and the Southern Regional Cemetery Trust.

Table 3.5: General Government Cash Flow Statement

	2006-07	2007-08	2007-08
	Actual	Original	Preliminary
		Budget	Outcome
	\$m	\$m	\$m
Cash receipts from operating activities			
Taxes received	749	752	855
Receipts from sales of goods and services	291	314	309
Grants and subsidies received	2 288	2 378	2 460
Dividend and income tax equivalent income	171	149	166
Interest received	47	45	69
Other receipts	289	235	358
Total	3 835	3 873	4 217
Cash payments for operating activities			
Payments for goods and services	(2 550)	(2 716)	(2 790)
Grants and subsidies paid	(693)	(656)	(677)
Interest paid	(24)	(17)	(19)
Other payments	(227)	(167)	(254)
Total	(3 494)	(3 556)	(3 739)
Net cash flows from operating activities	341	317	478
Net cash flows from investments in non-financial assets			
Sale of non-financial assets	60	72	70
Purchases of non-financial assets	(233)	(274)	(226)
Total	(173)	(202)	(156)
Net cash flows from investments in financial assets for policy purposes	10	3	309
Net cash flows from investments in financial assets for liquidity purposes	(2)
Net cash flows from financing activities			
Advances received (net)	(6)	(6)	(6)
Borrowing (net)	(25)	(54)	(54)
Other financing (net)	(25)
Total	(56)	(61)	(60)
Net Increase/(Decrease) in Cash Held	120	59	571
CASH SURPLUS/(DEFICIT)¹	168	116	322

Note:

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

4 CONSOLIDATED FUND

The 2007-08 preliminary Consolidated Fund Surplus outcome is \$1 million, \$9 million less than the original 2007-08 Budget estimate of \$10 million.

Table 4.1: Consolidated Fund Preliminary Outcome, 2007-08

	2007-08 Original Budget	2007-08 Preliminary Outcome
	\$m	\$m
Receipts		
Commonwealth sources		
Recurrent receipts	2 101	2 155
Capital receipts	66	64
Total Commonwealth sources	2 167	2 219
State sources		
Recurrent receipts	1 154	1 311
Capital receipts	354
Total State sources	1 154	1 665
Total Receipts	3 321	3 884
less Expenditure		
Recurrent services		
Appropriation Act	2 951	3 076
Reserved by Law	143	133
Total Recurrent services	3 094	3 209
Works and services	217	674
Total Expenditure	3 311	3 884
CONSOLIDATED FUND SURPLUS	10	1

Table 4.2: Consolidated Fund Expenditure, 2007-08

	2007-08 Original Budget	2007-08 Preliminary Outcome
	\$m	\$m
Economic Development and Tourism ¹		
Recurrent services	78	63
Total	78	63
Education		
Recurrent services	793	800
Works and services	25	25
Total	817	826
Environment, Parks, Heritage and the Arts ¹		
Recurrent services	57	81
Works and services	10	3
Total	67	84
Finance-General		
Recurrent services	308	360
Reserved by Law	122	111
Works and services ²	20	493
Total	449	964
Health and Human Services		
Recurrent services	1 121	1 174
Works and services	15	18
Total	1 136	1 192
House of Assembly		
Recurrent services	2	2
Reserved by Law	4	4
Total	6	7
Infrastructure, Energy and Resources		
Recurrent services	119	116
Reserved by Law	1
Works and services	135	123
Total	254	238

Notes

1. The preliminary outcome for the Department of Economic Development and Tourism and the Department of Environment, Parks, Heritage and the Arts reflects the part year impact of the transfer of the Tourism Output in accordance with the *State Service (Restructuring) Order 2008*.
2. The additional Works and Services appropriation for Finance-General was primarily a result of distributing the sale proceeds for the Hobart International Airport Pty Ltd as authorised by the *Consolidated Fund Appropriation (Supplementary Appropriation for 2007-2008) Act 2008*.

Table 4.2: Consolidated Fund Expenditure, 2007-08
(continued)

	2007-08 Original Budget	2007-08 Preliminary Outcome
	\$m	\$m
Justice		
Recurrent services	103	104
Reserved by Law	8	9
Works and services	9	9
Total	120	122
Legislative Council		
Recurrent services	3	3
Reserved by Law	3	3
Total	5	5
Legislature-General		
Recurrent services	5	5
Total	5	5
Ministerial and Parliamentary Support		
Recurrent services	17	18
Reserved by Law	1	1
Total	18	19
Office of the Governor		
Recurrent services	3	3
Total	3	3
Office of the Ombudsman		
Recurrent services	1	1
Total	1	1
Police and Emergency Management		
Recurrent services	169	169
Works and services	1	1
Total	170	170

Table 4.2: Consolidated Fund Expenditure, 2007-08
(continued)

	2007-08 Original Budget	2007-08 Preliminary Outcome
	\$m	\$m
Premier and Cabinet		
Recurrent services	47	51
Reserved by Law	5	5
Total	53	56
Primary Industries and Water		
Recurrent services	87	89
Works and services	1	1
Total	88	90
Treasury and Finance		
Recurrent services	39	38
Total	39	38
TOTAL CONSOLIDATED FUND EXPENDITURE	3 311	3 884

5 CONCEPTS AND DEFINITIONS

UNIFORM PRESENTATION FRAMEWORK

The Preliminary Outcomes Report is prepared on a Uniform Presentation Framework basis.

The UPF is based on the concepts and classifications used by the Australian Bureau of Statistics in the preparation of public finance reports. These, in turn, are based on international standards set out in the International Monetary Fund's *A Manual of Government Finance Statistics* and the United Nations' *A System of National Accounts*. The Government Finance Statistics classification adopts a nationally consistent format for presenting the financial transactions of governments.

The UPF was first established by the Australian Loan Council in May 1991. The Council revised the UPF in March 2008 to reflect changes as a result of the introduction of Australian Accounting Standard AASB 1049 *Whole of Government and General Government Sector Financial Reporting*. The revised UPF and full adoption of AASB 1049 will be implemented in the Treasurer's Annual Financial Report 2007-08 to be released by 31 October 2008 and has not been incorporated into this Report.

The primary objective of the UPF is to ensure that the Australian, State and Territory governments present their budgets on a standard, comparable basis. It was recognised that a more uniform approach to the presentation of budgets, forward estimates and outcomes would facilitate understanding of individual government's financial results and projections.

UPF information:

- is presented on a total source of funds basis, meaning that balances and transactions of both the Consolidated Fund and the Special Deposits and Trust Fund are included in the UPF Outcomes Statements; and
- includes accrual transactions such as depreciation and nominal interest on superannuation.

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

An important distinction made in the UPF framework is between "transaction flows" and "other economic flows". Transactions result directly from a mutually agreed interaction between two parties, for example, the sale of a good or service. The definition of a "transaction flow" also includes depreciation, which does not involve interaction between two parties. The treatment of depreciation recognises that in this case the one party is acting in two roles, as owner of the asset and consumer of the services provided by the asset.

An “other economic flow” is a change in the volume or value of an asset, or a liability, that does not result from a transaction. This includes a wide variety of events such as the revaluation of assets (holding gains or losses) arising from a change in market prices, and changes in the volume of assets that result from discoveries, depletion and destruction of assets. The impact of all “other economic flows” is excluded from the Operating Statement. These changes impact directly on equity in the Balance Sheet. This is a major source of differences between the UPF Operating Statement and the Income Statement prepared in accordance with the Australian Accounting Standards.

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

Operating Statement

The Operating Statement presents information on revenues and expenses. This statement is designed to capture the composition of revenues and expenses and the net cost of a government’s activities within a fiscal year. It shows the full cost of resources consumed by the government in achieving its objectives, and how these costs are met from various revenue sources.

The Operating Statement reports two major fiscal measures: the Net Operating Balance and the Fiscal Balance.

Net Operating Balance

The Net Operating Balance is a measure of the on-going sustainability of the operations of government. It indicates whether the government is generating enough revenue to cover the cost of its operations. A Net Operating Surplus indicates that a government has sufficient revenue to fund its operations and contribute to an increase in its asset base.

Fiscal Balance

The Fiscal Balance indicates whether a sufficient surplus is being generated by the operations of government to fund its capital expenditure needs. It is determined as the difference between General Government revenue over expenses, after allowing for the net addition to non-financial assets such as buildings and infrastructure.

Balance Sheet

The Balance Sheet is a financial snap-shot of assets and liabilities taken at the end of the financial year and discloses the resources which a government controls. By providing information on the type of assets and liabilities held by a government, the statement shows the government's financial position at that point in time.

The major Balance Sheet indicators are Net Debt, Net Financial Liabilities, Net Financial Worth and Net Worth.

Net Debt

Net Debt is a measure used to help judge the overall strength of a jurisdiction's fiscal position. Net Debt comprises the stock of selected gross financial liabilities less selected financial assets. High levels of Net Debt impose a call on future revenue flows to service that debt and can therefore limit a government's flexibility to adjust expenditure. Currently, Tasmania's selected financial assets exceed the stock of specified gross financial liabilities. Therefore, the State has a "negative" Net Debt and is considered a net investor of funds.

Net Financial Liabilities

Net Financial Liabilities comprises total liabilities less financial assets, excluding equity investments in Government Businesses. This is a broader measure than Net Debt, as it incorporates other liabilities such as superannuation.

Note this definition has been revised as part of the March 2008 changes to the UPF. Previously, the definition was based on Net Debt plus gross unfunded superannuation liabilities.

Net Financial Worth

Net Financial Worth is calculated as financial assets minus liabilities. This measure is broader than Net Debt, as it incorporates provisions made (such as superannuation, but not depreciation and bad debts) as well as ownership of equity.

Net Worth

Net Worth is calculated as total assets (both financial and non-financial) minus total liabilities, shares, and other contributed capital. Net Worth incorporates non-financial assets such as land and other infrastructure assets, which may be sold and used to repay debt. It also incorporates certain financial assets and liabilities not captured by the Net Debt measure, most notably, accrued employee superannuation liabilities, ownership of equities, debtors and creditors.

Cash Flow Statement

The Cash Flow Statement records a government's cash receipts and payments, outlining how a government obtains and uses its cash. The statement categorises cash flows into operating, investing and financing activities.

The convention is that all inflows carry a positive sign and all outflows carry a negative sign (regardless of whether they are gross or net cash flows). The Cash Flow Statement reports two major fiscal measures: Net Increase in Cash Held and Cash Surplus.

Net Increase in Cash Held

Net Increase in Cash Held is the sum of net cash flows from all operating, investing and financing activities. This measure is consistent with the movement in cash and deposits reported in the Balance Sheet, and provides a mechanism for managing the cash position to ensure that sufficient cash is available to fund Government policy decisions.

Cash Surplus

The Cash Surplus comprises cash received from operating activities, and from sales and purchases of non-financial assets, less distributions paid (in the case of Public Financial Corporations and Public Non-Financial Corporations), less finance leases and similar arrangements.

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

It should be noted that the ABS concept of a surplus/(deficit) does not include equity injections/withdrawals and the repayment of advances. These items can have a major impact in any given year. The ABS classifies these transactions as financing transactions, which have no impact on the calculation of the surplus/(deficit).

Consolidation of Transactions

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

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

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

Rounding

All amounts in the financial statements have been rounded to the nearest million, unless otherwise stated. As a consequence, rounded figures may not add to totals. Amounts less than \$500 000 are rounded to zero.

Consolidated Fund

The Consolidated Fund is the source of funding for appropriations and Reserved by Law payments.

Consolidated Fund appropriations are provided for two types of expenditure, Recurrent Services and Works and Services.

Recurrent Services funding is provided by Parliament to meet the cost of the ordinary annual services of the Government. The major expenses are salaries and other departmental operating costs including building services and maintenance, minor works and furniture and equipment purchases. Reserved by Law funds are also made available to departments on a recurrent basis, where there is a legislative requirement for funding to be provided for specific purposes without the necessity for annual appropriation through the Consolidated Fund Appropriation Act. Examples of Reserved by Law expenditure include interest payments on debt, funding for the salary of the Auditor-General and pensions payable under the *Judges' Contributory Pensions Act 1968*.

Works and Services funding is provided to meet construction costs and the purchase and maintenance of major capital assets such as roads, public housing, schools and hospitals. Works and Services expenditure is provided under the Capital Investment Program, incorporating the Building, Roads and Housing Programs. The CIP links investment by the Government in capital and maintenance projects with the corporate and asset management plans of departments and specific Government policy objectives.

Under the *Public Account Act 1986*, unless specifically excluded, as provided by that Act or any other Act, all revenue of the State is to be credited to the Consolidated Fund. The Consolidated Fund receives funds from a number of sources, including receipts from:

- the Australian Government for general recurrent purposes such as GST Revenue;
- the Australian Government for specific recurrent purposes such as health care, disability services and home and community care;
- the Australian Government for specific capital purposes such as primary and secondary education, TAFE and the national highway system;
- State Taxation, the major items being payroll tax, duties, casino related taxes and licence fees;
- payments by Government Business Enterprises and State-owned Companies such as dividends, tax equivalents and guarantee fees;
- Departmental fees and recoveries such as land titles office fees, drivers licence fees and vehicle registration fees; and
- Resource rents and royalties, the major item being mineral royalties.

Consolidated Fund Surplus

The excess of Consolidated Fund receipts over the expenditure of these funds (net of loan repayments) is the Consolidated Fund Surplus. A CFS represents funds that are available for the retirement of debt or the accumulation of financial assets.

Agency Restructuring

The *State Service (Restructuring) Order 2008* transferred responsibility for some activities between Departments, with effect from February 2008. The major impacts were as follows:

- Tourism Tasmania and Events Tasmania were amalgamated with the Department of Economic Development;
- The Department of Tourism, Arts and the Environment was changed to the Department of Environment, Parks, Heritage and the Arts; and
- The Department of Economic Development was changed to the Department of Economic Development and Tourism.

Financial reporting for the Consolidated Fund and Public Account reflects these changes and 2007-08 original Budget allocations have been recast to reflect the Restructuring Order.

GENERAL GOVERNMENT ENTITIES

Economic Development and Tourism

Education

Environment, Parks, Heritage and the Arts

Health and Human Services

House of Assembly

Infrastructure, Energy and Resources

Inland Fisheries Service

Justice

Legislative Council

Legislature-General

Marine *and* Safety Tasmania

Office of the Governor

Office of the Ombudsman

Police and Emergency Management

Premier and Cabinet

Primary Industries and Water

Royal Tasmanian Botanical Gardens

State Fire Commission

TAFE Tasmania

Tasmanian Audit Office

The Nominal Insurer

Treasury and Finance