



# Tasmanian Audit Office



## Report of the Auditor-General No. 3 of 2011-12

Auditor-General's Report on the  
Financial Statements of State entities

### Volume I

Analysis of the Treasurer's Annual  
Financial Report 2010-11

November 2011

*Strive · Lead · Excel | To Make a Difference*

# THE ROLE OF THE AUDITOR-GENERAL

The roles and responsibilities of the Auditor-General, and therefore of the Tasmanian Audit Office, are set out in the *Audit Act 2008* (the Act).

Our primary responsibility is to conduct financial or 'attest' audits of the annual financial reports of State entities which includes an Agency, Council, Government Business Enterprise, State-owned Company, State Authority, Corporations established by the *Water and Sewerage Corporations Act 2008* and the governing body of any corporation, body of persons or institution that are appointed by a Minister or by the Governor.

We also audit those elements of the Treasurer's Annual Financial Report which report on financial transactions in the Public Account, the General Government Sector and the Total State Sector financial statements.

Audits of financial reports are designed to add credibility to assertions made by accountable authorities in preparing financial reports, enhancing their value to end users. Also, the existence of such audits provides a constant stimulus to State entities to ensure sound financial management.

In the main accountable authorities prepare financial reports consistent with Accounting Standards and other mandatory financial reporting requirements in Australia. On occasion reports are "special purpose financial reports" such as the Public Account Statements. In all cases our audits are conducted in accordance with Australian Auditing Standards.

Following a financial audit, we issue a variety of reports to State entities and Responsible Ministers, and we report periodically to the Parliament. In combination these reports give opinions on the truth and fairness of financial reports, and comment on compliance with certain laws, regulations and Government directives. They may comment on financial prudence, probity and waste, and recommend operational improvements.

We also conduct performance audits, compliance audits and carry out investigations. Performance audits examine whether a State entity is carrying out its activities effectively and doing so economically and efficiently and in compliance with relevant laws. Audits may cover all or part of a State entity's operations, or consider particular issues across a number of State entities.

Compliance audits are aimed at ensuring compliance with directives, regulations and appropriate internal control procedures. Audits focus on selected systems (including information technology systems), legislation, account balances or projects.

Investigations can relate only to public money or to public property.

Performance and compliance audits and investigations are reported separately and at different times of the year, whereas outcomes from financial statement audits are included in one of the regular volumes of the Auditor-General's reports to the Parliament normally tabled in May and November each year. In doing so the Auditor-General is providing information to the Parliament to assist both the Legislative Council and the House of Assembly in their review of the performance of Executive Government.

Where relevant, the Treasurer, a Minister or Ministers, other interested parties and accountable authorities are provided with opportunity to comment on any matters reported. Where they choose to do so, their responses, or summaries thereof, are detailed within the reports.



**TASMANIA**

**2011  
PARLIAMENT OF TASMANIA**

**REPORT OF THE AUDITOR-GENERAL  
No. 3 of 2011-12**

**Volume 1**

**Analysis of the Treasurer's Annual Financial Report 2010-11**

**November 2011**

*Presented to both Houses of Parliament in accordance with the requirements of  
Section 29 of the Audit Act 2008*

22 November 2011

President  
Legislative Council  
HOBART

Speaker  
House of Assembly  
HOBART

Dear Madam President

Dear Mr Speaker

**Report of the Auditor-General No. 3 of 2011-12 – Financial Statements of State entities  
– Volume 1 – Analysis of the Treasurer’s Annual Financial Report 2010-11**

In accordance with the requirements of Section 29 of the *Audit Act 2008*, I have pleasure in presenting my Report on the audit of the General Government Sector Financial Statements, Public Account Statements and the Total State Sector Financial Statements for the year ended 30 June 2011.

Yours sincerely



H M Blake  
Auditor-General

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# FOREWORD

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This Report provides an analysis of the General Government Sector and Total State Sector financial statements and of the Public Account Statements which form part of the Treasurer's Annual Financial Report. It also represents a change in the manner in which we report to Parliament on the outcomes of our annual audits of the financial statements of State entities.

This year we will provide six separate volumes:

- Volume 1 (which is this Report) tabled on 22 November
- Volume 2 which deals with our audits of the Executive and Legislature, Government Departments and other General Government Sector entities, also tabled on 22 November
- Volume 3 which deals with our audits of government businesses, the local government owned water companies and the Retirement Benefits Fund Board to be tabled on 24 November 2011
- Volume 4 which deals with audits of local government councils and our assessment of their financial sustainability to be tabled on 24 November 2011
- Volume 5 which will deal with non-General Government Sector entities and those local government entities whose audits were not completed in time for inclusion in Volume 4. We plan to table this report in December 2011 and
- Volume 6 which will deal with our audit of entities with a 31 December 2011 balance date. We plan to table this report in March 2011.

Our intension is to provide detailed and summary analysis at a sector level aimed at reducing the volume provided in individual reports previously.

Audits of the financial statements of the General Government and Total State Sectors and of the Public Account Statements resulted in unqualified audit opinions being issued in time for the Treasurer to table those statements by 31 October.



HM Blake  
Auditor-General  
22 November 2011

# TABLE OF CONTENTS

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Foreword	4
<b>TREASURER'S ANNUAL FINANCIAL REPORT</b>	<b>6</b>
<b>GENERAL GOVERNMENT SECTOR FINANCIAL STATEMENTS AND PUBLIC ACCOUNT STATEMENTS</b>	<b>9</b>
<b>TOTAL STATE SECTOR FINANCIAL STATEMENTS</b>	<b>34</b>
Appendix 1 - Acronyms and Abbreviations	44
Appendix 2 - Recent Reports	45
Vision and Purpose	46

# TREASURER'S ANNUAL FINANCIAL REPORT

## AUDIT SUMMARY

### Underlying Net Operating Balance

In 2010-11, the Total State Sector reported a Net Operating Balance surplus of \$132m compared to \$192m in the prior year. The result for the General Government Sector was less favourable, a Net Operating Balance deficit of \$23m compared to a surplus of \$18m in 2009-10. However, these results were largely affected by one-off capital funding from the Australian Government. Without the capital funding, the Underlying Net Operating Balance for both the General Government Sector and Total State would have been deficits of \$558m and \$404m respectively. This was a third year of consecutive underlying deficits as expenditure growth outstripped both operating revenue growth and inflation.

The growth in expenditure was driven predominantly by employee costs in the General Government Sector and to some degree in Government businesses. There were two major contributing factors to the increase in employee costs in the General Government Sector, being an increase in staffing levels of around 4% over the past four years and a combination of annual and structural adjustments and other increments under various awards and agreements. Our analysis showed that the cumulative impact of this was significant. Such increases in wages and salaries are proving difficult to fund in an environment of declining or slow revenue growth. Staffing levels in Government businesses increased by around 8% since 2008 but started to reduce in 2011 in an effort to reduce costs, with this trend likely to continue.

The State is heavily dependent on funding provided by the Australian Government, especially GST receipts which represented on average 40% of total revenue over the past four years. The reliance of the State on income from a tax which is vulnerable to consumer spending combined with the limited ability of the State to generate its own revenue highlights revenue risks faced by Government. This needs to be managed. Options to do so appear limited to reducing costs, identifying new revenue sources, changing existing taxes and charges, growing the Tasmanian economy or combinations of these.

### State Taxes and Other Charges

Payroll tax was the single largest State based tax collected by Government, representing a third of total Taxation revenue. Payroll tax continued to grow while taxes on property, namely land tax and stamp duties declined due to land tax concessions and reduced volume of property transactions. Royalty income increased due to growing production.

### Returns from Government Businesses

Government used returns from Government businesses to substitute, to a degree, falling revenue from other sources. Dividend revenue averaged around \$69m per year represented only 1.7% of total revenue for the past four years and has been rising despite falling profits.

In addition to dividends, government businesses also paid income tax equivalents and guarantee fees to Government. Overall, Government businesses returned \$583m to the State between 2007-08 and 2010-11 (excluding the special dividend from the sale of Hobart International Airport Pty Ltd of \$293m in 2007-08). The majority of these returns were from the Motor Accidents Insurance Board, followed by the three electricity businesses, Aurora, Hydro and Transend.

## Operating Result

After other economic flows were taken into account, mainly movements in the market value of assets and liabilities, the General Government Sector reported an Operating surplus of \$172m, while the Total State Sector reported an Operating deficit of \$38m. The General Government Sector results were favourably impacted by an increase in net assets of Government businesses, which to a degree offset negative revaluation movements of non-financial assets in General Government Sector entities. The increase in net assets was eliminated on consolidation and the operating surplus of the Total State Sector was reduced by further revaluation decrements of non-financial assets.

## Comprehensive Result

Overall Comprehensive Result for the State was a deficit of \$574m. The deficit was due to downward movements in the valuation of land under roads and roads and ports infrastructure assets, partly offset by an increase in the value of land and buildings. The unfavourable movement in the value of non-financial assets was partly offset by an actuarial gains on superannuation liability which arose from a combination of better than expected return on fund assets and changes to actuarial assumptions.

## Net Operating Balance – Budget and Actual Outcomes

In the 2010-11 *Mid-Year Financial Report* Government revised the 2010-11 Budget in light of further reductions in estimated GST receipts, lower revenue from state taxes and recurrent expenditure growing at a higher than expected rate. The revised forecast was for a Net Operating Balance of \$11m, compared to a Deficit of \$65m, and a lower Fiscal Deficit of \$402m, compared to an original estimate of \$530m. These targets were not met despite actual revenue being \$17m higher than the revised budget. The increase in revenue was due to additional funding from the Australian Government and higher returns from government businesses in the form of dividends and income tax equivalents, offset by lower state taxes and other charges. Actual expenditure was \$162m above the original budget and \$50m above the revised estimates. Employee related cost were the major contributing factor for the unfavourable result.

## Equity

Total Equity decreased from \$13.065bn to \$12.492bn during 2010-11. The decrease was in line with the Comprehensive result which was a deficit of \$515m plus investments in Government businesses of \$58m.

## Unfunded Superannuation Liability

At 30 June 2011, the unfunded superannuation liability at the General Government Sector rose to \$4.966bn. Our analysis indicated that the gap between the unfunded liability and the net unfunded liability is widening, because the combined amount of plan assets and the Superannuation Provision Account are not keeping pace with the present value of the defined benefit obligations. While the 2011-12 Budget estimates that there are sufficient receipts from agencies, the Reserved by Law contribution and from interest on the SPA balance to meet superannuation payment obligations as they become due over the Budget and forward estimates period until 2015, the capacity of the State to meet its future superannuation obligations will require close monitoring. At the Total State level, the unfunded superannuation liability totalled \$5.600bn.

## Net Debt

General Government Sector showed a negative Net Debt position in recent years because debt-related financial assets exceeded gross debt liabilities, by \$416m as at 30 June 2011. However, the level of Net debt continued declining due to the lower Cash and deposits balance which was consistent with deficit operating balances.

Net State Debt increased by \$347m to \$1.309bn at 30 June 2011, once again primarily due to the deficit in the General Government Sector.

## Net financial liabilities

Net Financial Liabilities of the General Government Sector increased by \$332m to \$4.146bn in 2010-11 in line with the decline in the negative Net Debt position. At the Total State Sector level, Net Financial Liabilities increased by \$590m to \$8.276bn, which reflected higher Net Debt, \$347m, and an increase in other liabilities, mainly superannuation.

## Public Account Statements

Cash held by the General Government Sector decreased to \$620m during the year, being the net balance of Special Deposit and Trust Account of \$2.598bn less cash used for temporary repayment of debt, \$1.978bn. At the Total State level, cash held at 30 June 2011 increased by \$667m to \$2.241bn.

Cash in the Special Deposit and Trust Account includes unspent funds provided by the Australian Government for the redevelopment of the Royal Hobart Hospital, \$270m, and on-going projects under the economic stimulus package. Without these cash holdings funds held at the Special Deposit and Trust Account would have been lower and Net Debt correspondingly higher.



# GENERAL GOVERNMENT SECTOR FINANCIAL STATEMENTS AND PUBLIC ACCOUNT STATEMENTS

## INTRODUCTION

The General Government Sector Financial Statements (the GGS Statements) are prepared in accordance with Australian Accounting Standard AASB 1049 *Whole of Government and General Government Sector Financial Reporting*. They incorporate the reporting requirements of the Australian Accounting Standards Board (AASB) and the Uniform Presentation Framework (UPF), based on the reporting standards of the Australian Bureau of Statistics' Government Finance Statistics framework. The GGS Statements comprise a Statement of Comprehensive Income, Statement of Financial Position, Statement of Cash Flows, Statement of Changes in Equity and notes thereto.

Explanations of the UPF Key Fiscal Aggregates for preparing the GGS Statements are provided in notes to the GGS Statements and are not reproduced here.

The Public Account Statements (the PA Statements) are a special purpose financial report prepared on a cash accounting basis. Explanations for applying this basis for preparing the PA Statements are provided in Note 1 to the Statements and are not reproduced here.

## LEGISLATIVE REQUIREMENTS

The Treasurer and the Secretary of the Department of Treasury and Finance sign both Statements, which are included as chapters within the Treasurer's Annual Financial Report (the TAFR).

The requirement for TAFR to be prepared is in section 26A of the *Financial Management and Audit Act 1990* (FMAA), which requires that:

- 1) As soon as practicable after the end of each financial year, the Treasurer is to prepare an annual report for that financial year.
- 2) The annual report is to contain for the financial year to which the report relates—
  - a) The original estimates disclosed in the budget papers in respect of the major Government Finance Statistics statements
  - b) The results in respect of the major GFS statements
  - c) Statements reporting on the transactions within the Public Account during that financial year and the balances in the Public Account at the end of that financial year
  - d) An explanation of any significant variations between the results for the financial year and the financial estimates and projections described in the budget papers
  - e) An assessment of the Government's fiscal performance against its current fiscal strategy statement, within the meaning of the *Charter of Budget Responsibility Act 2007*
  - f) The Auditor-General's report on the results and statements referred to in section 16 of the Audit Act.
- 3) The Treasurer may include in the annual report, in such form or manner as the Treasurer may determine, any other financial or statistical report.

The PA Statements satisfy the requirements specified in section 26A(2)(c) above.

## AUDIT OF THE 2010-11 GENERAL GOVERNMENT SECTOR FINANCIAL STATEMENTS AND PUBLIC ACCOUNT STATEMENTS

Statements referred to in sections 26A(2)(b) and (c) of the FMAA must be submitted to the Auditor-General for audit before 30 September in each year. Signed GGS Statements and signed PA Statements were received on 30 September 2011. The GGS Statements were re-signed on 15 October 2011. Separate unqualified audit opinions were issued on 19 October 2011.

Audits of the 2010-11 GGS Financial Statements and of the PA Statements were completed with satisfactory results and no outstanding matters.

### GENERAL GOVERNMENT SECTOR FINANCIAL STATEMENTS

Comments in this Chapter should be read alongside the TAFR and GGS Statements which include audited and un-audited commentary explaining 2010-11 financial results against prior years and budget. Our major focus in the Chapter is comparing 2010-11 results with the previous three years.

In preparing this analysis, we amended the Statement of Comprehensive Income and Statement of Cash Flows to reclassify Australian Government capital funding. In addition, some material has been extracted from our other Reports.

## COMPREHENSIVE INCOME STATEMENT

	2010-11 Original Budget	2010-11 Revised Budget <sup>1</sup>	2010-11 Actual	2009-10 Actual	2008-09 Actual
	\$m	\$m	\$m	\$m	\$m
<b>Revenue</b>					
Grants	2 644	2 602	2 656	2 730	2 677
Taxation	876	876	860	872	804
Sales of goods and services	370	367	303	289	303
Fines and regulatory fees	89	90	84	97	92
Interest income	48	42	40	45	68
Dividend, tax and rate equivalent income	149	133	159	79	210
Other revenue	120	135	130	109	105
<b>Total Revenue</b>	<b>4 296</b>	<b>4 245</b>	<b>4 232</b>	<b>4 221</b>	<b>4 259</b>
<b>Expenditure</b>					
Employee expenses	2 007	2 073	2 070	1 957	1 863
Superannuation contributions	229	235	271	233	257
Superannuation liability expenses	222	222	232	208	193
Depreciation	249	249	236	229	229
Supplies, consumables and Other expenses	1 024	1 045	1 015	1 004	1 000
Borrowing costs	17	14	14	18	16
Grant and subsidy expenses	880	902	952	935	807
<b>Total Expenditure</b>	<b>4 628</b>	<b>4 740</b>	<b>4 790</b>	<b>4 584</b>	<b>4 365</b>
<b>UNDERLYING NET OPERATING BALANCE before:</b>	<b>(332)</b>	<b>(495)</b>	<b>(558)</b>	<b>(363)</b>	<b>(106)</b>
One-off Australian Government funding	267	506	535	381	28
<b>NET OPERATING BALANCE</b>	<b>(65)</b>	<b>11</b>	<b>(23)</b>	<b>18</b>	<b>(78)</b>
<b>Plus Other economic flows - Included in Operating result</b>					
Gain (loss) on sale of non-financial assets	17	17	6	(24)	3
Revaluation of equity investment in GBEs/SOCs	238	96	228	1 893	387
Movements in Superannuation liability	0	0	85	(692)	(148)
Other gains (losses)	7	7	(124)	(41)	(28)
<b>Other economic flows - net</b>	<b>262</b>	<b>120</b>	<b>195</b>	<b>1 136</b>	<b>214</b>
<b>OPERATING RESULT</b>	<b>197</b>	<b>131</b>	<b>172</b>	<b>1 153</b>	<b>136</b>
<b>Plus Other economic flows - Other movements in Equity</b>					
Revaluations of non-financial assets	242	242	(807)	387	277
Other non-owner movements in equity	(102)	(9)	120	(14)	(22)
<b>Total Other equity movements</b>	<b>140</b>	<b>233</b>	<b>(687)</b>	<b>373</b>	<b>255</b>
<b>COMPREHENSIVE RESULT</b>	<b>337</b>	<b>364</b>	<b>(515)</b>	<b>1 527</b>	<b>391</b>
<b>KEY FISCAL AGGREGATES</b>					
<b>Net Operating Balance</b>	<b>(65)</b>	<b>11</b>	<b>(23)</b>	<b>18</b>	<b>(78)</b>
<b>less Net acquisition of non-financial assets</b>					
Purchase of non-financial assets	772	720	721	607	286
Less Sale of non-financial assets	58	58	62	69	41
Less Depreciation	249	249	236	229	228
<b>Net acquisition of non-financial assets</b>	<b>465</b>	<b>413</b>	<b>423</b>	<b>309</b>	<b>17</b>
<b>FISCAL BALANCE</b>	<b>(530)</b>	<b>(402)</b>	<b>(446)</b>	<b>(291)</b>	<b>(95)</b>

<sup>1</sup> Revised Budget information sourced from the 2010-11 Mid-Year Financial Report

**COMMENT**

**Underlying Net Operating Balance**

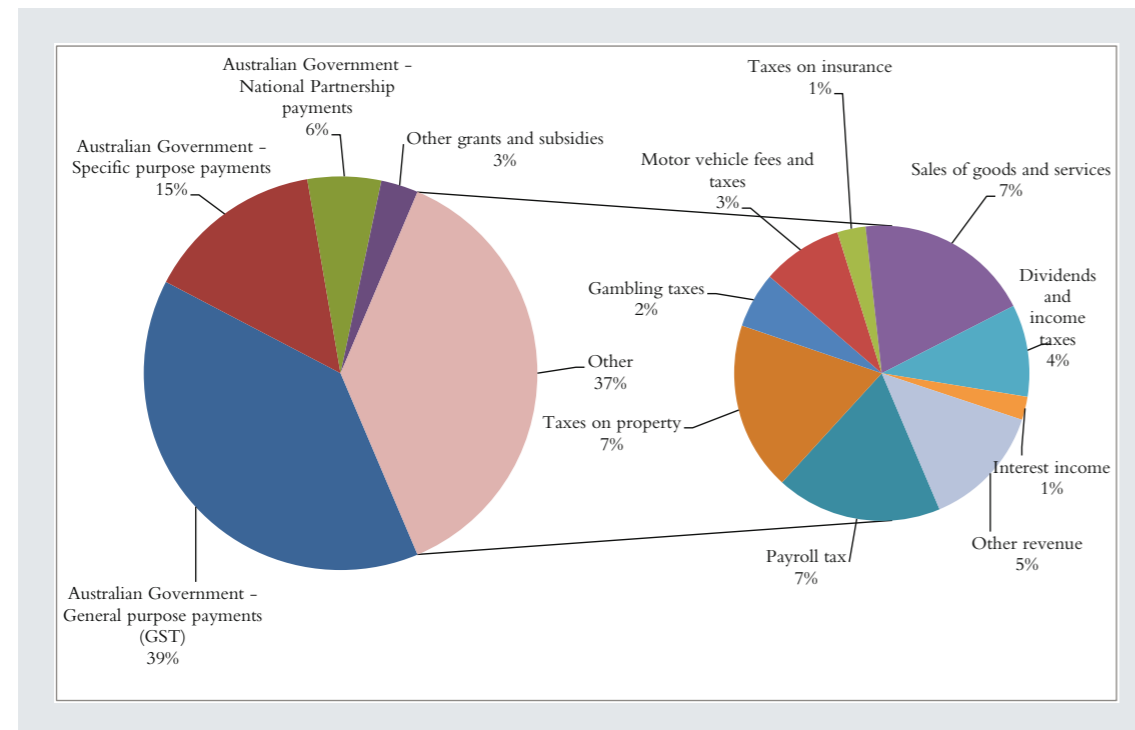
The General Government Sector Underlying Net Operating Balance (before one-off Australian Government funding for capital projects, including funding under the Nation Building – Economic Stimulus Plan), was a deficit of \$558m compared to a deficit of \$363m reported in 2009-10. The increase in the deficit of \$195m was due to Total Expenses growing at a faster rate, 4.5%, than the growth in Total Revenue of 0.3% and the Consumer Price Index (CPI) of 3.4%<sup>1</sup>.

The increase in Total Expenses was driven predominantly by expenditure items relating to employees. Combined employee costs represented 53.7% of Total Expenditure for 2010-11, which was consistent with previous years and comprised:

- Employee expenses, up \$113m, or 5.8%, reflecting a net increase in FTEs of 724, and a combination of annual and structural adjustments and other increments under various awards and agreements
- Superannuation contributions, up \$38m, being a combination of increased contribution rate for members of the RBF Contributory Scheme from 11% to 12.3%, higher contribution gap and higher wages and salaries, which are the base for calculating employer contributions for members of both defined benefit and defined contribution schemes
- Superannuation liability expenses, up \$24m due to higher service cost and nominal interest expense on defined benefits schemes for which the Government is responsible.

Total Revenue increased by \$11m to \$4.232bn in 2010-11. Similar to previous years, funding from the Australian Government represented the majority of revenue generated by the General Government Sector at 62.8% in 2010-11 and an average 63.1% over the past four years. Figure 1 shows the composition of operating revenue in 2010-11.

Figure 1: Revenue Composition for General Government Sector

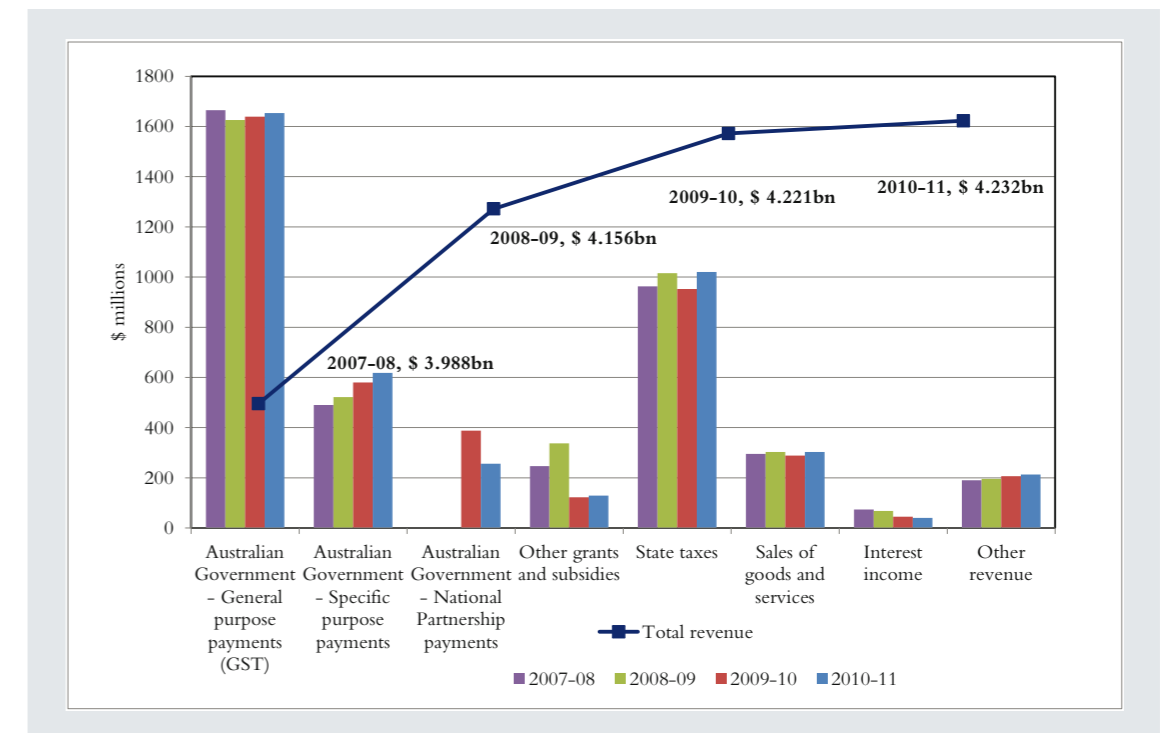


Source: Tasmanian Audit Office

<sup>1</sup> Australian Bureau of Statistics, All Groups CPI Hobart, June 2011 quarter

Figure 1 highlights the reliance of the State on funding provided by the Australian Government to fund its operations, especially GST receipts which represented 39% of total revenue. Figure 2 shows the composition of the General Government Sector revenue and the movement in Total Revenue over the past four years since 2007-08.

Figure 2: Revenue Composition for General Government Sector (4-year trend)



Source: Tasmanian Audit Office

A change in the composition of revenue from the Australian Government occurred in 2008-09 when a new centralised arrangement between the Commonwealth and the States was put in place in January 2009. Under the arrangement, all National Partnership Payments (NPP) and Specific Purpose Payments (SPP) were centrally processed by the Commonwealth Treasury and paid directly to each State Treasury rather than to agencies. State Treasuries were responsible for distributing the funding within their jurisdiction.

Most importantly, Figure 2 shows a reduction in GST revenue of \$39m from \$1.665m in 2007-08 to \$1.626m in 2008-09 caused by the global financial crisis. In real terms the drop was much greater after adjusting for inflation. Since the dip in 2008-09, GST revenue has been rising although slowly, \$13m in 2009-10 and \$14m in 2010-11, and has still to reach the level prior to the global financial crisis.

To a degree, the reduction in GST revenue was offset by economic stimulus measures implemented by the Australian Government in response to the global financial conditions. The \$42 billion Nation Building – Economic Stimulus Plan (the Plan) was announced on 3 February 2009 and incorporated elements of both the December 2008 Nation Building Package and the February 2009 Nation Building and Jobs Plan. The major component of the Plan was a significant investment in roads, schools and social housing and community facilities, with the bulk of the funding provided in 2009-10, followed by a gradual withdrawal of funding by 2011-12. However, as the majority of the stimulus funding was of a capital nature or transfer payments, it did not benefit the operating result of the General Government Sector.

As a result, the General Government Sector reported consecutive Underlying Net Operating Balance deficits since 2008-09. The global financial crisis experienced in the second half of 2008 continues to contribute to poor operating results of the general government sector. This is evident from the 2011-12 Australian Government Budget – Budget Paper No. 1 which highlighted a long term trend decline in GST revenue over the last decade and revised down GST receipts over the budget and forward estimates until 2014-15. This is attributed to households being more cautious about

their spending and only a modest rise in prices of goods and services subject to GST compared to general price increases and economic growth. GST revenue collected by the Australian Government is expected to grow by 3.5% in 2010-11 and by 5.1% and 7.1% in the two years after that, in line with the growth in consumption. The 2011-12 State Budget estimates Tasmania's share of GST revenue will be \$1.743m in 2011-12.

In March 2011, the Australian Government announced a review of the distribution of GST revenue to the States. The review will examine whether improvements to the current form of horizontal fiscal equalisation, which determines the distribution of GST revenue to the States, can be identified to improve the efficiency, equity, simplicity and predictability of the current arrangements in light of these challenges. The review will not affect the distribution of the GST in 2011-12 and 2012-13.

The reliance of the State on income from a tax which is vulnerable to consumer spending combined with the limited ability of the State to generate its own revenue highlights revenue risks faced by Government. This needs to be managed. Options to do so appear limited to reducing costs, identifying new revenue sources, changing existing taxes and charges, growing the Tasmanian economy or combinations of these.

### State Based Taxes and Charges

Table 1 illustrates the composition of Taxation revenue and royalty income collected by Government over the past four years.

Table 1: Taxation Revenue

	2010-11	2009-10	2008-09	2007-08
	Actual	Actual	Actual	Actual
	\$m	\$m	\$m	\$m
Payroll tax	286	271	259	250
Land tax	75	91	80	72
Fire service levies	47	47	50	47
Government guarantee fees	24	18	9	8
Taxes on financial and capital transactions	145	163	151	200
Gambling taxes	94	99	94	90
Insurance duty	49	47	43	41
Motor vehicle registration, fees and taxes	139	135	119	123
Royalty income	49	39	30	37
<b>Total State Based Taxes and Charges</b>	<b>908</b>	<b>910</b>	<b>835</b>	<b>868</b>

Source: Tasmanian Audit Office

The table shows payroll tax was the single largest State based tax collected by Government, representing on average \$267m or 31.6% of total Taxation revenue (excluding Royalty income). Taxes on financial and capital transactions declined over the period as a result of a reduction in the number of property transactions. The decline in land tax in 2010-11 was due to concessions awarded to holiday home owners, which will be removed in 2011-12 in response to declining State revenue. The increase in Royalty income reflected a rise in production.

### Returns from Government Businesses

Table 2 shows returns to the State by Government businesses over the past four years in the form of dividends and income tax equivalents on a cash basis.

Table 2: Total Return to the State (dividends and income tax equivalents)

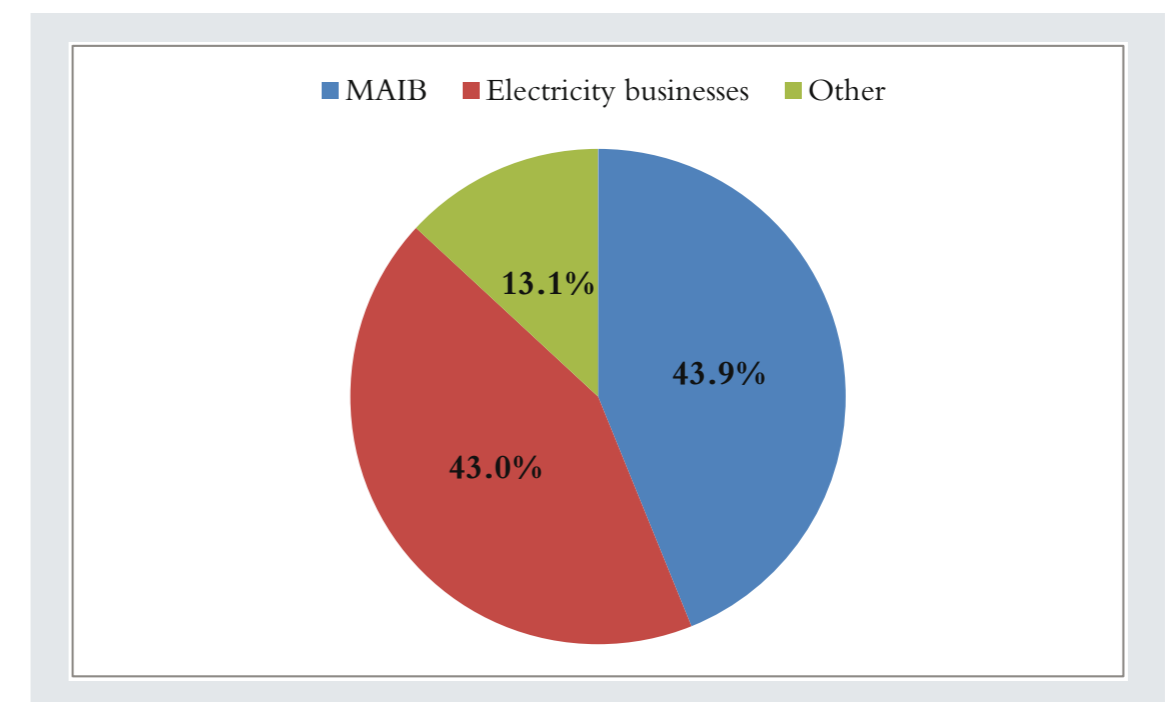
	2010-11	2009-10	2008-09	2007-08
	\$'000s	\$'000s	\$'000s	\$'000s
Motor Accidents Insurance Board	34 567	45 044	83 715	92 212
Transend Networks Pty Ltd	26 418	13 942	27 970	34 271
Hydro-Electric Corporation	48 405	10 286	4 477	5 579
Aurora Energy Pty Ltd	26 814	6 756	22 286	23 622
Tasmanian Ports Corporation Pty Ltd	1 525	4 341	7 973	20 342
Tasmanian Public Finance Corporation	8 580	9 386	3 500	3 500
TOTE Tasmania Pty Ltd	6 462	6 523	1 194	572
Public Trustee	226	805	644	778
<b>TOTAL</b>	<b>152 997</b>	<b>97 083</b>	<b>151 759</b>	<b>180 876</b>
Tasmanian Water and Sewerage Corporations*	20 260	18 013	0	0

\* Shown separately because returns are made to local government council, not the State.

Source: Tasmanian Audit Office

The Table shows that the Motor Accident Insurance Board (MAIB) and the three electricity businesses provided the highest returns over the period under review. In dollar terms, MAIB returned \$256m and the electricity businesses, combined \$251m, with Transend returning \$103m, followed by Aurora \$79m and Hydro \$69m. Figure 3 presents this information in percentage terms.

Figure 3: Returns to the State (2007-08 to 2010-11)

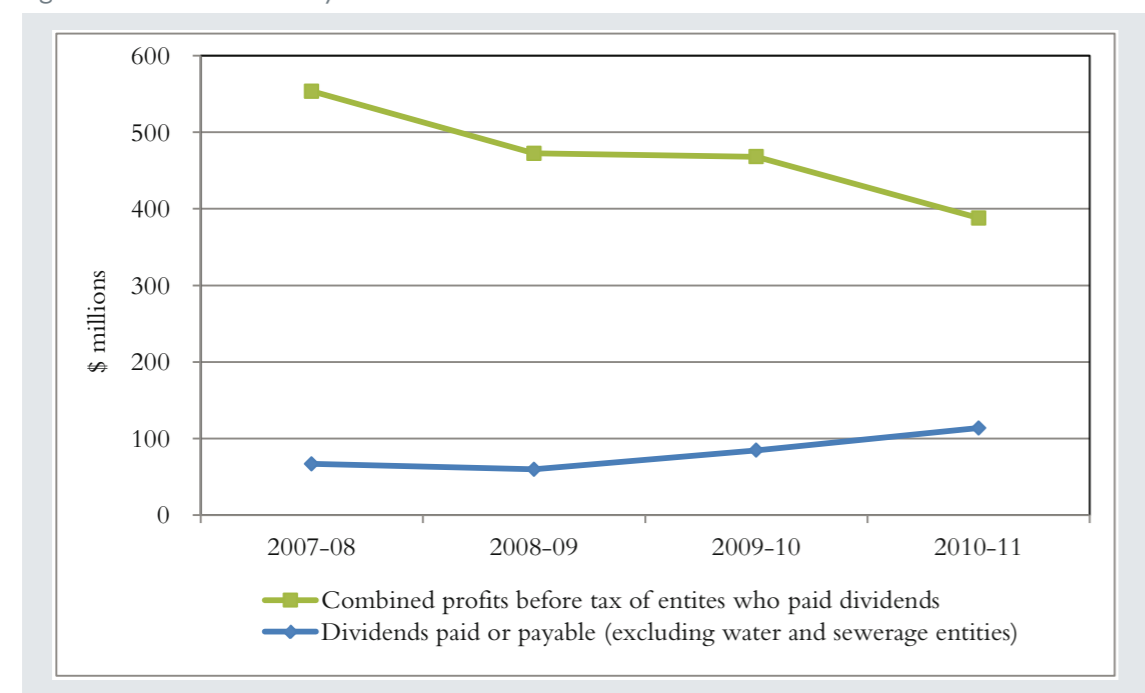


Source: Tasmanian Audit Office

The following businesses provided no returns during the period under review: Forestry, Rivers and Water Supply Commission, Metro, TT-Line, Port Arthur Historic Site Management Authority, TasRail and Tasracing.

Figure 4 compares returns to the State made by Government businesses with their composite profits over the relevant period. Entities that did not make any returns have been excluded.

Figure 4: Return to State by Government Businesses



Source: Tasmanian Audit Office

On an accrual basis, Government businesses paid average dividends of around \$81m per year over the past four years. This was exclusive of a special dividend received from the sale of Hobart International Airport Pty Ltd in 2007-08 of \$293m and distributions by water corporations made since their formation in 2009-10. In 2010-11, dividends paid or payable totalled \$114m and this was the highest since 2007-08 despite a decline in profits before tax of the businesses who made returns to the State. As indicated in *Volume 3 Government Business Enterprises, State Owned Companies, Water Corporations and Superannuation Funds 2010-11* net profits after tax generated by Government Business are low based on returns against assets and equity

## Net Operating Balance

After taking into account one-off Australian Government funding for capital projects, the General Government Sector reported a Net Operating Balance deficit of \$23m, compared to a surplus of \$18m last year, a turnaround of \$41m.

Included in the Net Operating Balance was a significant amount of capital funding provided by the Australian Government. Table 3 provides a breakdown of this funding over the last two years:

Table 3: Australian Government Capital Funding

	2010-11	2009-10
	\$m	\$m
Nation Building and Jobs Plan		
<i>Building the Education Revolution</i>	113	198
<i>Social Housing</i>	30	93
<i>Roads</i>	120	0
<i>Royal Hobart Hospital</i>	270	0
<i>Water for the Future</i>	2	18
Auslink	0	72
<b>Total</b>	<b>535</b>	<b>381</b>

Source: Tasmanian Audit Office

Table 3 indicates the turnaround of \$41m was despite an increase in capital funding from the Australian Government of \$154m.

## Operating Result

The Operating Result showed a surplus in 2010-11 of \$172m, compared to \$1.153bn reported in 2009-10 and was arrived at after adjusting the Net Operating Balance for Other Economic Flows. Other Economic Flows are changes in the value of assets and liabilities that do not result from transactions. The unusually high Operating Result reported last year was due to the recognition of the net assets of the local government owned water corporations valued at \$1.749bn as an equity investment for the first time, partly offset by an increase in superannuation liability of \$544m due to revised actuarial projections.

The 2010-11 Operating Result was affected by:

- revaluation of equity investment in Government businesses, \$228m, representing an increase in the value of their net assets, namely Hydro, \$131m, Aurora, \$65m, and Transend, \$59m, and combined Water Corporations, \$288m, partly offset by losses of Forestry, \$(128)m. During 2010-11, the Government provided equity contributions to TasRail, \$38m, Rivers and Water Supply Commission, \$15m, Aurora, \$5m, and Tasports, \$0.6m
- movements in Superannuation liability, \$85m, representing a favourable variance between the expected and actual returns on plan assets
- other losses, \$124m, which included a write-off of roads infrastructure, \$60m, and a write down of land under roads, \$89m.

## Comprehensive Result

The 2010-11 Comprehensive Result was a Deficit of \$515m and was arrived at after adjusting the Operating Result for movements in equity. The deficit was predominantly the result of a revaluation decrement of \$807m following a downward revaluation of land under roads, \$532m, and a one-off adjustment to roads infrastructure assets due to a revision of valuation methodology by the Department of Infrastructure, Energy and Resources, \$569m. These revaluation decrements were partly offset by upwards revaluations of land and buildings held by the Department of Education, \$57m, and Department of Health and Human Services, \$185m. Other non-owner movements in equity, \$120m, related mainly to a revaluation of land and buildings transferred from the Tasmanian Polytechnic before their recognition by the Department of Education.

## Net Operating Balance – Budget and Actual Outcomes

In the 2010-11 *Mid-Year Financial Report* Government revised the 2010-11 Budget in light of further reductions in estimated GST receipts, lower revenue from state taxes and recurrent expenditure growing at a higher than expected rate. The revised forecast was for a Net Operating Balance of \$11m, compared to a Deficit of \$65m, and a lower Fiscal Deficit of \$402m, compared to an original estimate of \$530m. These targets were not met despite actual revenue being \$17m higher than the revised budget. The increase in revenue was due to additional funding from the Australian Government and higher returns from government businesses in the form of dividends and income tax equivalents, offset by lower state taxes and other charges.

Actual expenditure was \$162m above the original budget and \$50m above the revised estimates. Employee related cost were the major contributing factor for the unfavourable result, being \$115m higher than the original budget and \$43m more than the revised estimates. Over half of the budget variance in employee costs was attributed to the Department of Health and Human Service, \$64m.

The impact of employee related expenses is detailed in Table 4, which notes variances in employee costs between original Budget estimates and actual outcomes of Government agencies.

Table 4: Variances in Employee Costs of Government Agencies

Government Departments	2010-11	2010-11	Variance	Variance
	Original Budget	Actual		
	\$'000	\$'000	\$'000	%
Economic Development, Tourism and the Arts	34 494	41 833	(7 339)	(21.3)
Education <sup>a</sup>	616 858	604 346	12 512	2.0
Health and Human Services	907 631	971 688	(64 057)	(7.1)
Infrastructure, Energy and Resources	37 656	41 567	(3 911)	(10.4)
Justice	81 438	88 233	(6 795)	(8.3)
Police and Emergency Management	146 593	155 445	(8 852)	(6.0)
Premier and Cabinet	35 040	40 542	(5 502)	(15.7)
Primary Industries Parks Water and Environment	102 233	105 467	(3 234)	(3.2)
Treasury and Finance	28 460	25 676	2 784	9.8
<b>Total</b>	<b>1 990 403</b>	<b>2 074 797</b>	<b>(84 394)</b>	<b>(4.2)</b>

<sup>a</sup> Actual result adjusted down by \$49.8m being employee costs of the Tasmanian Academy and Tasmanian Polytechnic which were transferred to the Department effective 1 January 2011

Source: Tasmanian Audit Office

### Key Fiscal Aggregates - disclosure of the State's Fiscal Balance

This information shows the impact on the Net Operating Balance of the depreciation charge as against net expenditure on non-financial assets. Essentially it is a measure of the sustainability of the operations of Government to fund its capital expenditure needs without borrowing.

In 2010-11, Fiscal Balance was a deficit of \$446m compared to a deficit of \$291m reported in the previous year. The increase in Fiscal Balance deficit of \$155m was due to an increase in acquisition of non-financial assets and higher Net Operating Balance deficit. In 2010-11, gross investment on non-financial assets was \$721m which was \$114m higher than the previous year and the highest since 2007-08. The increase over the past two years was a result of the Nation Building and Jobs Plan funding by the Australian Government. Expenditure on non-financial assets is commented on in the Statement of Financial Position section of this Chapter.

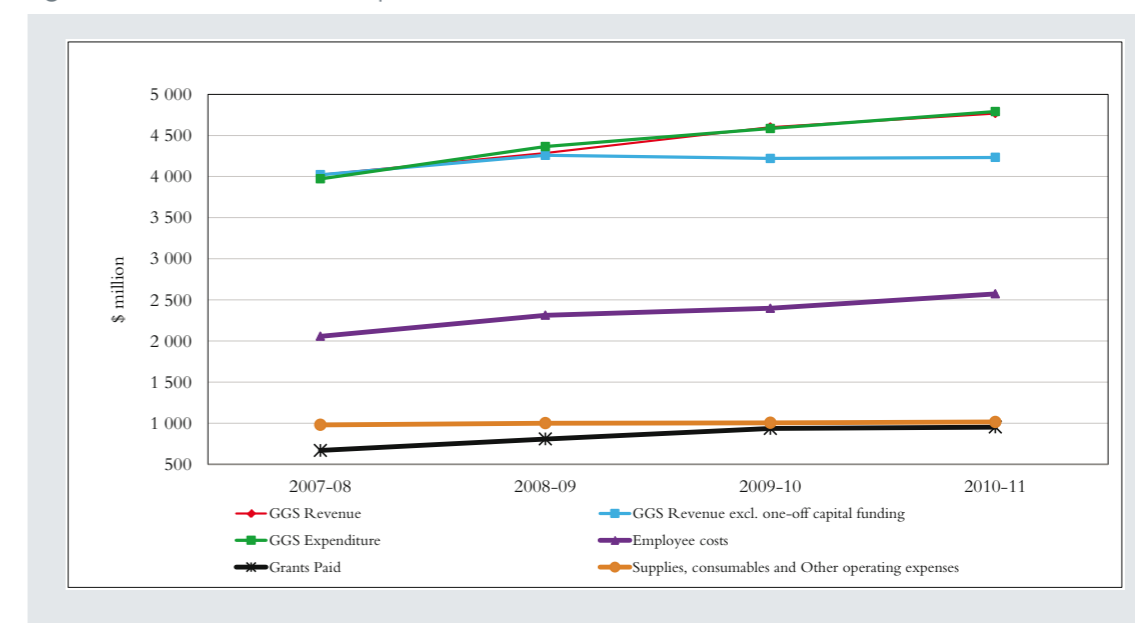
## FOUR YEAR REVENUE AND EXPENDITURE ANALYSIS

### Revenue and expenditure

In this commentary we analyse major components of the Underlying Net Operating Balance.

Figure 5 presents revenue and expenditure trends for the General Government Sector over the past four years.

Figure 5: GGS Revenue and Expenditure



Source: Tasmanian Audit Office

Note: Employee expenses in 2007-08 were adjusted to include the secondment of 382 employees from the Mersey Community Hospital to the Australian Government. In 2008-09, 264 FTEs were returned back to the State. Revenue and expenditure for 2007-08 were also adjusted for the Mersey Community Hospital.

Source: Tasmanian Audit Office

Figure 5 indicates that the rate of revenue growth from 2007-08 to 2010-11 (annual average of 6.6%) exceeded slightly the rate of expenditure growth (annual average of 6.4%). However, when one-off Australian Government capital funding was excluded, the annual average growth in revenue was only 3.5% which was well below the growth in expenditure. A situation where, on a before capital receipts basis, expenditure growth outstrips revenue growth is not sustainable and action is needed to increase revenues or reduce costs.

As mentioned previously, combined employee costs represented 53.7% of Total Expenditure for 2010-11 which was consistent with previous years. Combined employee costs included wages, salaries, leave entitlements and on-costs, superannuation contributions made on behalf of employees and superannuation liability expenses relating to defined benefits schemes for which the Government is responsible. Combined employee costs increased by 26.6% since 2007-08. Wages, salaries, leave entitlements and on-costs alone increased by 25.1% over the period. This increase was a combination of annual and structural adjustments and progression increments under various awards and agreements and a net increase of 943 FTEs. For example, annual and structural adjustment increases under the 2008 Public Service Wage Agreement totalled 15.3% between November 2008 and March 2011. This increase excludes progression increments.

The General Government Sector is primarily comprised of Government Departments and their staffing levels are detailed in Table 5.

Table 5: Departmental FTEs

	2011	2010	2009	2008
Economic Development, Tourism and the Arts	452	479 <sup>b</sup>	400	404
Education	8 853 <sup>a</sup>	7 155	7 215 <sup>c</sup>	8 102
Environment, Parks, Heritage and Arts	0	0 <sup>b</sup>	714	613
Health and Human Services	9 879	9 510	9 010	8 618
Infrastructure, Energy and Resources	497	503	558	537
Justice	977	992	998	999
Police and Emergency Management	1 635	1 631	1 658	1 672
Premier and Cabinet	459	448	485	480
Primary Industries, Parks, Water and Environment	1 336	1 369 <sup>b</sup>	988	984
Treasury and Finance	312	317	325	316
<b>Sub total<sup>d</sup></b>	<b>24 400</b>	<b>22 404</b>	<b>22 351</b>	<b>22 725</b>
TAFE Tasmania	0	0	0 <sup>c</sup>	1 077
Tasmanian Academy	0 <sup>a</sup>	191	149 <sup>c</sup>	0
Tasmanian Polytechnic	0 <sup>a</sup>	1070	1039 <sup>c</sup>	0
Tasmanian Skills Institute	345	356	358 <sup>c</sup>	0
<b>Total</b>	<b>24 745</b>	<b>24 021</b>	<b>23 897</b>	<b>23 802</b>

a Tasmanian Polytechnic and Tasmanian Academy were merged with the Department of Education.  
 b DEPHA responsibilities were transferred to DPIPWE and DEDTA on 1 July 2009.  
 c Education and TAFE were restructured during 2008-09 under the Tasmania Tomorrow initiative.  
 d Excludes Integrity Commission, Tasmanian Audit Office, State Fire Commission, Inland Fisheries, MAST and Executive Legislature Agencies.

Source: Tasmanian Audit Office

Table 5 shows that the number of FTEs increased by 943 between June 2008 and June 2011, with an increase of 724 FTEs during 2010-11. The largest net growth occurred in the Department of Health and Human Services with 1 261 additional FTEs since 2008, out of which 369 FTEs were added during 2010-11.

### Comparison of operating revenues and expenditures with Gross State Product

Figures 6 and 7 compare the growth in revenues, expenditures and employee costs with the value added by economic production in the State as measured by Gross State Product (GSP). At the national level the equivalent concept is Gross Domestic Product. GSP is the total market value of goods and services produced in a State or Territory within a given period, after deducting the cost of goods and services used up in the process of production, but before deducting allowances for the consumption of fixed capital.

Tasmania's GSP rose 0.4% in volume (i.e. real) terms<sup>1</sup> in 2009-10, lower than the national GDP growth rate of 2.3% and was the lowest amongst other State and Territories. However, when using current prices, the Tasmania's GSP rose 4.9% in 2009-10. This was higher than national GDP growth in current prices of 2.3% and second highest behind the ACT's growth of 7.9%. We used the GSP in current prices to compare the growth in revenues and expenditure of the General Government Sector and GSP growth in volume terms to illustrate the growth in the State economy after adjusting for movements in prices.

<sup>1</sup> The chain volume measures of GSP are derived by revaluing current price and income-based estimates of GSP, using deflators which are compiled using the available data on the composition of expenditures on state production and movements in associated prices.

Figure 6: GGS Revenue and Expenditure Growth Compared to GSP Growth (%)

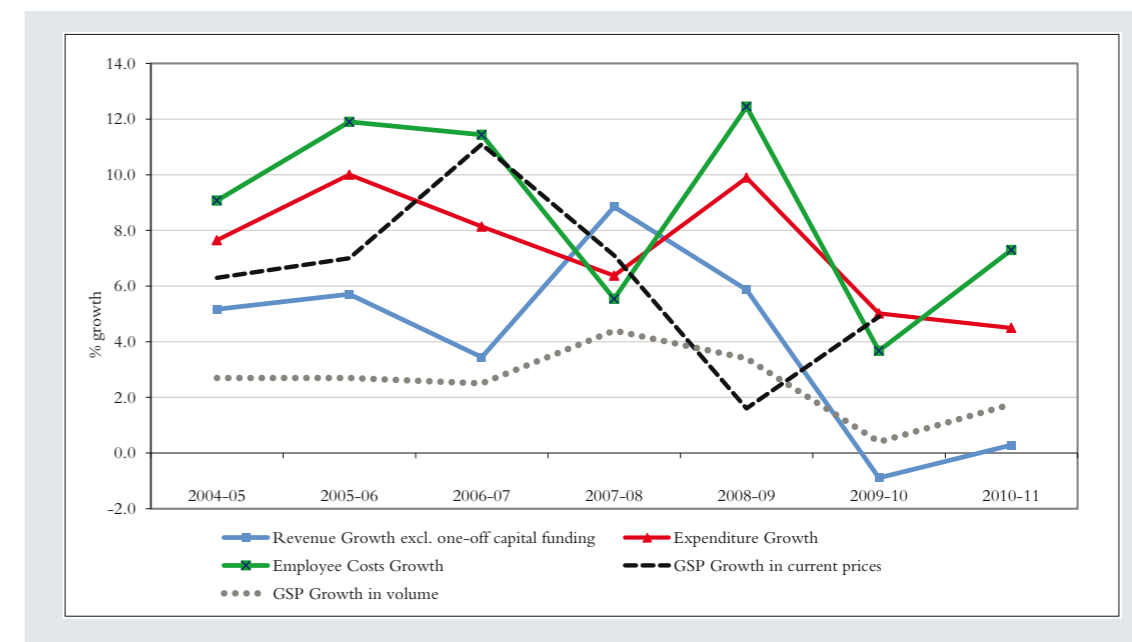
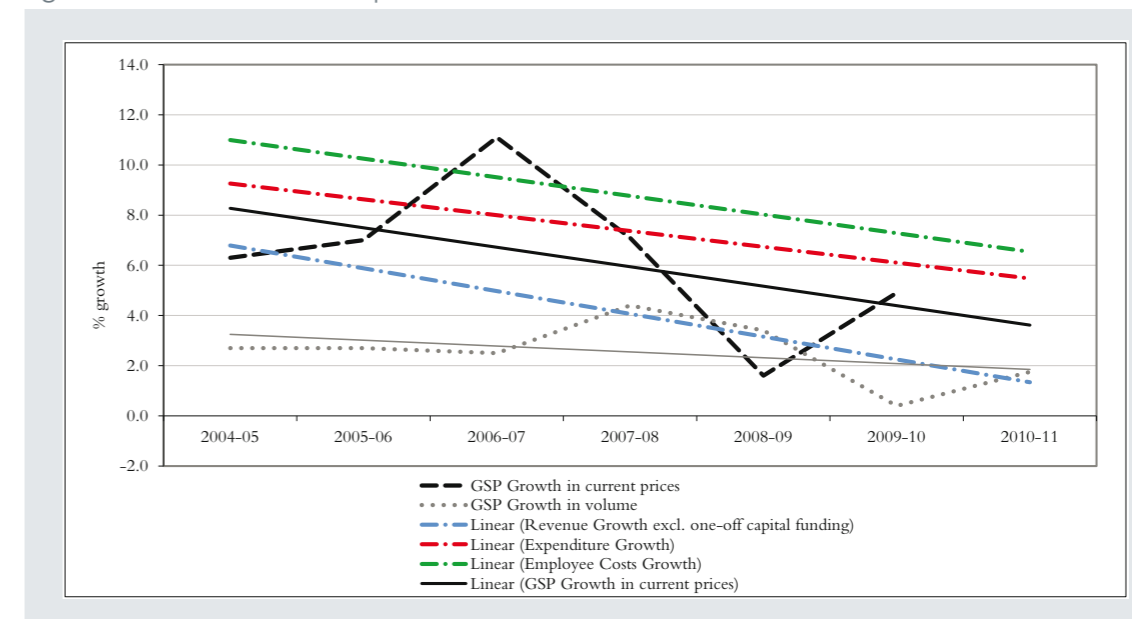


Figure 7: GGS Revenue and Expenditure Growth Trend



Note: Growth figures for 2007-08 were adjusted to include revenue and expenditure for the Mersey Community Hospital. The rate of growth in employee expenses in 2007-08 was adjusted to include the secondment of 382 employees from the Mersey Community Hospital to the Australian Government. In 2008-09, 264 of these employees returned to the State.

Source: Tasmanian Audit Office; GSP data was sourced from the Australian Bureau of Statistics. GSP for 2010-11 was sourced from the Department of Treasury and Finance.

Figure 6 shows a negative growth in expenditure and employee costs of the General Government Sector between 2006-07 and 2007-08 which mirrored a negative growth in the GSP. During the same period, revenue went up as did the volume of the State's economic output. Revenue fell following the global financial crisis in the second half of 2008, as did the GST in both real and current terms. However, expenditure growth moved in an opposite direction to revenue.

The main driver of the significant increase in expenditure growth were employee costs. In 2008-09, employee costs rose steeply by 12.5% which is attributed mainly to increased wages and salaries under the 2008 Public Service Wage Agreement. When the Tasmanian State Service Award came into operation in November 2008, employees were moved to a new classification structure, awarded an

annual increase of 3.5% and a structural realignment increase of 0.5%. Another structural adjustment increase of 1.5% was awarded in March 2009.

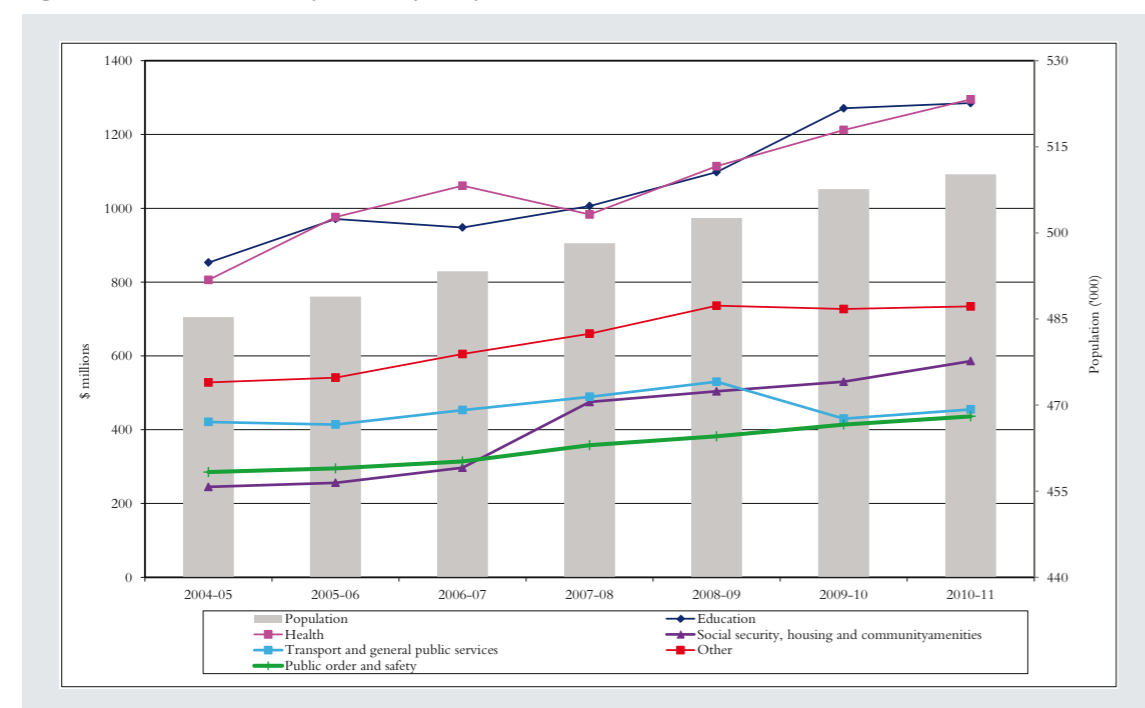
This continued in 2010-11, where employees were awarded an annual increase of 3.5% in November 2010 and a structural adjustment of 2.0% in March 2011. This analysis demonstrates that the cumulative impact of the 2008 Public Service Wage Agreement was significant. Such increases in wages and salaries are proving difficult to fund in an environment of declining or slow revenue growth.

The trends in Figure 7 indicate a decline in the growth of both revenue and expenditure in line with a decline in the GSP. However, the gap between the growth in revenue and expenditure appears to be widening, which indicates that the General Government Sector spending is outstripping revenue growth.

### General Government Expenses by Purpose

The Uniform Presentation Framework section in TAFR includes details of general government recurrent expenses by purpose rather than by function. Figure 8 depicts graphically recurrent expenditure incurred over the past seven years by purpose, together with a growth in population.

Figure 8: Government Expenses by Purpose



Note: Other includes Recreation and culture, Fuel and energy, Agriculture, forestry, fishing and hunting, Mining and mineral resources, Other economic affairs (tourism and area promotion, labour and employment and other), Superannuation liability expenses and Other purpose expenses.

Source: Tasmanian Audit Office

The General Government Sector expenses totalled \$4.790bn in 2010-11. Figure 8 highlights that the majority was spent on health, 27.0%, and education, \$26.8%, which was similar to previous years. Overall, total expenditure grew by 52.7% over the past seven years. In real terms, the growth was 28.7%. Population increased by 5.1% to 510 200 over the same period. The cost of the General Government Sector was \$9 390 per capita in 2010-11, which was \$1 721 or 22.4% higher than in 2004-05 (CPI adjusted).

### STATEMENT OF FINANCIAL POSITION

	2011 Original Budget \$m	2011 Revised Budget <sup>1</sup> \$m	2011 Actual \$m	2010 Actual \$m	2009 Actual \$m
<b>Assets</b>					
<b>Financial assets</b>					
Cash and deposits <sup>a</sup>	551	620	629	966	1 227
Investments <sup>b</sup>	80	70	56	56	48
Equity in GBE's and SOC's <sup>c</sup>	6 265	6 051	6 178	5 950	4 105
Other equity investments	6	3	4	3	6
Receivables <sup>d</sup>	204	193	216	214	183
Other financial assets <sup>e</sup>	1 167	1 037	1 031	913	1 009
<b>Total Financial Assets<sup>f</sup></b>	<b>8 273</b>	<b>7 974</b>	<b>8 114</b>	<b>8 102</b>	<b>6 578</b>
<b>Non-financial Assets</b>					
Land and buildings	5 616	5 783	5 897	5 219	4 807
Infrastructure	5 041	4 943	3 787	4 837	4 641
Plant and equipment	220	218	224	216	213
Heritage and cultural assets	468	564	442	553	447
Investment property	11	11	12	13	13
Intangible Assets	27	33	34	34	29
Assets held for sale	12	21	28	21	15
Other non-financial assets	39	38	35	36	38
	11 434	11 611	10 459	10 929	10 203
<b>Total assets</b>	<b>19 707</b>	<b>19 585</b>	<b>18 573</b>	<b>19 031</b>	<b>16 781</b>
<b>Liabilities</b>					
Borrowings <sup>g</sup>	323	283	269	274	293
Superannuation	4 356	5 020	4 966	4 860	4 034
Employee entitlements	491	494	488	461	459
Payables	118	107	97	122	91
Other liabilities	208	251	261	249	254
<b>Total Liabilities<sup>h</sup></b>	<b>5 496</b>	<b>6 155</b>	<b>6 081</b>	<b>5 966</b>	<b>5 131</b>
<b>Net Assets</b>	<b>14 211</b>	<b>13 430</b>	<b>12 492</b>	<b>13 065</b>	<b>11 650</b>
<b>Equity</b>					
Accumulated surplus	9 271	8 679	8 791	7 627	6 921
Asset revaluation reserve	4 940	4 750	3 701	4 508	4 448
Other reserves	0	0	0	930	281
<b>Total Equity</b>	<b>14 211</b>	<b>13 429</b>	<b>12 492</b>	<b>13 065</b>	<b>11 650</b>
<b>Net Worth</b>	<b>14 211</b>	<b>13 430</b>	<b>12 492</b>	<b>13 065</b>	<b>11 650</b>
<b>Net Financial Worth (f-h)</b>	<b>2 777</b>	<b>1 819</b>	<b>2 033</b>	<b>2 136</b>	<b>1 447</b>
<b>Net Financial Liabilities (h-f+c)</b>	<b>3 488</b>	<b>4 232</b>	<b>4 145</b>	<b>3 814</b>	<b>2 658</b>
<b>Net Debt (g-a-b)</b>	<b>(308)</b>	<b>(407)</b>	<b>(416)</b>	<b>(748)</b>	<b>(982)</b>

<sup>1</sup> Revised Budget information sourced from the 2010-11 Mid-Year Financial Report



## Comment

The General Government Sector showed a negative Net Debt position in recent years because debt-related financial assets exceeded financial liabilities, by \$416m as at 30 June 2011. However, the level of Net debt continued declining due to the lower Cash and deposits balance which was consistent with deficit operating balances.

Net Worth decreased for the first time in the period under review by \$573m in 2010-11 to \$12.492bn in line with the Comprehensive deficit, \$515m, plus equity injections, \$58m. The decrease was represented by:

- lower Cash and deposits, \$337m, explained in the Statement of Cash Flows section of this Chapter
- higher Equity in GBEs and SOCs, \$228m, representing the growth in net assets of Government businesses
- higher Land and buildings, \$678m, representing net additions of \$493m and a revaluation increment of \$294m less depreciation of \$96m. The most significant movements occurred in:
  - Department of Health and Human Services, \$238m, comprising a revaluation increment of \$185m and net additions, including transfers of \$107m, less depreciation of \$45m
  - Department of Education, \$202m, comprising additions, mainly under the Building Education Revolution program of \$190m, and a revaluation increment of \$59m, less depreciation of \$27m
- lower Infrastructure, \$1.050bn, due primarily to a downward revaluation of land under roads, \$532m, and a one-off adjustment to roads infrastructure assets due to a revision of valuation methodology by the Department of Infrastructure, Energy and Resources, \$569m.

Net Financial Liabilities of the General Government Sector increased by \$332m to \$4.146bn in 2010-11 in line with decline in the negative Net Debt position

## Investment in Government Businesses

Table 6 details the Net Assets of Government businesses at 30 June 2011.

Table 6: Net Assets of Government Businesses

GBE/SOC	2011	2010	2009	2008
	\$m	\$m	\$m	\$m
Aurora Energy Pty Ltd	561	496	518	410
Forestry Tasmania	147	275	581	548
Hydro-Electric Corporation	2 013	1 882	1 665	1 397
Metro Tasmania Pty Ltd	33	33	32	30
Motor Accidents Insurance Board	289	271	220	274
Port Arthur Historic Site Management Authority	15	14	15	13
Rivers and Waters Supply Commission	65	63	42	0
Tasmanian Ports Corporation Pty Ltd	181	123	126	125
Tasmanian Public Finance Corporation	41	38	31	17
Tasmanian Railway Pty Ltd <sup>a</sup>	82	72	0	0
Tasracing Pty Ltd <sup>a</sup>	50	53	0	0
Public Trustee	5	4	5	5
TOTE Tasmania Pty Ltd	9	9	5	46
Transend Networks Pty Ltd	623	564	525	591
TT-Line Company Pty Ltd	256	249	237	259
Water and Sewerage Corporation (Northern-Region) Pty Ltd <sup>a</sup>	493	488	0	0
Water and Sewerage Corporation (North-Western-Region) Pty Ltd <sup>a</sup>	326	327	0	0
Tasmanian Water and Sewerage Corporation (Southern-Region) Pty Ltd <sup>a</sup>	921	916	0	0
<b>Total Net Assets</b>	<b>6 110</b>	<b>5 877</b>	<b>4 002</b>	<b>3 715</b>
<b>Amount recorded as equity</b>	<b>6 178</b>	<b>5 950</b>	<b>4 105</b>	<b>3 717</b>

<sup>a</sup> Commenced operations during 2009-10

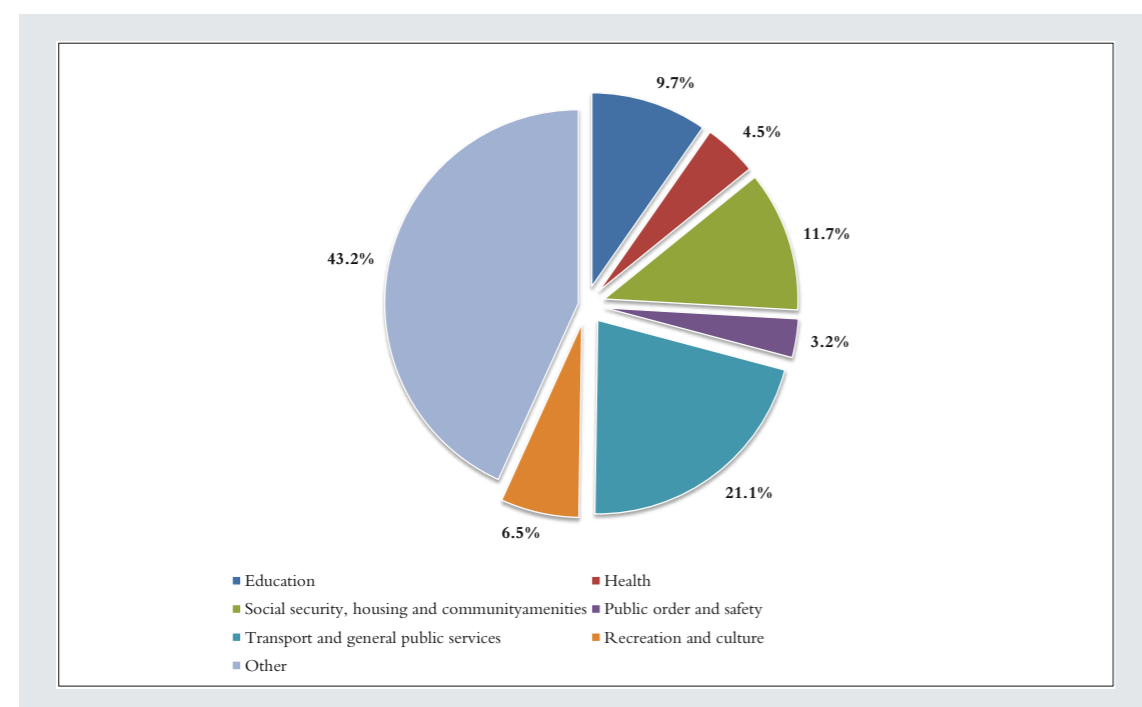
Source: Tasmanian Audit Office.

As mentioned earlier and confirmed by the above Table, the State's Equity in Government businesses increased by \$228m in 2010-11 to \$6.178bn.

## General Government Assets by Purpose

Figure 9 depicts asset balances classified according to their function at 30 June 2011.

Figure 9: GGS Assets by Function (Excluding Equity Investments in PNFC and PFC)



Source: Tasmanian Audit Office.

Figure 9 highlights that the majority of assets are in the Transport and general public services category, 21.1%, followed by Social security, housing and community amenities, 11.7%, and Education, 9.7%.

## Defined Benefit Superannuation Liability

The Superannuation liability comprised the following schemes and arrangements:

- Retirement Benefit Fund (RBF) Contributory Scheme and Parliamentary Superannuation Schemes (Parliamentary Superannuation Fund and Parliamentary Retiring Benefits Fund) administered by the RBF Board, \$4.891bn (2009-10, \$4.786bn) and \$19m (\$20m) respectively and Judges Contributory Pensions, \$35m (\$34m). Individual General Government Sector agencies do not recognise a liability for the accruing superannuation defined benefits of their employees. This liability is held centrally and is recognised within Finance-General's Statement of Financial Position at the latest actuarial assessment of members' entitlements, net of scheme assets
- Housing Tasmania superannuation liability, \$12m (\$14m), recognised in the financial statements of the Department of Health and Human Services
- Tasmanian Ambulance Service Superannuation Scheme (TASSS), \$3m (\$1m), administered by the RBF Board, with the liability recognised in the financial statements of the Department of Health and Human Services
- State Fire Commission Superannuation Scheme (SFCSS), \$4m (\$6m), administered by the RBF Board, with the liability recognised in the financial statements of the State Fire Commission.

At 30 June 2011, the unfunded liability was \$4.966bn (30 June 2010, \$4.860bn) with the increase of \$106m being a combination of an increase in the present value of superannuation commitments, \$150m, offset by an increase in scheme assets, \$44m.

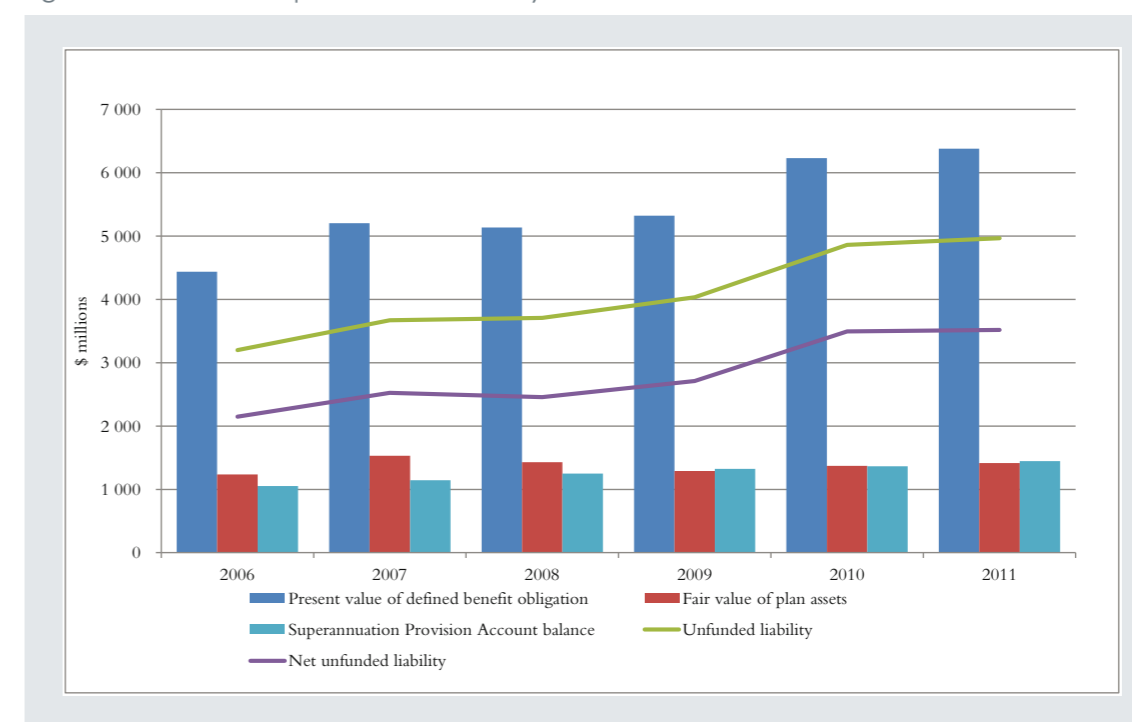
As these schemes are unfunded, benefits are met on an emerging cost basis.

Effective from 1 July 2010, contributions by General Government Sector agencies to the Superannuation Provision Account (SPA) increased from 11% to 12.3% of salary for RBF Contributory Scheme members. The employer share of pensions and lump sum payments payable to retiring RBF Contributory Scheme members are reimbursed to the RBF Board from the SPA. The employer component of retirement benefits increased at the same time from 70% to 75%. The remaining part of the benefit is met by the RBF Board from investment proceeds. In addition, General Government Sector agencies are required to pay into the SPA a 'gap' payment equivalent to 3.3% of salary in respect of each permanent employee appointed after the Contributory Scheme was closed. The gap payment is the difference between the 12.3% employer contribution rate and the superannuation guarantee rate of 9%.

The increases in both the gap (difference between the contribution rate and the superannuation guarantee rate of 9%) and employer component of a benefit were based on an actuarial review conducted in 2009-10. It is current practice for these contribution rates to be reviewed at each triennial review. The next review is due in 2012-13.

Figure 10 below shows movements in the unfunded liability, being the difference between the present value of the defined benefit obligation and fair value of plan assets, as well as movement in the net unfunded liability, being the difference between the unfunded liability and the balance of the SPA.

Figure 10: Unfunded Superannuation Liability



Source: Tasmanian Audit Office.

It was the Government's strategy to build up the SPA cash balance to equal the amount of the unfunded superannuation liability at a point of time by 2035. However, due to cash deficits recorded by the State in previous years, provisions against the SPA will not be fully cash-backed. Instead, superannuation payments will be met on an emerging costs basis. As indicated in the 2011-12 Budget<sup>1</sup>

'... this position will be temporary. As the Budget returns to a sustainable position, and cash surpluses re-emerge, financial assets will rebuild over time to ensure that the superannuation provisions are fully cash-backed. The Government retains the capacity

<sup>1</sup> 2011-12 Budget Paper No 1: The Fiscal Strategy

to meet its current and future superannuation obligations. While the Government will continue to report on the status of the funding of the unfunded superannuation liability in the Budget Papers, it will no longer include this specific measure in the Fiscal Strategy.’

Figure 10 indicates that the gap between the unfunded liability and the net unfunded liability is widening, because the combined amount of plan assets and the SPA account are not keeping pace with the present value of the defined benefit obligations. While the 2011-12 Budget estimates that there are sufficient receipts from agencies, the Reserved by Law contribution and from interest on the SPA balance to meet superannuation payment obligations as they become due over the Budget and forward estimates period until 2015, the capacity of the State to meet its future superannuation obligations will require close monitoring.

## STATEMENT OF CASH FLOWS

	2010-11 Original Budget	2010-11 Revised Budget <sup>1</sup>	2010-11 Actual	2009-10 Actual	2008-09 Actual
	\$m	\$m	\$m	\$m	\$m
<b>Cash flows from operating activities</b>					
<b>Cash inflows</b>					
Taxation	876	876	847	867	792
Sales of goods and services	368	366	311	291	307
Grants received	2 644	2 405	2 649	2 749	2 653
Dividend, tax and rate equivalents	149	133	126	106	152
Fines and regulatory fees	83	84	86	86	63
Interest received	47	41	41	44	71
Other receipts	288	303	382	293	279
	<b>4 455</b>	<b>4 208</b>	<b>4 442</b>	<b>4 436</b>	<b>4 317</b>
<b>Cash outflows</b>					
Employee entitlements	(1 977)	(2 042)	(2 046)	(1 958)	(1 805)
Superannuation	(290)	(297)	(305)	(304)	(269)
Supplies and consumables	(995)	(1 015)	(1 016)	(933)	(951)
Grants and subsidies paid	(880)	(14)	(931)	(929)	(797)
Borrowing costs	(16)	(902)	(15)	(17)	(16)
Other payments	(200)	(200)	(269)	(256)	(207)
	<b>(4 358)</b>	<b>(4 470)</b>	<b>(4 582)</b>	<b>(4 397)</b>	<b>(4 045)</b>
<b>Net cash flows from (used in) operating activities</b>	<b>97</b>	<b>(262)</b>	<b>(140)</b>	<b>39</b>	<b>272</b>
<b>Cash flows from investing activities</b>					
<b>Net cash flows used in investment in non-financial assets</b>					
Commonwealth Nation Building Revenue	267	506	535	381	28
Purchases of non-financial assets	(772)	(720)	(720)	(606)	(286)
Sales of non-financial assets	59	59	62	69	41
	<b>(446)</b>	<b>(155)</b>	<b>(123)</b>	<b>(156)</b>	<b>(217)</b>
<b>Net cash flows used in investment in financial assets for policy purposes</b>					
Equity injections	(106)	(121)	(59)	(111)	(117)
Net advances paid	(15)	(14)	(10)	(11)	(12)
	<b>(121)</b>	<b>(135)</b>	<b>(69)</b>	<b>(122)</b>	<b>(129)</b>
<b>Net cash flows from investment in financial assets for liquidity purposes</b>					
Net purchase of investments	0	0	(1)	1	5
	<b>0</b>	<b>0</b>	<b>(1)</b>	<b>1</b>	<b>5</b>
<b>Net Cash flows (used in) investing activities</b>	<b>(567)</b>	<b>(290)</b>	<b>(193)</b>	<b>(278)</b>	<b>(341)</b>
<b>Cash flows from (used in) financing activities</b>					
Net borrowing	11	10	(4)	(22)	(22)
Other financing	0	0	(1)	0	12
<b>Net Cash flows (used in) financing activities</b>	<b>11</b>	<b>10</b>	<b>(5)</b>	<b>(22)</b>	<b>(10)</b>
<b>Net increase (decrease) in cash held</b>	<b>(459)</b>	<b>(542)</b>	<b>(338)</b>	<b>(261)</b>	<b>(79)</b>
<b>Cash at the beginning of the year</b>	<b>1 010</b>	<b>966</b>	<b>966</b>	<b>1 227</b>	<b>1 306</b>
<b>Cash at the end of the year</b>	<b>551</b>	<b>424</b>	<b>628</b>	<b>966</b>	<b>1 227</b>
<b>KEY FISCAL AGGREGATES</b>					
<b>Net cash from operating activities</b>	<b>97</b>	<b>(262)</b>	<b>(140)</b>	<b>39</b>	<b>272</b>
<b>plus Net cash from investments in non-financial assets</b>	<b>(446)</b>	<b>(155)</b>	<b>(123)</b>	<b>(156)</b>	<b>(217)</b>
<b>CASH SURPLUS</b>	<b>(349)</b>	<b>(417)</b>	<b>(263)</b>	<b>(117)</b>	<b>55</b>

<sup>1</sup> Revised Budget information sourced from the 2010-11 Mid-Year Financial Report

## Comment

Combined cash held by the General Government Sector decreased by \$338m to \$628m at 30 June 2011 due to:

- Operating cash deficit of \$140m. Reasons for variations in operating cash flow amounts mostly reflect comments made previously in the Comprehensive Income Statement section of this Chapter
- extensive investment in assets, net \$126m, driven predominantly by capital programs in schools, roads and social housing
- equity injections, \$59m, into TasRail, \$38m, Rivers and Water Supply Commission, \$15m, Aurora, \$5m, and TasPorts, \$0.6m.

The composition of cash held at 30 June 2011 of \$628m is detailed under the Public Account Statements section of this Volume.

## PUBLIC ACCOUNT STATEMENTS

When reviewing the commentary below it needs to be borne in mind that the PA Statements are reported on a cash basis meaning that there is no distinction between receipts or payments of a capital or operating nature and borrowings received or paid.

The Special Deposits and Trust Fund (SDTF) consisted of various accounts established by the Treasurer. The majority of these accounts represented departmental operating accounts, where funds appropriated from the Consolidated Fund by the annual Appropriation Act are deposited. In addition, operating accounts can retain funds that are approved by the Treasurer as retained revenue.

Other accounts in the SDTF include trust funds, approved overdraft, whole-of-government, business unit accounts and accounts established under legislation.

Surplus cash is used to repay debt maturing within a financial year, thus delaying any refinancing until the latest possible time and to minimise borrowing costs. This is shown below as Temporary debt repayments.

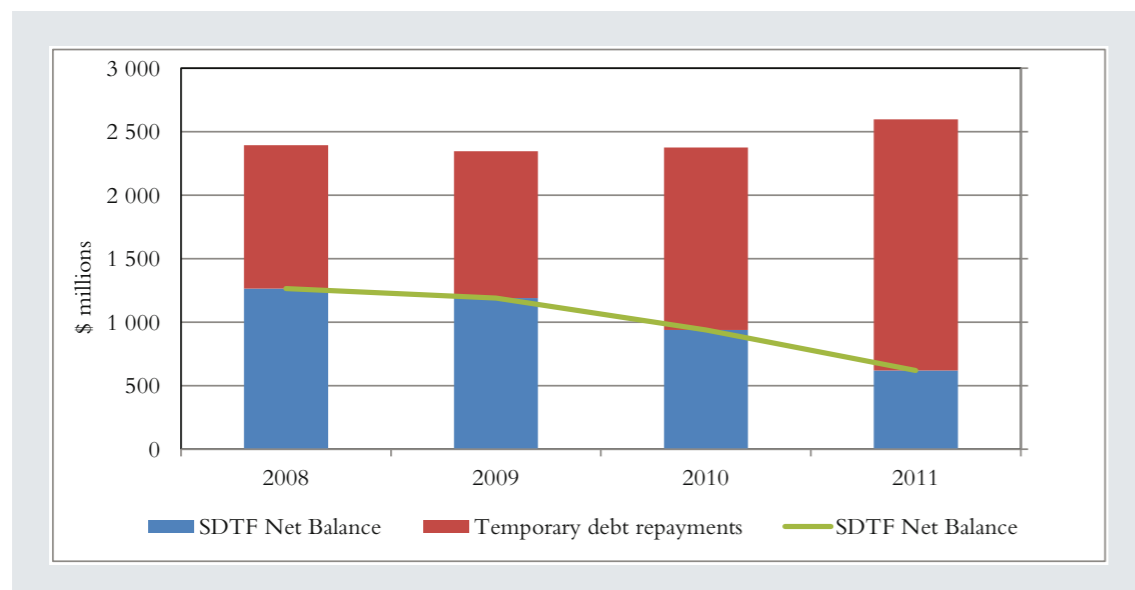
## PUBLIC ACCOUNT BALANCE

<b>Special deposits and trust fund</b>	<b>2011</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>
<i>comprising:</i>	\$m	\$m	\$m	\$m
Superannuation Provision Account	1 447	1 364	1 324	1 250
Infrastructure Tasmania Fund	61	85	95	208
Risk Management Account	177	169	163	152
Hospital Capital Fund	49	70	80	75
Department of Health and Human Services	62	85	58	73
Department of Infrastructure, Energy and Resources	20	40	50	94
Department of Primary Industries, Parks, Water and Environment	101	124	145	184
Australian Government Funding Management Account	424	172	113	0
Other	257	267	318	357
<b>balance 30 June (before Temporary debt repayments)</b>	<b>2 598</b>	<b>2 376</b>	<b>2 346</b>	<b>2 393</b>
<i>Less</i> Temporary debt repayments	(1 978)	(1 438)	(1 156)	(1 129)
<b>Balance 30 June (after Temporary debt repayments)</b>	<b>620</b>	<b>938</b>	<b>1 189</b>	<b>1 264</b>
<b>Represented by:</b>				
Westpac Banking Corporation	(8)	(22)	(19)	14
Treasurer's account fixed deposits	0	0	0	1 165
Specific trust account fixed deposits	0	0	0	85
TASCORP Investments	628	960	1 209	0
<b>Balance 30 June</b>	<b>620</b>	<b>938</b>	<b>1 189</b>	<b>1 264</b>

## Comment

The balance of SDTF accounts increased to \$2.598bn at 30 June 2011 mainly due to unspent funding from the Australian Government. However, Net Balance decreased to \$620m as payments from SDTF accounts outstripped receipts by \$338m. Figure 11 illustrates movement in SDTF account balances over the past four years.

Figure 11: Balance of Special Deposit and Trust Fund Accounts



Source: Tasmanian Audit Office.

Figure 11 shows that the balance of SDTF accounts increased over the period under review largely due to unspent funding from the Australian Government for capital projects. However, at the same time the Net Balance declined as temporary debt repayments rose.

General Government Sector continued to maintain its negative Net Debt status. Net Debt was negative \$416m at 30 June 2011.

## CONSOLIDATED FUND OUTCOME

	2010-11 Original Budget \$m	2010-11 Revised Budget <sup>1</sup> \$m	2010-11 Actual \$m	2009-10 Actual \$m
<b>Receipts</b>				
Australian Government sources	2 906	3 102	3 113	3 058
State sources	1 368	1 345	1 237	1 271
<b>Total</b>	<b>4 274</b>	<b>4 447</b>	<b>4 350</b>	<b>4 329</b>
<b>Expenditure</b>				
Recurrent services	3 964	4 388	4 340	4 004
Works and services	545	616	550	591
<b>Total</b>	<b>4 509</b>	<b>5 004</b>	<b>4 890</b>	<b>4 595</b>
<b>Consolidated Fund Outcome</b>	<b>(235)</b>	<b>(557)</b>	<b>(540)</b>	<b>(266)</b>

<sup>1</sup> Revised Budget information sourced from the 2010-11 Mid-Year Financial Report

## Comment

Consolidated Fund Outcome was a deficit of \$540m in 2010-11, compared to a deficit of \$266m in 2009-10. The increase in the Consolidated Fund Deficit of \$274m was due to an increase in Consolidated Fund expenditure \$336m, partly offset by higher funding from the Australian Government, \$55m, both discussed previously in the Comprehensive Income Statement section of this Chapter.

The Consolidated Fund Deficit was more than twice of the deficit estimated in the original Budget, but below the revised outcome of \$(557)m.

## TOTAL STATE SECTOR FINANCIAL STATEMENTS

### INTRODUCTION

The Total State Sector Financial Statements (the Statements) consolidate all entities controlled by the State of Tasmania with segmented financial information provided for the General Government Sector (GGS), Public Non-Financial Corporation (PNFC), Public Financial Corporation (PFC) and Total State levels. The consolidated level is after eliminating inter-sector transactions.

The Statements provide information about the financial performance, financial position and cash flows of the State of Tasmania with the principal objective of providing to the Parliament informative, comprehensive and clear information on the State's overall financial position.

Comments in this Chapter should be read alongside the Treasurer's Annual Financial Report (TAFR), which includes the General Government Sector Financial Statements, Public Account Statements and Total State Sector Financial Statements. In preparing the analysis in this Chapter, material which does not appear in the Statements has been extracted from other Chapters in this and other Volumes.

### AUDIT OF THE 2010-11 TOTAL STATE SECTOR FINANCIAL STATEMENTS

Total State Sector Financial Statements were signed on 15 October 2011 and an unqualified audit report was issued on 19 October 2011. The audit was completed satisfactorily with no major items outstanding.

## STATEMENT OF COMPREHENSIVE INCOME

	2010-11	2009-10	2008-09	2007-08
	\$m	\$m	\$m	\$m
<b>Revenue</b>				
Grants	2 655	2 748	2 676	2 472
Taxation	808	829	775	803
Sales of goods and services	3 345	3 021	2 545	2 281
Fines and regulatory fees	84	97	92	83
Interest income	201	147	245	319
Dividend, tax and rate equivalent income	64	31	62	101
Other revenue	163	153	168	146
<b>Total Revenue</b>	<b>7 320</b>	<b>7 026</b>	<b>6 563</b>	<b>6 205</b>
<b>Expenditure</b>				
Employee expenses	2 513	2 358	2 172	1 953
Superannuation contributions	313	269	291	244
Superannuation liability expenses	264	233	225	185
Depreciation	572	540	470	453
Supplies, consumables and Other expenses	2 930	2 778	2 390	2 181
Borrowing costs	291	212	310	351
Grant and subsidy expenses	841	826	713	621
<b>Total Expenditure</b>	<b>7 724</b>	<b>7 216</b>	<b>6 571</b>	<b>5 988</b>
<b>UNDERLYING NET OPERATING BALANCE before:</b>	<b>(404)</b>	<b>(190)</b>	<b>(8)</b>	<b>217</b>
One-off Australian Government funding	535	381	28	0
<b>NET OPERATING BALANCE</b>	<b>132</b>	<b>192</b>	<b>20</b>	<b>217</b>
<b>Plus Other economic flows - Included in Operating result</b>				
Gain (loss) on sale of non-financial assets	8	(27)	3	(20)
Gain on sale of HIAPL	0	0	0	278
Movements in Superannuation liability	101	(755)	(168)	125
Other gains (losses)	(279)	(107)	218	(60)
<b>Other economic flows - net</b>	<b>(170)</b>	<b>(889)</b>	<b>53</b>	<b>323</b>
<b>OPERATING RESULT</b>	<b>(38)</b>	<b>(697)</b>	<b>73</b>	<b>540</b>
<b>Plus Other economic flows - other movements in Equity</b>				
Revaluations of non-financial assets	(678)	116	235	1 133
Other non-owner movements in equity	142	1 997	(40)	(18)
<b>Total Other equity movements</b>	<b>(536)</b>	<b>2 113</b>	<b>195</b>	<b>1 115</b>
<b>COMPREHENSIVE RESULT</b>	<b>(574)</b>	<b>1 416</b>	<b>268</b>	<b>1 655</b>
<b>KEY FISCAL AGGREGATES</b>				
<b>Net Operating Balance</b>	<b>132</b>	<b>192</b>	<b>20</b>	<b>217</b>
<b>less Net acquisition of non-financial assets</b>				
Purchase of non-financial assets	1 319	1 324	1 016	592
Less Sale of non-financial assets	77	109	76	124
Less Depreciation	572	540	470	453
<b>Net acquisition of non-financial assets</b>	<b>670</b>	<b>675</b>	<b>470</b>	<b>15</b>
<b>FISCAL BALANCE</b>	<b>(538)</b>	<b>(483)</b>	<b>(450)</b>	<b>202</b>

## Comment

Total State Net Operating Balance for 2010-11 was a surplus of \$132m compared to a surplus of \$192m in 2009-10. The results over the past two years would have been significantly worse without the one-off Australian Government funding for major capital programs, \$535m (2009-10, \$381m). This funding is of a short-term nature and was in response to the global economic downturn. From 2011-12, nearly all the economic stimulus funding will have ceased. Excluding this revenue source, the Underlying Net Operating Balance would have been a deficit of \$404m (deficit \$190m).

At the underlying level, the higher deficit was predominantly a result of:

- combined employee costs being \$230m higher due to increased salaries and wages and related on-cost in both the General Government Sector and Government businesses. Some of the increase was attributed to redundancy costs as a result of restructuring in Government businesses in an attempt to reduce their operating expenditure
- higher Supplies and consumables, \$152m, driven mainly by higher energy costs incurred by electricity companies and an increase in MAIB claims expenses.

The effect of the foregoing was partly offset by an increase in Sales of goods and services, \$324m, driven mainly by higher charges for electricity generated by electricity companies and improved income from forest sales by Forestry. Furthermore, individual line items were impacted by the first full year of operations of TasRail.

Total State Operating Result for 2010-11 was a deficit of \$38m, compared to a deficit of \$697m in 2009-10. The large deficit in 2009-10 was predominantly a result of an increase in the State's unfunded superannuation liability of \$755m. This year's Operating result was affected by:

- actuarial gain on superannuation liability, \$101m, which arose from a combination of better than expected return on fund assets and changes to actuarial assumptions, including changes to member demographics and the expected rate of return
- Other losses, \$279m, mainly due to impairment losses in the General Government Sector, \$118m, and Government businesses, including Forestry, \$95m, TasPorts, \$29m, and Rivers and Water Supply Commission, \$27m.

Overall Comprehensive Result was a deficit of \$574m due to:

- net revaluation decrement of non-financial assets, \$678m, reflecting a downward revaluation of land under roads and roads infrastructure, partly offset by an increase in the value of land and buildings discussed previously in the General Government Sector section of this Volume. TasPorts recorded a revaluation decrement in relation to its port infrastructure assets of \$102m in 2010-11
- other non-owner movements in equity, \$142m, relating mainly to a revaluation of land and buildings transferred from the Tasmanian Polytechnic to the Department of Education following the reversal of Tasmania Tomorrow reforms.

## Key Fiscal Aggregates - Disclosure of the State's Fiscal Balance

This information shows the impact on the Net operating balance of net expenditure on non-financial assets rather than the depreciation charge.

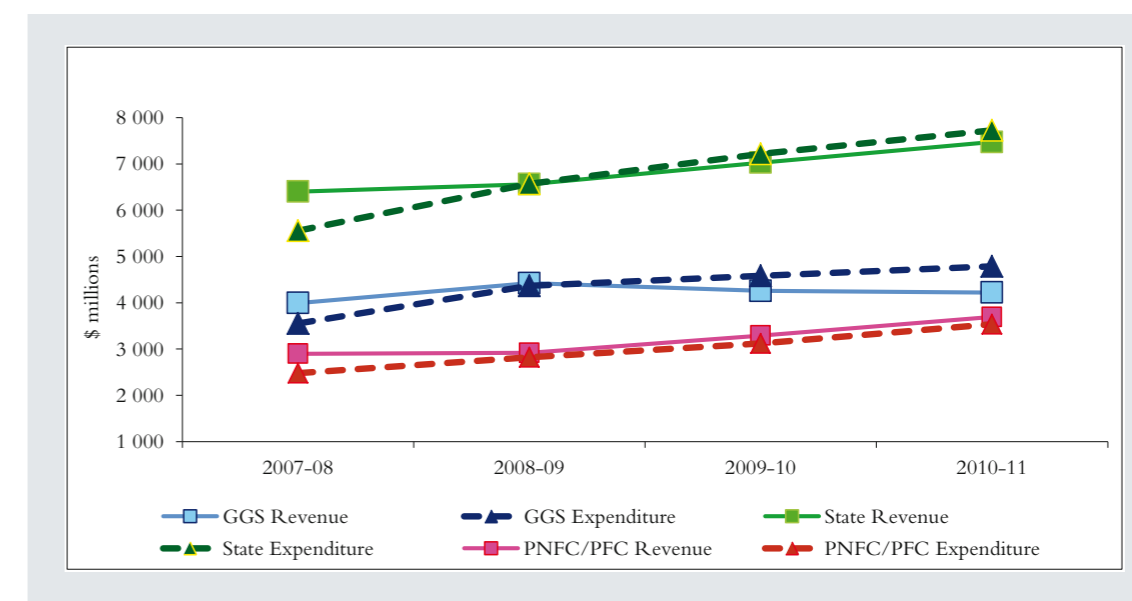
This concludes our analysis of the Statement of Comprehensive Income. However, the notes to the Total State Sector Financial Statements, and this Report, include other financial information some of which is now dealt with. The observations below are aimed at further analysing components of the Total State Sector results.

## FOUR YEAR REVENUE AND EXPENDITURE ANALYSIS

### Revenue and expenditure

Figure 12 presents revenue and expenditure trends for the GGS, PNFCs/PFCs, and the Total State over the past four years. The revenue and expenditure trends exclude other economic flows and the Australian Government's capital funding.

Figure 12: Revenue and Expenditure before Other Economic Flows and Capital Funding



Source: Tasmanian Audit Office

Figure 12 shows State expenditure outstripped revenue for a third consecutive year. State revenue, including net gains from economic flows (after inter-agency transactions were eliminated) but excluding capital funding from the Australian Government, rose to \$7.474bn. The General Government Sector accounted for 56.6% of total State revenue in 2010-11, compared to 69.1% in 2007-08. State expense grew to \$7.724bn. The General Government Sector accounted for 62.0% of State expenditure in 2010-11, compared to 64.0% in 2007-08. This indicates revenue generating capacity of the General Government Sector is declining at a rate which is faster than its ability to reduce costs. As a result, the gap between GGS Revenue and GGS Expenditure is widening.

Much of the increase in PNFC/PFC revenue was generated by the three electricity businesses and water corporations although this was only from 1 July 2009 onwards.

## Earnings generated by Government Businesses

Table 7 details the consolidated profits and losses before tax of Government businesses, also referred to as entities in the PFC (MAIB and TASCORP) and PNFC sectors. The amounts noted in the tables are prior to eliminating inter-entity transactions.

Table 7: Consolidated Profit (Loss) Before Tax of Government Businesses

PFC/PNFC	2010-11	2009-10	2008-09	2007-08
	\$'000	\$'000	\$'000	\$'000
Aurora Energy Pty Ltd	20 311	(30 360)	25 400	29 951
Forestry Tasmania	(92 233)	(379 630)	44 249	(55 242)
Hydro-Electric Corporation	216 405	332 080	417 891	224 185
Metro Tasmania Pty Ltd	(73)	56	(511)	(300)
Port Arthur Historic Site Management Authority	160	205	1 009	1 144
Rivers and Water Supply Commission	(18 435)	1 038	1 300	4 485
Tasmanian Ports Corporation Pty Ltd	(856)	1 484	7 604	309 290
Public Trustee	860	(148)	950	1 265
TOTE Tasmania Pty Ltd	4 448	9 917	9 768	4 078
Tasmanian Railway Pty Ltd <sup>a</sup>	(4 632)	(10 135)	0	0
Tasracing Pty Ltd <sup>a</sup>	(3 607)	(414)	0	0
Transend Networks Pty Ltd	67 470	37 022	16 571	26 810
TT-Line Company Pty Ltd	653	(11 857)	5 823	13 698
Tasmanian Water and Sewerage Corporation - North-West Region <sup>a</sup>	2 777	1 128	(966)	0
Tasmanian Water and Sewerage Corporation - Southern Region <sup>a</sup>	18 907	17 064	(1 929)	0
Tasmanian Water and Sewerage Corporation - Northern Region <sup>a</sup>	10 001	7 488	(640)	0
Motor Accidents Insurance Board	69 642	101 796	(26 306)	(39 227)
Tasmanian Public Finance Corporation	9 604	16 219	20 659	(2 706)
<b>Total Profit (Loss) Before Income Tax</b>	<b>301 402</b>	<b>92 953</b>	<b>520 872</b>	<b>517 431</b>

<sup>a</sup> Commenced operations 2009-2010

Source: Tasmanian Audit Office

In dollar terms, the three electricity business and MAIB generated the most profits in 2010-11 and were the stronger performing Government businesses over the past four years. This was despite Hydro and MAIB showing a decrease in their results compared to 2009-10. While Hydro's profitability increased with higher electricity sales, lower fair value gains saw its results drop by \$116m. MAIB continued to produce positive underwriting results and investment returns, but an increase in claims expenses in 2010-11 resulted in a drop in its profit. Forestry's 2009-10 result was significantly affected by a write-down of forest land from \$217m to \$Nil, recognition of obligation for maintaining non-commercial zones, \$66m, and a decrease in the value of its biological assets, \$75m. In 2010-11, biological assets were devalued by a further \$95m, which had a significant impact on Forestry's results, however its sales increased.

## Staffing Levels in Government Businesses

Table 8 shows staffing levels in Government businesses.

Table 8: FTEs in Government Businesses

GBEs and SOCs	FTEs at 30 June 2011	FTEs at 30 June 2010	FTEs at 30 June 2009	FTEs at 30 June 2008
Aurora Energy Pty Ltd	1 235	1 353	1 231	1 056
Forestry Tasmania	433	479	483	483
Hydro-Electric Corporation	884	914	873	791
Metro Tasmania Pty Ltd	391	388	377	369
Port Arthur Historic Site Management Authority	88	87	90	84
Rivers and Water Supply Commission	40	32	21	
Tasmanian Ports Corporation Pty Ltd	260	257	256	242
Public Trustee	52	49	49	47
TOTE Tasmania Pty Ltd	122	97	104	143
Tasmanian Railway Pty Ltd <sup>a</sup>	210	170	0	0
Tasracing Pty Ltd <sup>a</sup>	63	61	0	0
Transend Networks Pty Ltd	280	274	245	210
TT-Line Company Pty Ltd	448	464	474	480
Tasmanian Water and Sewerage Corporation - North-West Region <sup>a</sup>	166	162	0	0
Tasmanian Water and Sewerage Corporation - Southern Region <sup>a</sup>	343	346	0	0
Tasmanian Water and Sewerage Corporation - Northern Region <sup>a</sup>	184	166	0	0
Motor Accidents Insurance Board	35	37	37	34
Tasmanian Public Finance Corporation	16	16	15	14
<b>Total</b>	<b>5 249</b>	<b>5 352</b>	<b>4 254</b>	<b>3 953</b>

<sup>a</sup> Commenced operations during 2009-10

Source: Tasmanian Audit Office

Table 8 shows a reduction in staffing levels in Government businesses of 103 FTEs in 2010-11 which was consistent with some making changes to cost structures. The largest reductions occurred at Aurora, 118, Forestry, 46, and Hydro, 30. These decreases were in contrast to increases in the General Government Sector as shown in Table 5.



## STATEMENT OF FINANCIAL POSITION

	2011	2010	2009	2008
	\$m	\$m	\$m	\$m
<b>Assets</b>				
<b>Financial Assets</b>				
Cash and deposits <sup>a</sup>	139	147	325	346
Investments <sup>b 1</sup>	5 096	3 303	4 595	4 077
Equity investments <sup>c 2</sup>	136	243	243	652
Receivables <sup>d</sup>	691	576	590	426
Other financial assets <sup>e 3</sup>	795	767	841	594
<b>Total Financial Assets <sup>f</sup></b>	<b>6 857</b>	<b>5 036</b>	<b>6 594</b>	<b>6 095</b>
<b>Non-financial Assets</b>				
Land and buildings	6 248	5 501	5 302	5 121
Infrastructure	13 573	14 168	11 849	11 288
Plant and equipment	453	430	381	394
Heritage and cultural assets	442	553	447	417
Biological assets	232	319	385	330
Investment property	28	29	29	30
Goodwill	55	55	55	0
Intangible assets	128	105	90	67
Assets held for sale	33	32	20	24
Other	168	149	128	88
<b>Total Non-Financial Assets</b>	<b>21 360</b>	<b>21 341</b>	<b>18 686</b>	<b>17 759</b>
<b>Total Assets</b>	<b>28 217</b>	<b>26 377</b>	<b>25 280</b>	<b>23 854</b>
<b>Liabilities</b>				
Borrowings <sup>g</sup>	6 544	4 411	5 327	4 734
Superannuation	5 600	5 497	4 585	4 231
Employee entitlements	593	567	544	469
Payables	404	282	425	304
Other liabilities	2 583	2 555	2 749	2 734
<b>Total Liabilities <sup>h</sup></b>	<b>15 724</b>	<b>13 312</b>	<b>13 630</b>	<b>12 472</b>
<b>Net Assets</b>	<b>12 493</b>	<b>13 065</b>	<b>11 650</b>	<b>11 382</b>
<b>Equity</b>				
Accumulated surpluses	8 103	8 012	6 382	5 708
Asset revaluation reserves	4 400	5 078	5 290	5 155
Other reserves	(11)	(25)	(22)	519
<b>Equity</b>	<b>12 492</b>	<b>13 065</b>	<b>11 650</b>	<b>11 382</b>
<b>Net Worth</b>	<b>12 492</b>	<b>13 065</b>	<b>11 650</b>	<b>11 382</b>
<b>Net Financial Worth (f-h)</b>	<b>(8 867)</b>	<b>(8 276)</b>	<b>(7 036)</b>	<b>(6 377)</b>
<b>Net Financial Liabilities (h-f)</b>	<b>8 867</b>	<b>8 276</b>	<b>7 037</b>	<b>6 378</b>
<b>Net Debt (a+b-g)</b>	<b>(1 309)</b>	<b>962</b>	<b>407</b>	<b>312</b>

### Note:

- 1 - Majority of Investments represented TASCOPR loan advances and securities.
- 2 - Equity investments primarily related to MAIB investments.
- 3 - Other financial assets included Basslink related financial assets.

## Comment

Total Equity decreased by \$573m from \$13.065bn to \$12.492bn during 2010-11. This comprised the Comprehensive Result. The corresponding decrease in Net Assets was primarily due to an increase in Borrowings of \$2.133bn, partly offset by an increase in Investments of \$1.793bn. Borrowings included \$154m brought to account for the first time relating to HT Wind Operations Pty Ltd (formally Roaring 40s), which are not with TASCORP.

## Borrowings

Table 9 details borrowings within the PNFC sectors.

Table 9: Borrowings by Entity for the PNFC Sector

	2011	2010	2009	2008
	\$m	\$m	\$m	\$m
Aurora Energy Pty Ltd	1 085	1 030	933	555
Forestry Tasmania	41	41	41	41
Hydro-Electric Corporation	829	873	941	971
- HT Wind Operations Pty Ltd	154	0	0	0
Rivers and Water Supply Commission	22	23	25	25
TOTE Tasmania Pty Ltd	14	10	0	2
Tasmanian Railway Pty Ltd <sup>a</sup>	0	0	0	0
Tasracing Pty Ltd <sup>a</sup>	5	2	2	0
Transend Networks Pty Ltd	548	518	488	409
TT-Line Company Pty Ltd	0	25	50	75
Tasmanian Ports Corporation Pty Ltd	20	20	20	18
Tasmanian Water and Sewerage Corporation				
- Common Services <sup>a</sup>	7	7	0	0
Tasmanian Water and Sewerage Corporation				
- North-Western Region <sup>a</sup>	84	79	0	0
Tasmanian Water and Sewerage Corporation				
- Southern Region <sup>a</sup>	117	108	0	0
Tasmanian Water and Sewerage Corporation				
- Northern Region <sup>a</sup>	19	17	0	0
<b>Total</b>	<b>2 945</b>	<b>2 753</b>	<b>2 500</b>	<b>2 096</b>

*a Commenced operations during 2009-10*

Source: Tasmanian Audit Office

TASCORP's advances to State owned entities increased by 1%, or \$40m in 2010-11 (2009-10, \$154m decrease). This increase was primarily due to loans to Aurora of \$55m, Transend of \$30m and to the Water Corporations of \$16m. These increases were offset by the decrease in loans to Hydro of \$44m. Borrowings include loans with other lenders than TASCORP. The increase in 2009-10 predominantly related to inclusion of the water corporations in the Total State Sector Financial Statements for the first time.

## STATEMENT OF CASH FLOWS

	2010-11	2009-10	2008-09	2007-08
	\$m	\$m	\$m	\$m
<b>Cash flows from operating activities</b>				
<b>Cash inflows</b>				
Taxation	805	825	765	825
Sales of goods and services	3 671	3 305	2 497	2 401
Grants received	2 648	2 770	2 651	2 466
Dividend, tax and rate equivalents	64	31	0	0
Fines and regulatory fees	85	86	63	61
Interest received	270	140	218	313
Other receipts	594	457	511	679
	<b>8 137</b>	<b>7 614</b>	<b>6 705</b>	<b>6 745</b>
<b>Cash outflows</b>				
Employee entitlements	(2 352)	(2 321)	(2 109)	(1 941)
Superannuation	(367)	(355)	(303)	(271)
Supplies and consumables	(3 383)	(3 034)	(2 304)	(2 274)
Grants and subsidies paid	(819)	(812)	(703)	(636)
Borrowing costs	(289)	(301)	(319)	(337)
Other payments	(419)	(394)	(384)	(478)
	<b>(7 629)</b>	<b>(7 217)</b>	<b>(6 122)</b>	<b>(5 937)</b>
<b>Net cash flows from operating activities</b>	<b>508</b>	<b>397</b>	<b>583</b>	<b>808</b>
<b>Cash flows from investing activities</b>				
<b>Net cash flows from investment in non-financial assets</b>				
One-off Australian Government Funding	535	381	28	0
Purchases of non-financial assets	(1 318)	(1 324)	(1 016)	(592)
Sales of non-financial assets	77	109	76	123
	<b>(706)</b>	<b>(834)</b>	<b>(912)</b>	<b>(469)</b>
<b>Net cash flows from investment in financial assets for policy purposes</b>				
Equity injections	0	0	0	0
Net advances paid	(9)	(12)	(12)	35
	<b>(9)</b>	<b>(12)</b>	<b>(12)</b>	<b>35</b>
<b>Net cash flows from investment in financial assets for liquidity purposes</b>				
Net purchase of investments	(1 183)	151	199	330
	<b>(1 183)</b>	<b>151</b>	<b>199</b>	<b>330</b>
<b>Net Cash flows from (used in) investing activities</b>	<b>(1 898)</b>	<b>(695)</b>	<b>(725)</b>	<b>(104)</b>
<b>Cash flows from financing activities</b>				
Net borrowing	2 079	(833)	29	(461)
Other financing	(22)	16	12	(7)
<b>Total</b>	<b>2 057</b>	<b>(817)</b>	<b>41</b>	<b>(468)</b>
<b>Net increase (decrease) in cash held</b>	<b>667</b>	<b>(1 115)</b>	<b>(100)</b>	<b>236</b>
<b>Cash at the beginning of the year</b>	<b>1 574</b>	<b>2 689</b>	<b>2 789</b>	<b>2 728</b>
<b>Cash at the end of the year</b>	<b>2 241</b>	<b>1 574</b>	<b>2 689</b>	<b>2 964</b>
<b>KEY FISCAL AGGREGATES</b>				
<b>Net cash from operating activities</b>	<b>1 043</b>	<b>778</b>	<b>583</b>	<b>808</b>
<i>plus</i> distributions paid as Dividends	<b>(21)</b>	<b>(16)</b>	<b>0</b>	<b>0</b>
<i>plus</i> Net cash from investments in non-financial assets	<b>(1 241)</b>	<b>(1 215)</b>	<b>(912)</b>	<b>(469)</b>
<b>CASH SURPLUS/(DEFICIT)</b>	<b>(219)</b>	<b>(453)</b>	<b>(329)</b>	<b>339</b>

## Comment

Total State reported a Net increase in cash held of \$667m in 2010-11 compared to a decrease of \$1.115bn reported the year before. The total cash was \$2.241bn at 30 June 2011 (2010, \$1.574bn).

The increase in cash was predominantly due to net borrowings, \$2.079bn, which were partly offset by net investments purchased during the year, \$1.183bn, as a result of a change in the structure of the portfolio of assets held by the PFC Sector. Reasons for other variations in cash flow receipts and payments reflect comments made previously under the Statement of Comprehensive Income and Statement of Financial Position sections of this Chapter.

Table 10 provides a summary of the State's capital expenditure during the four years to 30 June 2011 (based on cash outflows, not accrued expenditure).

Table 10: Capital Expenditure

	2010-11	2009-10	2008-09	2007-08
	\$m	\$m	\$m	\$m
Capital Expenditure				
General government sector	720	607	286	252
PNFCs and PFCs	598	717	730	340
<b>Total</b>	<b>1 318</b>	<b>1 324</b>	<b>1 016</b>	<b>592</b>

Source: Tasmanian Audit Office

In 2010-11, the State invested \$1.318bn in assets, which was split 54.6% General Government Sector and 45.4% PNFC Sector. The areas which invested most in assets in the General Government Sector were health and housing, \$229m, education, \$200m, and transport, \$195m. In the PNFC Sector, the businesses which invested most in assets were the three electricity businesses, combined \$396m, the Water Corporations, combined \$90m, TasRail, \$36m, and Rivers and Water Supply Commission, \$24m.

The majority of the General Government Sector capital expenditure was funded by one-off Australian Government grants. The PNFC sector utilised cash from operations and additional borrowings to fund its capital programs. Both TasRail and Rivers and Water Supply Commission received equity injections from the Government to assist with capital works of \$38m and \$15m, respectively.

## APPENDIX I - ACRONYMS AND ABBREVIATIONS

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AASB	Australian Accounting Standards Board
ABS	Australian Bureau of Statistics
FMAA	Financial Management and Audit Act 1990
FTE	Full-time equivalent
GBE	Government Business Enterprise
GDP	Gross Domestic Product
GFS	Government Finance Statistics
GG	General Government
GGs	General Government Sector
GSP	Gross State Product
GST	Goods and Services Tax
MAIB	Motor Accidents Insurance Board
PA	Public Account
PFC	Public Financial Corporation
PNFC	Public Non-Financial Corporation
SDTF	Special Deposits and Trust Fund
SOC	State Owned Company
TAFR	Treasurers Annual Financial Report
TASCORP	Tasmanian Public Finance Corporation
TasPorts	Tasmanian Ports Corporation Pty Ltd
TasRail	Tasmanian Railway Pty Ltd
UPF	Uniform Presentation Framework

## APPENDIX 2 - RECENT REPORTS

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<b>TABLED</b>	<b>TITLE</b>
September 2011 No.2 of 2011–12	Children in out of home care
September 2011 No.1 of 2011–12	Tourism Tasmania: is it effective?
July 2011	Special Report No. 100 Financial and economic performance of Forestry Tasmania
June 2011	Special Report No. 99 Bushfire management
June 2011	Special Report No. 98 Premier's Sundry Grants Program and Urban Renewal and Heritage Fund
May 2011	Other State Entities 30 June 2010 and 31 December 2010, including University of Tasmania
May 2011	Special Report No. 97 Follow up of Special Reports 69–73
April 2011	Special Report No. 96 Appointment of the Commissioner for Children
February 2011	Special Report No. 95 Fraud control
November 2010	Analysis of Treasurer's Annual Financial Report
November 2010	Executive and Legislature, Government Department and other General Government State Sector Entities
November 2010	Government Business Enterprises, State Owned Companies and Superannuation Funds
November 2010	Special Report No. 94 Election promise: five per cent price cap on electricity prices
November 2010	Special Report No. 93 Investigations 2004–2010
October 2010	Special Report No. 92 Public sector productivity: a ten-year comparison
September 2010	Special Report No. 91 Follow up of special reports: 62–65 and 70
July 2010	Special Report No. 90 Science education in public high schools
June 2010	Special Report No. 89 Post-Year 10 enrolments
June 2010	Special Report No. 88 Public Trustee: management of deceased estates
June 2010	Special Report No. 87 Employment of staff to support MPs

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# Tasmanian Audit Office

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## **Our Vision**

*STRIVE | LEAD | EXCEL | TO MAKE A DIFFERENCE*

## **Our Purpose**

To provide independent assurance to the Parliament and Community on the performance and accountability of the Tasmanian Public sector

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# **AUDIT MANDATE AND STANDARDS APPLIED**

## **MANDATE**

Section 17(1) of the *Audit Act 2008* states that:

“An accountable authority other than the Auditor-General, as soon as possible and within 45 days after the end of each financial year, is to prepare and forward to the Auditor-General a copy of the financial statements for that financial year which are complete in all material respects.”

Under the provisions of section 18, the Auditor-General:

- “(1) is to audit the financial statements and any other information submitted by a State entity or an audited subsidiary of a State entity under section 17(1).”

Under the provisions of section 19, the Auditor-General:

- “(1) is to prepare and sign an opinion on an audit carried out under section 18(1) in accordance with requirements determined by the Australian Auditing and Assurance Standards.
- (2) is to provide the opinion prepared and signed under subsection (1), and any formal communication of audit findings that is required to be prepared in accordance with the Australian Auditing and Assurance Standards, to the State entity’s appropriate Minister and provide a copy to the relevant accountable authority.”

## **STANDARDS APPLIED**

Section 31 specifies that:

“The Auditor-General is to perform the audits required by this or any other Act in such a manner as the Auditor-General thinks fit having regard to –

- (a) the character and effectiveness of the internal control and internal audit of the relevant State entity or audited subsidiary of a State entity; and
- (b) the Australian Auditing and Assurance Standards.”

The auditing standards referred to are Australian Auditing Standards as issued by the Australian Auditing and Assurance Standards Board.



## Tasmanian Audit Office

Photo courtesy of Tourism Tasmania and George Apostolidis

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